

User Guide: Canadian System of Macroeconomic Accounts

Chapter 9 Government Finance Statistics



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This publication contains nine chapters to reflect the most of the macroeconomic accounts. Some chapters (1, 2, 3, 4, 6, 7 and 9) were updated on February 22, 2021 to fix some references. For more information on Satellite accounts and Natural resource accounts, please refer to [Canadian System of Macroeconomic Accounts](#) (13-607-X).

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Chapter 9 Government Finance Statistics

What this chapter seeks to do

The purpose of this chapter is to explain Canada's **public sector accounts**. These accounts provide a comprehensive statistical picture of Canada's general government sector, including the federal government, provincial and territorial governments, local (municipal) governments, Aboriginal governments and the accounts of the Canada and Quebec Pension Plans (CPP and QPP). They also include the accounts of government-controlled business enterprises. The chapter focuses on the internal structure of the public sector accounts, the relationship of these accounts to the rest of the Canadian system of macroeconomic accounts and how these accounts are used to interpret economic developments.

9.1 Introduction

9.1.1 Role of government in Canada's economy

The **general government sector** is an important component of Canada's economy, representing roughly one quarter of economic activity. In 2009 it accounted for \$345 billion of final consumption expenditure and \$72 billion of gross fixed capital formation expenditure, together comprising 26.6 per cent of gross domestic product.¹ In that same year average employment in educational services, health care, social assistance and public administration was 3,792,968 persons, equivalent to 26.0 per cent of total employment.²

The wide range of goods, services and transfers provided to Canadians by governments—federal, provincial, territorial, local and Aboriginal—affects all residents as do the taxes and other charges levied by governments. Citizens need accurate, timely and comparable facts about government activities in order to assess government performance. That information is provided by Canada's system of macroeconomic accounts.

General government appears as one of six sectors in the income and expenditure accounts (Chapter 5) and the financial flow and wealth accounts (Chapter 6). The activities of **government business enterprises** (GBEs) are recorded in the financial and non-financial corporations sectors (in the same two chapters). General government and government business enterprises are also represented in the supply and use tables (Chapter 4). The current chapter brings all of this information about general government and government business enterprises together in one place, with a different organizational structure called **government finance statistics** (GFS).

GFS gauge the financial position of public sector components and sub-components. These measures are used by a variety of economists and industry analysts in both the private and government sectors. They are comparable with GFS in other countries and they provide statistics that are comparable among the various Canadian governments—federal, provincial, territorial, local and Aboriginal.

9.1.2 Government finance statistics

The GFS are compiled by assembling information from the detailed government accounting systems ('ledgers') and public accounting statements available from the different levels of government and adjusting to a single, internationally comparable accounting standard. These statistics give the public sector perspective in a manner consistent with the *SNA 2008* framework, discussed in earlier chapters.

The influence of government extends beyond its own activities to include those of government-controlled enterprises. They operate in many industries, notably electrical utilities, postal services, public transit, rail passenger services, ports, lotteries and gaming, ferries, liquor and cannabis control and distribution, convention centres and finance, insurance and real estate. Total revenue of government business enterprises was \$137 billion in 2009.³

As mentioned, Canada's government sector accounts are discussed in Chapters 4, 5 and 6 along with the accounts for the other five institutional sectors in the context of the **sequence of accounts**. The interlocking sequence of accounts is explained in section 3.6 of Chapter 3 and comprises the following:

- the production account,
- the generation of income account,
- the allocation of primary income account,
- the secondary distribution of income account,
- the use of disposable income account,
- the redistribution of income in kind account,
- the use of adjusted disposable income account,
- the capital account,
- the financial account,
- the other changes in the volume of assets account,
- the revaluation account, and
- the balance sheet account.

However, for some purposes government policymakers and financial analysts prefer to see the government accounts set out in a different format, one that more closely mirrors the layout in official government budgetary statements and audited public accounts.⁴ That format shows a number of different aggregates and balancing items that do not appear in the sequence of accounts, such as total revenue and expense, total expenditures or outlays, tax revenues, the net operating balance and total debt. These are compiled in another Canadian System of Macroeconomic Accounts (CSMA) component known as the **government finance statistics** (GFS), which uses the same basic concepts, definitions and accounting rules elaborated in the 2008 edition of the System of National Accounts (*SNA 2008*) but displays the statistics in the just-referenced alternative arrangement.

This chapter describes the GFS system of accounts. It draws extensively, and in places directly, from the manual published by the International Monetary Fund entitled *Government Finance Statistics Manual 2014 (GFSM 2014)*.

The GFS framework measures the economic dimensions of the public sector of Canada. The principal dimensions are: revenues, expenditures and the resulting surplus or deficit, assets, liabilities and net worth or net debt position.

Since financial statements and reports issued directly by Canada's various governments are based on the organizational structures and the accounting and reporting practices of each individual government, which differ considerably from government to government and from year to year, there is a lack of consistency across jurisdictions and over time. To address this matter, over the last seven decades Statistics Canada, in cooperation with representatives of all levels of government and with the academic and business communities, developed the **financial management system** (FMS). In 2014 this uniquely Canadian structure was replaced by the internationally comparable GFS system. (See Annex A.9.1)

9.2 The GFS framework

9.2.1 Structure of the GFS system

The GFS framework is intended to facilitate fiscal analysis in a macroeconomic context. It takes elements from the sequence of accounts, discussed in Chapters 3, 4, 5 and 6, that apply to the general government and government business enterprise⁵ sectors and rearranges them in a tabular format that resembles the fiscal tables that are typically reported in budgetary presentations and audited financial statements by governments.

The framework includes four financial statements, which are:

- the statement of operations,
- the statement of other economic flows,
- the balance sheet, and
- the statement of sources and uses of cash.

The first of these, the **statement of operations**, records transactions in revenue, expense, net investment in non-financial assets, net acquisition of financial assets and net incurrence of liabilities. The GFS **revenue** item includes taxes on income, profits, capital gains, payroll, property, goods and services, international transactions and other tax bases, social contributions, grants from other levels of government, property income such as interest on loans and distributed income of government business enterprises and some other types of revenue. In *SNA 2008* these items are recorded in the generation of income account, the allocation of primary income account, the secondary distribution of income account and the capital account. The GFS **expense** item includes compensation paid to employees, purchases of goods and services, subsidies, interest on public debt, social benefits paid, consumption of fixed capital and some other types of expense. These components are also recorded in the *SNA 2008* sequence of accounts. Net investment in non-financial assets refers to purchases of buildings, engineering structures, machinery and equipment and other capital goods. The net acquisition of financial assets and net incurrence of liabilities refer to changes in government holdings of various financial instruments, such as currency and bank deposits, loans, bonds, other securities and the like. In *SNA 2008* these transactions are found in the financial account.

Statistical tables are available on the Statistics Canada website showing the statement of operations for each sub-sector within Canada's general government sector.⁶

The difference between revenue and expense, as defined in the statement of operations, is the **gross or net operating balance**, with the gross balance omitting consumption of fixed capital as an expense item and the net balance including it. These balancing items measure the change in government net worth resulting from non-financial, non-capital transactions and they are important indicators of fiscal sustainability. The subsequent deduction of the net acquisition of non-financial assets from the net operating balance produces a balance called net lending/borrowing, which measures the extent to which government either provides financial resources to the other sectors of the economy and the rest of the world (net lending) or uses financial resources generated by the other sectors (net borrowing). Net lending/borrowing is also equal to the government financing requirement derived as the net of transactions in financial assets and liabilities. It is a measure of the net financial impact of government activity on the rest of the economy.

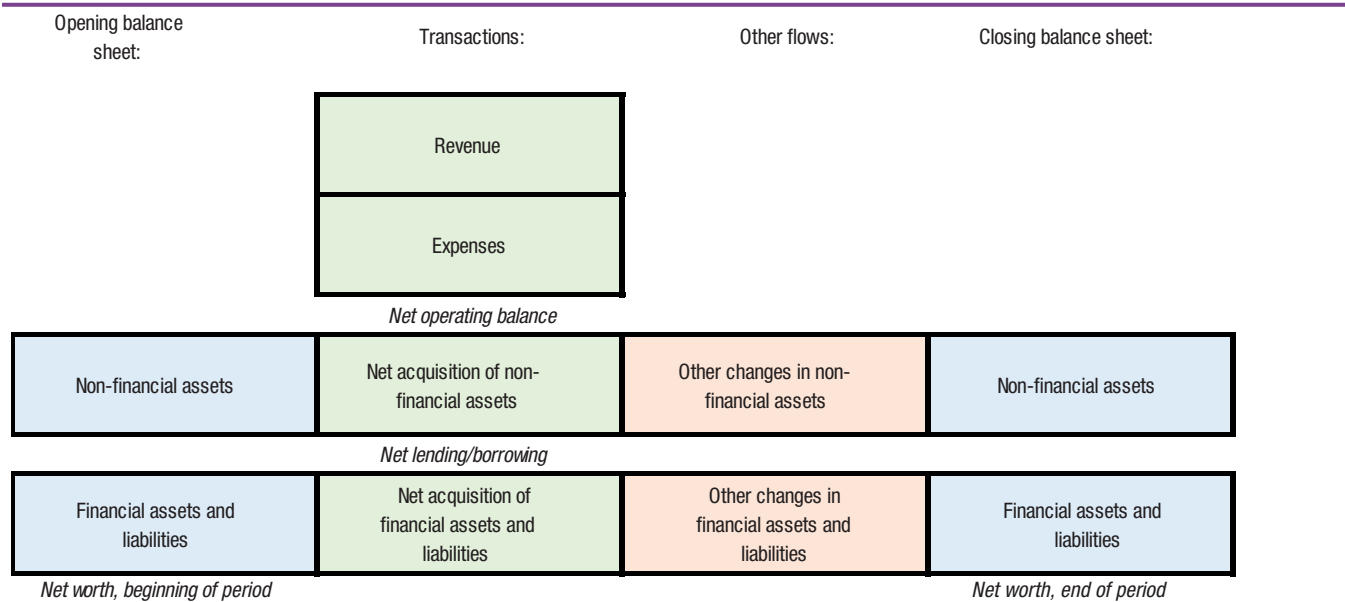
The **statement of other economic flows** presents information on changes in net worth that arise from flows other than transactions. It is the GFS counterpart to the other changes in assets account in the *SNA 2008* sequence of accounts. These flows are classified as either changes in the value (revaluations, meaning holding gains or losses) or the volume (meaning the physical quantity and quality) of assets and liabilities. The balancing item of this statement is the change in net worth resulting from other economic flows. This statement is not yet developed in Canada's GFS.

The GFS **balance sheet** presents the stocks of assets, liabilities and net worth at the end of the accounting period and corresponds directly to the balance sheet in the sequence of accounts. The government's **net worth** is defined as the difference between total assets and total liabilities. Another balancing item that can be derived from the balance sheet is **net financial worth**, which is defined as total financial assets minus total liabilities.

In parallel with the other sector accounts (for households, non-profit institutions serving households, financial and non-financial corporations and non-residents) discussed previously, the **closing balance sheet** for a public sector institutional unit at the end of a given accounting period is always equal to the **opening balance sheet** for that period, plus net lending or borrowing during that period as determined in the statement of operations, plus the change in net worth resulting from other economic flows during that period as determined in the statement of other economic flows.⁷

The overall structure of the government finance statistics database is summarized in Figure 9.1. The component parts of the system are discussed in detail in sections 9.4 through 9.8 below.

Figure 9.1
GFS accounting framework



Source: Statistics Canada.

GFS is based on accrual accounting principles, but cash-based statistics are also useful. The **statement of sources and uses of cash** shows the amounts of cash generated and used in current operations, transactions in non-financial assets and transactions involving financial assets and liabilities, excluding cash itself. The balancing item, net change in the stock of cash, is the sum of the net cash received from these three sources of cash flows. This statement provides information on government liquidity and is also useful in reconciling between cash and accrual accounting statements. It is not yet developed in Canada’s GFS.

9.2.2 Institutional units

Chapter 3 defines an institutional unit as “an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.” The same concept applies in this chapter. The general government sector and its sub-sectors as well as the government business enterprise sector are comprised of institutional units. All general government institutional units are considered to be resident in their own country, while government business enterprise units can be resident or non-resident depending upon the countries in which they operate.

Institutional units in the Canadian public sector are listed and described in the public sector universe, which is discussed in section 9.3.1.

9.2.2.1 Government institutional units

Government institutional units are legal entities that are established by political processes and have legislative, judicial or executive authority over other institutional units. The main economic functions of government units are to assume responsibility for the provision of goods and services to the community or individual households primarily on a non-market basis, to redistribute income and wealth by means of transfers, to engage primarily in non-market production and to finance their activities primarily out of taxation or other compulsory transfers. Governments also regulate and incentivize the behaviour of other institutional units. A government unit may also finance a portion of its activities by borrowing or acquiring funds from sources other than compulsory transfers such as by earning interest

revenue, selling goods and services or collecting royalties on the exploitation of natural assets. All government units are part of the general government sector.

In Canada, government ministries, departments, agencies, boards, commissions, judicial authorities, legislative bodies and other entities are not institutional units since they do not have the authority to own assets, incur liabilities, or engage in transactions in their own right. Generally entities funded by appropriations made in accordance with a budget controlled by a legislature are not separate institutional units and are treated as constituting a single institutional unit. For example, Statistics Canada is not an institutional unit in itself. Rather, it is part of the Government of Canada institutional unit.

The geographic location of a government unit is not always limited to one place within Canada's territory. For example, individual ministries or departments of the federal government are in many cases dispersed across the country. They remain, nevertheless, part of the same institutional unit. Similarly, a given ministry or department may maintain branch offices or agencies in many different locations to meet local needs. These offices and agencies are part of the same institutional unit.⁸

One government unit controls another government unit by appointing its managers and/or determining the laws and regulations that provide its finance.

9.2.2.2 Corporations controlled by government

As in *SNA 2008* more generally, **corporations** are defined in GFS as entities that are capable of generating a profit or other financial gain for their owners, are recognized by law as legal entities separate from their owners and are set up for purposes of engaging in market production. In GFS and *SNA 2008*, the term corporation is not necessarily used in the same way as in the legal sense.

The key to classifying a unit as a private or public corporation in GFS and *SNA 2008* is the notion of being a **market producer**. Of particular importance are the requirements that a corporation produce goods and services for the market at economically significant prices and have the potential to be a source of profit or other financial gain to the owners. Some non-profit institutions and government units have the legal status of a corporation, but are not considered corporations for the purposes of GFS because they are not market producers. Other non-profit institutions are legal corporations that produce for the market but they are not allowed to be a source of financial gain to their owners. Conversely, some entities with legal titles other than 'corporation', such as partnerships, could be considered corporations in GFS when they satisfy the definition of corporations.

In *SNA 2008* all corporations are part of the non-financial corporations sector or the financial corporations sector, depending on the nature of their primary activity. Institutional units that qualify as corporations and are controlled by government units or other public corporations are classified as **public corporations** or equivalently as **government business enterprises**.

9.2.2.3 Quasi-corporations

A **quasi-corporation** is either (i) an unincorporated enterprise owned by a resident institutional unit that has sufficient information to compile a complete set of accounts and is operated as if it were a separate corporation and whose relationship to its owner is effectively that of a corporation to its shareholders, or (ii) an unincorporated enterprise owned by a non-resident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long period of time. These entities are not incorporated or otherwise legally constituted, but function as if they were corporations. They are treated as corporations in GFS as in *SNA 2008*.

9.2.2.4 Restructuring agencies

Restructuring agencies are units set up to reorganize companies that are in trouble and/or to sell corporations and other assets of such companies. They are sometimes created in the context of a banking crisis and may also be used for the annulment of impaired assets and repayment of liabilities of insolvent entities. Restructuring agencies can be short-lived or sometimes long-standing public sector units.

Governments may fund the activities of restructuring agencies either directly through capital transfers, loans or equity infusions, or indirectly by means of guarantees.

A unit taking on low risk because it acts with strong public financial support and, by law or de facto, on behalf of the government, is likely to be classified within the general government sector rather than the GBE sector. Likewise a unit that sells most assets at values less than market values is more likely to be classified in the general government sector than the GBE sector. However, a unit controlled by the government that borrows on financial markets at its own risk to acquire financial and non-financial assets that it actively manages is likely to be classified as a financial GBE. If such a unit also engages in transactions on behalf of government, these can be rerouted through the general government sector.

9.2.2.5 Sinking funds

A **sinking fund** is a separate account, which may or may not be an institutional unit, that is made up of segregated contributions provided by the unit or units making use of the fund (the parent unit or units) for the gradual redemption of debt.

Units of this kind are mostly used by government institutional units, but are also used by public corporations on occasion. A variety of practices exist as to the operation of sinking funds and the degree of control by the parent unit(s).

Sinking funds are classified according to whether they are distinct institutional units or not and, if they are institutional units, whether they provide services at market or non-market prices.

9.2.2.6 Pension schemes

There are several kinds of **pension schemes** and these can sometimes be challenging to classify in GFS.

Pension contributions and benefits flowing through a social security scheme, such as the Canada Pension Plan (CPP) which is managed by the CPP Investment Board, are treated as a social security fund institutional unit. However, pension benefits from universal non-contributory pension schemes such as Old Age Security and the Guaranteed Income Supplement that are not managed by a separate institutional unit are, rather, classified as part of a general government unit.

Employment-related pension schemes other than social security can be either 'defined contribution' or 'defined benefit' arrangements. If no actual fund or reserve exists, such schemes are not considered to be separate institutional units. They are classified with the private or public sector employer unit that controls the pension scheme. Pension plans for government employees are often of this nature and are considered part of the government institutional unit even though they may be documented in separate notional accounting statements. The Public Service Pension Plan, covering federal public servants, is an example.⁹

Sometimes pension funds are managed by another financial institution, such as an insurance company, to which contributions from an employer and its employees are channelled and from which pension benefits are paid out. Trusteed pension plans of this kind are registered with the Canada Revenue Agency for tax purposes and are classified in GFS and the CSMA more generally as part of the financial institution that manages them.¹⁰ The Ontario Teachers' Pension Plan, covering elementary and secondary school teachers, is an example.

9.2.2.7 Sovereign wealth funds

Sovereign wealth funds are special purpose government funds created to hold and manage assets. The Alberta Heritage Savings Trust Fund is perhaps the best known example in Canada, although other provinces have also established such funds. Internationally the funds set up by the governments of Norway, Saudi Arabia and certain other states with abundant but gradually depleting petroleum and natural gas resources are additional examples.

Resident sovereign wealth funds organized as separate institutional units and providing financial services to governments at market prices are classified as GBEs. If the services are provided at non-market prices, or if there is no separate unit, the funds are classified as part of the government units they serve.

9.2.2.8 Special purpose entities

Special purpose entities are units that are intentionally created as legal entities to fulfill specific and often temporary objectives. In the private sector they are sometimes used to isolate a firm from financial risk.

These entities can be established in countries other than those in which the parent companies are resident, to engage in international transactions. They might be holding companies or sales and administration companies, for example. In the international accounts, these entities are treated as direct investment enterprises if they meet the ten-per-cent ownership criterion (see Chapter 8).

Normally a company or a government will transfer assets to a special purpose entity for management or use by the special purpose entity to finance a large project, thereby achieving a narrow set of goals. They are often an integral part of public-private partnerships since they can be owned by one or more other entities.¹¹

Resident special purpose entities functioning only in a passive manner relative to general government and carrying out fiscal and quasi-fiscal activities on the instruction of their parent government are not classified as separate institutional units. But resident special purpose entities acting independently, acquiring assets and incurring liabilities on their own behalf, are classified as separate institutional units.

9.2.2.9 Joint ventures

Sometimes public sector units enter into arrangements with private corporations or other public sector units to undertake activities jointly. The combined entity is called a **joint venture** and could be a market or non-market producer.

A joint venture involves the establishment of a corporation, partnership or other institutional unit in which the parties have shared legal control over the activities of the joint venture unit. As an institutional unit, the joint venture may enter into contracts in its own name and raise finance for its own purposes. Such a joint venture maintains its own accounting records.

To decide the sector classification of a joint venture in GFS it must be determined which unit has economic control. Given the nature of a joint venture—created legally with joint control—the principal question to be considered is whether the effective economic control implies a public or a private unit. If it operates as a non-market producer, then government is in effective control and it is classified as part of the general government sector. If it is a market producer, it is treated as a public or private corporation according to whether it is or is not controlled by a government unit. Normally, the percentage of ownership will be sufficient to determine control. If the public and private units own equal percentages, the other indicators of control must be considered.

9.2.3 Accounting rules¹²

With the exception of consolidation, the accounting rules of the GFS framework are the same as those of *SNA 2008*. There are also many similarities between the rules used in GFS and those applied by businesses and governments in their audited financial statements. The following, which is drawn from *GFSM 2014*, briefly describes the accounting rules governing topics such as the time of recording and the valuation of flows and stock positions.

The recording of economic events in GFS derives from general bookkeeping principles. **Double-entry recording** is used for all flows. In a double-entry system, each transaction gives rise to at least two equal-value entries, referred to as a **credit entry** and a **debit entry**. This principle ensures the totals of all credit entries and of all debit entries for all transactions are equal, thus permitting a check on consistency of GFS accounts for a unit, sub-sector or sector. Other economic flows also lead to debit and credit entries. These flows have their corresponding entries directly in changes in net worth. As a result, double-entry recording ensures the fundamental identity of a balance sheet, that is, the total value of assets equals the total value of liabilities plus net worth.

A debit entry is an increase in an asset, a decrease in a liability or a decrease in net worth. A credit entry is a decrease in an asset, an increase in a liability or an increase in net worth. Revenue entries result in an increase in assets or decrease in liabilities, which ultimately increase net worth so revenue entries are recorded as credits. Conversely, expense entries result in a decrease in assets or increase in liabilities, which ultimately decrease net worth so expense entries are recorded as debits. Other economic flows can increase or decrease assets and liabilities, thereby directly impacting net worth. In the case of the reclassification of assets or liabilities, a change

occurs in the stock positions of two categories of assets or liabilities with no impact on net worth (for example, an increase in one category of asset is paired with a decrease in another category of asset).

A balance sheet is a statement of the values of the stock positions of assets owned and of the liabilities owed by an institutional unit or group of units, drawn up in respect of a particular point in time. The fundamental identity of the balance sheet and of accounting in general is that the total value of the assets always equals the total value of the liabilities plus net worth. Use of double-entry recording ensures this identity is maintained. There are several possible combinations of debits and credits affecting assets, liabilities and net worth. For example, the purchase of a service by a general government unit with payment to be made in 30 days would be recorded on an accrual basis (see section 9.2.3.1) as an expense, or debit, and an increase in the liability, other accounts payable, a credit. Thus, net worth, through the expense, decreases by the same amount that liabilities increase, and assets are not affected. The subsequent payment at the end of the 30 days would be recorded on an accrual basis as a decrease in currency and deposits, a credit, and a decrease in other accounts payable, a debit. In this case, both assets and liabilities decrease by the same amount and net worth is unaffected.

9.2.3.1 Time of recording flows

One of the problems in determining the timing of transactions is the frequent existence of a long period between the initiation of an action and its final completion. For instance, many purchases of goods commence with the signing of a contract between a seller and a buyer, followed by the initiation and completion of production of the item ordered, shipment from the seller's location, arrival at the buyer's location, preparation and mailing of the invoice, receipt of the invoice, approval of payment, the beginning of interest accruing on a late payment or the expiration of a discount for prompt payment, signing a check for payment, mailing of the check by the buyer, receipt of the check by the seller, deposit of the check in the seller's bank and finally the payment of the check by the buyer's bank. Even then, the transaction may not be complete as there may be rights of return or warranty claims. Each of these distinct moments is to some extent economically relevant and may result in multiple transactions being recorded in GFS, but only one time can be attributed to each transaction.

Similarly, in analyzing government expense and acquisition of non-financial assets one can distinguish the day that a budget is voted on by the legislature, the day on which the ministry of finance authorized a department to pay out specified funds, the day a particular commitment is entered into by the departments, the day deliveries take place and finally, the day payment orders are issued and checks are paid. With regard to taxes, for example, important moments are the day or the period in which the liability arises, the moment the tax liability is definitively assessed, the day that it becomes due for payment without penalty and the day the tax is paid or refunds are made.

In summary, when using the accrual basis of recording, transactions are recorded when economic ownership changes hands for goods, non-produced non-financial assets and financial assets and liabilities, when services are provided and for distributive transactions, when the related claims arise. On the other hand, when using the cash basis of recording, flows are recorded when cash is received and disbursed.

In the accrual basis of recording, flows are recorded at the time economic value is created, transformed, exchanged, transferred or extinguished. In other words, the effects of economic events are recorded in the period in which they occur, regardless of whether cash was received or paid, or was due to be received or paid. Nevertheless, the time at which the economic events occur is not always clear. In general, the time attributed to events is the time at which economic ownership of goods changes, services are provided, the obligation to pay taxes is created, the claim to a social benefit payment is established or other unconditional claims are established.

Here are some examples.

- When a government business enterprise employee works for a month, the wages paid to the employee are recorded in that same month even though there may be a lag of a week or two before the full cash payment is made.
- When a government signs a contract to build a new airport over a period of several years, with progress payments made on an annual basis, the resulting payments are recorded year by year as the construction takes place.

- When a person pays the goods and services tax on a retail purchase in a given month, the resulting government revenue is recorded in that same month even though there may be a lag of some weeks before the government receives the tax revenue from the retailer that collected it.

9.2.3.2 Valuation

All flows and stock positions are measured at market prices if at all possible. Market prices refer to current exchange value, that is, the value at which goods, services, labour or assets are exchanged or else could be exchanged for cash. Flows recorded in the Statement of Operations are valued at the market prices at which these flows take place, while flows recorded in the Statement of Sources and Uses of Cash are valued at the monetary value of the cash flows. Stock positions are valued at the market prices prevailing on the balance sheet date.

9.2.3.2.1 Valuation of transactions

Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers. The exchanges are made between independent parties and on the basis of commercial considerations only, sometimes called “at arm’s length.” Thus, according to this definition, a market price refers only to the price for one specific exchange under the stated conditions. A second exchange of an identical unit, even under circumstances that are almost exactly the same, could result in a different market price. A market price defined in this way is to be clearly distinguished from a price quoted in the market, a world market price, a going price, a fair market price or any price that is intended to express the generality of prices for a class of supposedly identical exchanges rather than the price actually applying to a specific exchange. Furthermore, a market price should not necessarily be construed as equivalent to a free market price. In other words, a market transaction should not be interpreted as occurring exclusively in a purely competitive market situation. In fact, a market transaction could take place in a monopolistic, monopsonistic or any other market structure. Indeed, the market may be so narrow that it consists of a sole transaction of its kind between independent parties.

When a price is agreed to by both parties in advance of a transaction taking place, this agreed or contractual price is the market price for that transaction regardless of the prices that prevail when the transaction takes place.

Actual exchange values, expressed in monetary terms, are presumed to be the market prices in most cases. Transactions that involve dumping and discounting represent market prices. Transaction prices for goods and services are inclusive of appropriate taxes and subsidies. A market price is the price payable by the buyer after taking into account any rebates, refunds or adjustments from the seller.

Transactions in financial assets and liabilities are recorded at the prices at which they are acquired or disposed of. Transactions in financial assets and liabilities are recorded exclusive of any service charges, commissions, fees, taxes and similar payments for services that would be necessary to acquire the asset or incur the liability. These costs of ownership transfers are excluded regardless of whether these are charged explicitly, included in the purchaser’s price or deducted from the seller’s proceeds. This is because both debtors and creditors are expected to record the same amount for the same financial instrument. The commissions, fees and/or taxes are recorded separately from the transaction in the financial asset and liability, under appropriate categories of revenue or expense. The valuation of financial instruments, which excludes commission charges, differs from the valuation of non-financial assets (other than land) which includes any costs of ownership transfer. Costs of ownership transfer on land are typically included in the value of land improvements.

When market prices for transactions are not observable, such as for some barter or transfer-in-kind transactions, valuation according to market price equivalents provides an approximation to market prices. In such cases, market prices of the same or similar items, when such prices exist, provide a good basis for applying the principle of market prices. Generally, market prices are taken from the markets where the same or similar items are currently traded in sufficient numbers and in similar circumstances. If there is no appropriate market in which a particular good or service is currently traded, the valuation of a transaction involving that good or service may be derived from the market prices of similar goods and services by making adjustments for quality and other differences.

9.2.3.2 Valuation of stock positions

Stock positions are valued at market value, that is, as if they were acquired in market transactions on the balance sheet reference date. Market prices are readily available for assets and liabilities that are traded in active markets, most commonly certain financial assets and their corresponding liabilities. Market values of other assets and liabilities often need to be estimated in a more approximate manner.

Valuation according to market-value equivalent is needed for valuing assets and liabilities that are not traded in markets or are traded only infrequently. For these assets and liabilities, it is necessary to estimate values that approximate market prices.

Alternative valuation methods are also used in some circumstances. Market values, fair values and nominal values are distinguished from such notions as amortized values, face values, book values and historic cost.

Fair value is a market-equivalent value defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. It thus represents an estimate of what could be obtained if the owner sold the asset or the debtor settled the liability.

Nominal value at any moment in time is the amount that the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows, such as transactions, valuation changes and other changes, such as exchange rate changes. For financial instruments other than debt securities, equity and financial derivatives, the lack of generally available market values means these values are estimated using the nominal value.

The amortized value of a loan reflects the gradual elimination of the liability by regular payments over a specified period of time. On the date of each scheduled payment, the amortized value is the same as nominal value, but it may differ from the nominal value on other dates because nominal value includes interest that has accrued.

Face value of a debt instrument is the amount of principal to be repaid at maturity. The use of face value as a proxy for nominal value in measuring the gross debt position can result in an inconsistent approach across all instruments and is avoided if possible. For example, the face value of deep-discounted bonds and zero-coupon bonds includes interest not yet accrued, which runs counter to accrual principles.

Written-down replacement cost is the current acquisition price of an equivalent new asset minus the accumulated consumption of fixed capital, amortization or depletion.

Book value generally refers to the value recorded in the entities' records. Book values may have different meanings because their values are influenced by accounting standards, rules and policies, as well as the timing of acquisition, company takeovers, frequency of revaluations and tax and other regulations.

Historic cost reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations.

The valuation of assets and liabilities based on accounting standards may not fully reflect the market prices of the assets and liabilities. In such cases, the source data for GFS are adjusted to reflect, as closely as possible, the market value of the assets and liabilities.

Some financial assets and liabilities, such as bonds, have a nominal value, face value as well as a market value. However, transactions in these assets and liabilities are valued at the prices actually paid. Similarly, to attain integration between stock positions and flows, the stock positions of debt securities are valued at their market value when recorded on the balance sheet.

9.2.3.3 Consolidation

Canada's federal, provincial, territorial and local governments engage in a lot of transactions with one another. For example, the federal government transfers billions of dollars every year to the provincial governments in support of their activities related to health, education and welfare. If total combined federal and provincial government activity was measured by simply adding together the federal and provincial expenditures, these transfer payments would be double-counted. A better picture of the combined activities of these governments is obtained by **consolidation**.

Consolidation is about combining the financial accounts of units **within** a government or combining the financial accounts of **different** governments to yield aggregate unduplicated financial statistics. In other words, it is presenting financial data for a number of government units as if they were one unit.¹³ There are two basic dimensions of consolidation. One is the coverage—in other words, the choice of entities to be included in any given consolidation.

The other dimension is the accounting rules used to perform the consolidation, which involve eliminating the transactions between the units being consolidated in order to avoid double counting.

In consolidations, the transactions in financial assets and liabilities between two parties are eliminated. For example, if a municipal government purchased securities issued by its provincial government, both the acquisition of the financial asset and the incurrence of the liability would disappear in the consolidated financial statement. They would not disappear in the separate unconsolidated statements of the two governments.

Since government financial statements and reports are based on the organizational structures and the accounting and reporting practices of individual governments, there is a lack of consistency across jurisdictions and over time. For example, one government may discharge a function through a departmental structure, while another uses a Crown corporation, and another employs a board, a commission or an agency. Also, similar departmental titles within two different governments do not necessarily mean identical responsibilities and an individual government may regard a given operation as contributing to one or several functions. Organizational structures change as new programs are introduced, existing ones are amended and responsibilities are assigned or reassigned. Each Canadian government maintains its own accounts in a way that best serves its own purposes. The result is that the public accounts published by the different governments can be neither combined nor compared directly. The size of the surplus/deficit in one province cannot be meaningfully compared to the size of the surplus/deficit in another without appropriate adjustments being made to enable comparability.

The essential benefit of consolidation resides in inter-governmental comparability with the avoidance of double counting. The accounts, consolidated on the basis of the GFS accounting system by applying the same rules and procedures to the financial data of all governments, yield numbers that are comparable. With GFS consolidated statistics it is possible to compare the state of one province's finances with that of another. Similarly, it is possible to compare the state of the federal government's finances with those of any one province or with those of all provinces combined.

As an example, suppose the Government of Ontario paid \$1 billion directly for social services in the province, transferred \$500 million to the Ontario local governments in support of social services and the local governments in Ontario spent \$750 million on social services. Suppose further that in Alberta the provincial government did not spend any money directly on social services but did transfer \$600 million to the local governments and those governments then spent \$800 million on social services. To compare spending on social services in the two provinces it would be incorrect to simply add together provincial and municipal government expenditures. That approach would yield spending of \$2.25 billion in Ontario and \$1.4 billion in Alberta. The correct method would be to compare consolidated statistics for social spending in the two provinces: \$1.75 billion in Ontario and \$800 million in Alberta.

9.3 Defining the public sector

The GFS framework extends to both general government institutions and government-controlled business enterprises (GBEs), which together are known as the **public sector universe** (see Figure 9.2). It has three main sectors, general government, financial public corporations and non-financial public corporations. In the *SNA 2008* framework as a whole, which as discussed in previous chapters has six institutional sectors, there are separate sectors for financial and non-financial corporations. These two sectors include sub-sectors for the financial and non-financial public corporations (GBEs). The general government sector includes sub-sectors for the various government institutions and also a sub-sector for social security funds, which in Canada's case are the Canada and Quebec Pension Plans. This organizational framework is part of the Canadian Classification of Institutional Sectors 2012.¹⁴

Figure 9.2
Public sector universe

Public sector									
General government					Government business enterprises (GBEs)				
Federal general government	Social security funds	Provincial and territorial general government	Local general government	Aboriginal general government	Federal government GBEs				
Federal ministries, departments, non-autonomous funds and organizations	Canada Pension Plan	Provincial and territorial ministries, departments, non-autonomous funds and organizations	Local municipalities, other local public administrations and non-autonomous funds and organizations	Aboriginal governments	Non-financial federal GBEs	Financial federal GBEs			
Federal autonomous funds and organizations	Quebec Pension Plan	Provincial and territorial autonomous funds and organizations	Local autonomous funds and organizations		Provincial and territorial government GBEs				
Federal non-autonomous pension plans		Provincial and territorial non-autonomous pension plans	School boards		Non-financial provincial and territorial GBEs	Financial provincial and territorial GBEs			
		Universities and colleges			Local government GBEs				
		Health and social service institutions							

Source: Statistics Canada.

9.3.1 Public sector universe

GFS record economic transaction flows and stocks for all resident institutional units controlled¹⁵ directly or indirectly by resident government units, which is to say all units in the general government sector as well as resident public corporations. Statistics Canada maintains a **public sector universe** that is a database containing records for all of these institutional units.¹⁶ The information in the database is updated annually and is a key element in understanding Canadian government finance statistics and reconciling them with accounts published by governments and their enterprises.

Information in the database for these public sector units includes the legal name, date of entry and/or exit from the public sector universe, province of residence, Standard Geographical Classification city code, institutional sector and industry (North American Industry Classification System) classification code.

Ministries, departments, agencies, boards, commissions, judicial authorities, legislative bodies and other entities that make up a government are not institutional units unless they have authority to own assets, incur liabilities and engage in transactions in their own right. Entities funded by appropriations made in accordance with a budget controlled by a legislature generally are not separate institutional units and are treated as a combined entity constituting a single institutional unit.

The public sector universe database is updated annually for the period from 2008 forward for the federal and provincial-territorial governments and the government business enterprises they control.¹⁷ At the time of writing there were 5,316 entries in the database. Of these, 64 were federal government and 622 were provincial and territorial agencies, authorities, foundations, funds, tribunals, boards, councils, commissions, institutes, museums, corporations and the like, 35 were federal government business enterprises and 99 were provincial and territorial government business enterprises. There were 4,493 local government units. The Canada and Quebec Pension Plans accounted for the other units in the database.

It should be noted that units in the database can sometimes switch from one sub-sector to another when their characteristics change over time. This depends on a number of criteria. For example, the Crown corporation Atomic Energy of Canada Limited was treated as a federal GBE when it entered the database, but in 2012 it moved to the federal government sub-sector.

9.3.2 Sub-sectors of the general government sector

The sub-sectoring of the **general government sector** varies considerably among nations. Key factors are the size of a country, whether it is a federation or not and the manner in which its social security system is structured.

The general government sector as a whole consists of groups of resident institutional units classified by level of government. Non-market, non-profit institutions that are controlled by government units are also classified to this sector. The sector does not include market-oriented public corporations, even when all the equity of such corporations is owned by government units. Quasi-corporations that are owned and controlled by government units are also not part of this sector. However, unincorporated enterprises owned by government units that are not quasi-corporations are part of the general government sector.

There are distinct sub-sectors for federal general government, provincial and territorial general government, local general government, Aboriginal general government and social security funds. The Aboriginal general government sub-sector represents First Nations and other Aboriginal government institutional units. Non-profit institutions serving government are also included within each level of government.¹⁸

There is, of course, only one federal general government. There are ten provincial general governments, three territorial general governments and over 3,000 local general governments.

Canada has signed 22 self-government agreements recognizing a wide range of Aboriginal jurisdictions that involve 36 communities across Canada. Of those, 18 are part of a comprehensive land claim agreement.¹⁹ However, the development of the Aboriginal general government sub-sector in GFS is a work in progress.

Within each of these levels of general government there are a number of institutional units, including one for the ministries, departments and non-autonomous funds and organizations of each of the governments. There are additional units for autonomous funds and organizations and for non-autonomous government pension plans.

Finally, the general government sector also includes sub-sectors for the Canada and Quebec Pension Plans, organized in the **social security funds sector**. Social security funds are recognized as distinct institutional units only if (i) they are separately organized from the other activities of government units, (ii) they hold assets and liabilities separately from other government units and (iii) they engage in financial transactions on their own account. These criteria are met by the CPP and QPP, but not by other social protection programs such as the federal Old Age Security program, provincial and territorial health care programs, the Employment Insurance program and various provincial workers compensation programs.

All of the individual institutional units in the general government sector are listed in Statistics Canada's online public sector universe.²⁰

Figure 3.3 in Chapter 3 of this volume provides a decision tree for assigning institutional units to sectors. In particular, it shows how to distinguish government units from units belonging to the other five institutional sectors. It also shows how financial and non-financial corporations are allocated among the public, private and foreign-controlled sectors.

9.3.3 Government business enterprise sector

Annual statistics on the finances of the federal, provincial, territorial and local government business enterprises are available in Canada's GFS database (for more on this topic, see section 9.8). Federal and provincial government business enterprise statistics are derived using a modified version of the Statistics Canada Chart of Accounts (COA), a standardized tool for collection and dissemination of business statistics, and they are presented with the classification shown in Table 10-10-0023-01. The information is used as an input to the estimates of gross domestic product by income and expenditure, the supply and use tables as well as the financial and wealth accounts.

9.3.4 Some examples

As noted, the institutional units in the public sector universe are either part of the general government sector or part of the government business enterprise sector. The former are non-market producers and non-profit institutions serving government units, while the latter are market producers. In this section some examples will be presented.

9.3.4.1 Canada Mortgage and Housing Corporation

The Canada Mortgage and Housing Corporation (CMHC) was founded in 1946 and has its headquarters in Ottawa. Its stated mandate is "to facilitate access to housing and contribute to financial stability in order to help Canadians meet their housing needs".²¹ It is a Crown corporation of the federal government. The corporation is accountable to Parliament through a government minister and is governed by a board of directors and president appointed by the federal government.

CMHC states on its website that it earns revenue by selling mortgage loan insurance. It contributes to the improvement of housing conditions for First Nations people on reserves. It also has a securitization guarantee program that enables approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors, thereby generating funds that can be loaned to residential homeowners. The timely payment of interest and principal on these securities—*National Housing Act* Mortgage-Backed Securities issued by financial institutions and Canada Mortgage Bonds issued by the Canada Housing Trust—is fully guaranteed by the federal government, through CMHC. The corporation also collaborates with other organizations to provide affordable housing to low-income households. Finally, CMHC conducts economic research related to the Canadian housing market and provides information to Canadians to assist their decision-making.

CMHC is a market producer with \$252 billion in assets and \$232 billion in liabilities.²² It has been in the public sector universe for a long time and it is part of the federal government business enterprises sub-sector. Its NAICS classification is "Other direct insurance (except life, health and medical) carriers".

9.3.4.2 Hydro-Québec

Hydro-Québec is a public utility that generates, transmits and distributes electricity in Quebec. It is headquartered in Montreal and was created in 1944 by expropriating private companies. The Crown corporation has invested heavily in hydro-electric projects such as the Churchill Falls and James Bay projects. It supplies Quebec's power needs and also exports power to the United States. The Government of Quebec is the sole shareholder in the corporation.

Hydro-Québec had assets of \$75 billion and liabilities of \$55 billion in 2016.²³ Its revenue was \$13 billion and its expenses were \$8 billion. It paid out dividends of \$2.4 billion in 2016.

Hydro-Québec is a market producer and has been in the public sector universe for a long time. It is part of the provincial and territorial government business enterprises sub-sector. Its NAICS classification is "Electric bulk power transmission and control".

9.3.4.3 Agricultural Implements Board of Saskatchewan

The Agricultural Implements Board of Saskatchewan is a regulatory agency established to implement and oversee the *Agricultural Implements Act* of Saskatchewan. It is headquartered in Regina.

The *Agricultural Implements Act* regulates the sale, lease and distribution of agricultural implements or parts in Saskatchewan. Dealers are legally required to make available the parts and service needed by farmers for their implements. The Act regulates minimum terms of warranties received from dealers selling or leasing equipment, sales contracts for new and used agricultural implements, the terms for leasing implements from financial institutions, guidelines for emergency parts and service, the means to obtain compensation for loss or damages because of unavailability of parts or non-fulfillment of warranty and the licensing of dealers and registering of distributors. Farmers not receiving parts or services in a timely manner may be awarded compensation through the Agricultural Implements Compensation Fund.²⁴

The board is part of the provincial and territorial general government sub-sector. Its NAICS classification is “Other provincial and territorial public administration”. The board is not a GBE because it is not a market producer, does not compete in the marketplace and does not get its primary income from market activity.

9.3.4.4 Canadian Broadcasting Corporation

The Canadian Broadcasting Corporation (CBC) is a federal Crown corporation that was founded in 1936 and has its headquarters in Ottawa. It describes the services it provides to Canadians in this way: “With services reaching from coast to coast to coast, CBC/Radio-Canada has Canadians covered for information, enlightenment and entertainment. CBC/Radio-Canada services are there on the leading edge with our radio, television and digital platforms including mobiles. We share Canada’s journey minute by minute and day by day, with the news, content and commentary that Canadians need today, tomorrow and in the future.”²⁵

The corporation is accountable to Parliament through a government minister and is governed by a board of directors and president appointed by the federal government.

For its fiscal year 2016-17 the CBC reported revenue from advertising and other sources of \$301 million plus funding from the federal government of \$1,099 million. Largely because it is so dependent on Parliamentary appropriations, the corporation is not classified as a government business enterprise but rather is an institutional unit within the federal government sub-sector.

9.3.4.5 Embassies and military bases abroad

Canada has embassies and military bases in other countries. These are considered to be part of the federal government institutional unit. The embassies and other such territorial enclaves representing other countries in Canada are considered to be institutional units in the non-resident sector.

9.4 Statement of operations

In the GFS presentation of the public sector accounts, the gross operating balance—a concept similar to what is popularly known as the surplus or deficit—is determined as the difference between two other concepts. The first, **revenue**, is defined as “an increase in net worth resulting from a transaction”. The second is **expense** which is defined as “a decrease in net worth resulting from a transaction”. This is illustrated for the federal government in Table 10-10-0016-01.

9.4.1 Revenue

9.4.1.1 Government revenue components

The broad categories of revenue identified in Canada’s system of government finance statistics are:

- taxes,
- social contributions,
- grants, and
- other revenue.

Taxes are compulsory unrequited levies imposed on other institutional units by governments while social contributions are compulsory but requited levies. Grants are non-compulsory transfers from other institutional units. The residual category 'other revenue' includes property income, revenue from sales of goods and services and some other typically smaller revenue components. All components are recorded on an accruals basis if possible.

In Canada, compulsory levies and grants dominate over other revenue sources for general government units. For government business enterprises, sales of goods and services and property income are the primary revenue sources.

The Canadian GFS classification of revenue is based on the one that is recommended in the *GFSM 2014*. The classification categorizes taxes according to the base upon which the tax is levied.²⁶

9.4.1.2 Taxes

Government institutional units are the only ones that can impose taxes within an economy. The revenues from these taxes are typically central to the financial status of a government. The tax burden—defined as total revenue from all taxes, often expressed as a ratio to gross domestic product—is a key fiscal indicator and its trend has a lot to say about the evolving power and role of a government.

As seen in previous chapters, taxes in *SNA 2008* are classified according to their role in economic activity. There are three broad categories: taxes on production, products and imports, current taxes on income and capital taxes.

In GFS there are six broad kinds of taxes:

- taxes on income, profits and capital gains,
- taxes on payroll and workforce,
- taxes on property,
- taxes on goods and services,
- taxes on international trade and transactions, and
- other taxes.

The first of these, comprising the personal and corporate income taxes, accounted for over half of total Canadian tax revenue in 2009. Taxes on payroll and workforce are not of major importance in Canada, in part because they provide a disincentive for employment.²⁷ Taxes on property are most significant for local government administrations. They include recurrent taxes on immovable property (land, buildings and other structures) or net wealth, special assessments, business property taxes, payments in lieu of taxes and non-recurrent taxes on property such as estate, inheritance and gift taxes. Taxes on goods and services are “taxes that become payable as a result of the production, sale, transfer, leasing, or delivery of goods and rendering of services, or as a result of their use for own consumption, or own capital formation.”²⁸ In Canada they include the goods and services tax, the harmonized sales tax, the retail sales tax, excise taxes primarily on liquor, tobacco and gasoline, and taxes on specific services such as air travel. Also included here are taxes on permission to use goods, such as motor vehicle licences, or to perform activities, as well as the profits of fiscal monopolies.²⁹ Overall, taxes on goods and services accounted for about one-quarter of total tax revenue in 2009. Finally, taxes on international trade and transactions consist mainly of Customs and other import duties. These tax revenues are small and generally declining as a result of the various ‘free trade’ initiatives in recent decades.

As for most other concepts in GFS, tax revenues are measured on an **accrual basis**, meaning that flows are recorded at the time economic value is created, transformed, exchanged, transferred or extinguished. As a practical matter, tax revenues are usually measured, in the first instance, at the time the funds appear in government bank accounts and adjustments must then be made to adjust their timing to an accrual basis. Note that for taxes to accrue they must be paid. Taxes owed but never collected are not considered to have accrued. Also, taxes collected but subsequently refunded are not considered to have accrued.

Tax revenues may be transferred from one government to another, but they are attributed to the government unit that exercises authority to impose the tax and has final discretion to set and vary the tax rate. For example, the federal and provincial portions of the personal income tax and the harmonized sales tax are attributed separately to each government.

9.4.1.3 Social contributions

As mentioned previously, while taxes are compulsory and unrequited, **social contributions** are compulsory and requited levies. In other words, whereas taxes must be paid and no explicit benefits are receivable as a quid pro quo, social contributions must also be paid but are directly associated with the receipt of specific social benefits.

In Canada the main social contributions are those associated with the federal employment insurance program, the Régime Québécois d'assurance parental and the provincial and territorial workers compensation programs, which are funded by employee and employer social contributions. Employer and employee contributions to the Canada Pension Plan and Le Régime de rentes du Québec are also treated as social contributions.³⁰

9.4.1.4 Grants

Grants are a residual transfer category of revenue consisting of amounts receivable from other resident or non-resident government units or international organizations that do not meet the definition of taxes, subsidies or social contributions. They can be either current or capital transfers.³¹

Canadian governments do not often receive grants from non-resident government units or international organizations. Rather, most grants recorded in the public sector accounts are transfers between levels of government within Canada. These grants disappear when the accounts of the different levels of government are consolidated, but they account for a substantial proportion of total government revenues for individual provincial and territorial governments and local governments.

In the Canadian federation, it has long been the practice that higher levels of government, given their broader tax bases, raise revenues that are then transferred to lower level governments. More specifically, the federal government transfers large amounts of money to the provincial and territorial governments every year and the provincial governments in turn make transfers to the local governments within their jurisdictions. The federal government also makes smaller transfers to local and Aboriginal governments.

In fiscal year 2008–09 the federal government provided support in the form of transfer payments to provinces and territories totalling \$59,747 million.³² The largest transfer by far was the Canada Health Transfer, totalling \$20,915 million. Equalization and territorial transfers accounted for \$16,332 million and the Canada Social Transfer \$9,470.

The Canada Health Transfer supports health care for Canadians and is calculated for each province and territory on a per capita basis and grown over time in line with a three-year moving average of nominal gross domestic product. Equalization transfers address fiscal disparities among provinces and are calculated using a rather complicated formula that aims at determining by how much a province's "fiscal capacity" is below the average capacity of all provinces. This program is also grown over time in line with a three-year moving average of nominal gross domestic product. The Canada Social Transfer supports post-secondary education, social assistance and early childhood development and is calculated on a per capita basis somewhat like the Canada Health Transfer. Finally, Territorial Formula Financing Transfers are broadly similar to Equalization transfers, but are directed to the three territories rather than the ten provinces. These transfers account for approximately four-fifths of territorial revenues.

As for transfers from provincial to local governments, "... the province establishes local governments and their geographic boundaries, mandates their expenditure responsibilities, sets standards for local service provision even for services that are not mandated, limits their own-source revenues largely to property taxes and user fees, sets the rules around levying the property tax, requires that municipalities not incur a deficit in their operating budget and determines the extent to which municipalities can borrow to meet capital requirements. At the same time, the province influences municipal expenditures through its grant programs."³³

9.4.1.5 Other revenue

Governments also receive revenue from a variety of other sources. They receive property income of various kinds including interest on loans, bonds and deposits, dividends from government business enterprises and, in some cases, private enterprises, rent on land and royalty revenue from oil and gas mining, forestry, water power and mineral mining operations. They also obtain revenue as a result of sales of goods and services. For example, educational institutions typically charge tuition fees, municipal governments usually derive revenue from parking and rental fees, provincial governments get revenue from drivers' license and court fees and the federal government receives passport fees and museum admission fees. Finally, governments also get relatively modest revenue from fines, penalties and forfeits.

9.4.1.6 Revenue by government sub-sector

The same revenue categories are used in GFS for each of the government sub-sectors in order to permit comparisons to be made. Table 10-10-0016-01 shows the revenue estimates for the federal government. Tables 10-10-0017-01, 10-10-0018-01, 10-10-0019-01 and 10-10-0020-01 show the corresponding statistics for the provinces, broken out for the provincial and territorial governments, the municipalities and other local administrations, the health and social security institutions and the education institutions. Table 10-10-0022-01 shows the revenue statistics for the Canada and Quebec Pension Plans.

As explained in section 9.2.3.3, consolidation avoids double counting and is important because a substantial share of revenues received by the provinces and territories are transfer expenses for the federal government, and a significant share of local government revenues are transfer expenses from both the federal government and the provincial and territorial governments.

9.4.2 Expenses

9.4.2.1 Government expense components

Governments influence the economy through both their revenue and spending policies. Spending is recorded in GFS in a number of program expense categories and in expenditures on non-financial capital assets. Total outlays—the sum of program expenses and capital expenditures—are widely used as a measure of the size of government, especially when expressed as a ratio to gross domestic product to normalize for the fact that government spending tends to rise in concert with inflation and population growth. However, it should be noted that the total-outlays-to-gross-domestic-product ratio includes a variety of transfer payments in the numerator but not in the denominator. For some purposes a better measure of the size of government is total outlays excluding transfers.

The broad categories of expense in Canada's system of government finance statistics are:

- compensation of employees,
- use of goods and services,
- consumption of fixed capital,
- interest,
- subsidies,
- grants,
- social benefits, and
- other expenses.

The Canadian GFS classification of expense is similar to that recommended in the *GFSM 2014*. The classification categorizes expenses according to the associated economic purpose.³⁴

9.4.2.2 Compensation of employees

As discussed in Chapters 3, 4, 5 and 8, **compensation of employees** is “the total remuneration, in cash or in kind, payable to an individual in an employer-employee relationship in return for work performed by the latter during the reporting period.” (*GFSM 2014*, p. 115) All government units pay compensation to employees and this is a significant component of government expenses in Canada.

Table 9.1 provides a breakdown of compensation of employees by government sub-sector, both consolidated and unconsolidated, in 2009.

Table 9.1
Canadian government finance statistics, compensation of employees

	2009
	millions of dollars
Government sub-sector	
Consolidated general government of Canada	196,760
Unconsolidated provincial and territorial government administration	28,042
Newfoundland and Labrador	842
Prince Edward Island	392
Nova Scotia	1,023
New Brunswick	1,977
Quebec	7,178
Ontario	7,351
Manitoba	1,106
Saskatchewan	1,098
Alberta	2,784
British Columbia	3,083
Yukon	375
Northwest Territories	385
Nunavut	448
Unconsolidated health and social services	51,860
Newfoundland and Labrador	1,234
Prince Edward Island	2
Nova Scotia	1,763
New Brunswick	1,433
Quebec	12,284
Ontario	17,172
Manitoba	2,502
Saskatchewan	2,182
Alberta	6,673
British Columbia	6,438
Yukon	25
Northwest Territories	152
Nunavut	0
Unconsolidated universities and colleges ¹	17,061
Newfoundland and Labrador	345
Prince Edward Island	91
Nova Scotia	524
New Brunswick	182
Quebec	3,643
Ontario	6,057
Manitoba	541
Saskatchewan	685
Alberta	2,450
British Columbia	2,472
Yukon	22
Northwest Territories	26
Nunavut	23
Unconsolidated school boards ²	36,662
Newfoundland and Labrador	805
Prince Edward Island	170
Nova Scotia	906
New Brunswick	0
Quebec	7,197

Table 9.1
Canadian government finance statistics, compensation of employees

	2009
	millions of dollars
Ontario	15,609
Manitoba	1,491
Saskatchewan	1,359
Alberta	4,707
British Columbia	4,377
Yukon	0
Northwest Territories	41
Nunavut	0
Unconsolidated municipalities and other local public administrations	27,281
Newfoundland and Labrador	204
Prince Edward Island	33
Nova Scotia	338
New Brunswick	262
Quebec	5,269
Ontario	13,213
Manitoba	726
Saskatchewan	671
Alberta	3,174
British Columbia	3,230
Yukon	30
Northwest Territories	50
Nunavut	81

Data are for the fiscal year with its end closest to December 31.

1. Universities and colleges includes all Canadian universities and colleges whether they are controlled by governments or not. In Canada, the universities and colleges that are not controlled by government account for a very small proportion of the activity.

2. There are no school boards in New Brunswick, Yukon and Nunavut.

Source: Statistics Canada Tables 10-10-0015-01, 10-10-0017-01, 10-10-0018-01, 10-10-0019-01, and 10-10-0020-01.

9.4.2.3 Use of goods and services

The **use of goods and services** expense category consists of the value of goods and services that are purchased by government sector institutional units for use in the production of market and non-market goods and services. The category excludes consumption of fixed capital, use of goods and services in own-account capital formation (which is recorded as part of the acquisition of non-financial assets) and goods purchased by government and distributed without transformation (which are recorded as transfers in kind).

Consistent with accrual accounting principles, the value of use of goods and services is recorded when the goods and services are actually used, rather than when they are acquired or paid for. For services, there is a closer correspondence between payments made and services received, while for goods, purchased items often remain in inventory for a significant period of time before they are used. Accordingly, the value of goods used is estimated by taking account of inventory changes in the following manner:

- opening stock of inventories
- plus: purchases of goods
- minus: goods used in own-account capital formation
- minus: goods distributed directly as transfers in kind
- plus: holding gains/losses on goods owned
- plus: other volume changes affecting goods owned
- minus: closing stock of inventories
- equals: use of goods

Use of goods and services is recorded on a gross basis, which means revenue received as a result of the sale of goods and services is not deducted (it is recorded as a revenue item).

The services provided by contract employees, consultants and the like, where an employer-employee relationship does not exist, are included in the use of goods and services category rather than in compensation of employees. Also, goods and services used by employees to carry out their jobs or otherwise closely associated with the requirements of their jobs are treated as use of goods and services. Examples include tools and equipment, special clothing such as uniforms, special meals necessitated by working conditions or travelling and medical examinations required because of the nature of the job. Likewise goods and services purchased for use in producing non-market services, such as food, clothing and blankets bought for use in relief operations after a natural disaster at home or abroad, are treated as use of goods and services rather than as transfers in kind. However, if the goods are transferred directly from inventory without there being any associated relief operation they are classed as social benefits transfers in kind.

Goods purchased for use as fixed assets or valuables, or for use in own-account capital formation, are classified as acquisitions of fixed assets rather than as use of goods and services. Similarly goods acquired to increase inventories of materials and supplies, work in progress, finished goods and goods for resale are included in changes in inventories, a type of non-financial asset, not as use of goods and services.

GFS does not implement 'financial intermediation services indirectly measured' (FISIM) as in *SNA 2008*. Accordingly the imputed service fees associated with borrowing from and lending to financial institutions are not recognized in the use of goods and services. Rather, all interest is recognized as a separate expense category.

9.4.2.4 Consumption of fixed capital

Consumption of fixed capital is recognized as an imputed expense item in GFS, just as in *SNA 2008*.³⁵ The concept is exactly the same in the two systems. However, in GFS consumption of fixed capital is divided into two portions, one of which is the consumption of fixed capital related to the production of capital on own account, which is recorded as part of the cost of acquisition of fixed assets, and the other being economic depreciation on the institutional unit's existing fixed capital, which is treated as a consumption of fixed capital expense. As in business accounting, the 'depreciation' that is sometimes recognized in official government accounting statements may differ considerably from consumption of fixed capital as measured in GFS and *SNA 2008*. The former is typically a backward-looking concept involving the 'writing off' of past capital expenditures whereas the latter is a more forward-looking concept related to the useful future life of a capital asset.

9.4.2.5 Interest expense

As noted in section 9.4.2.3, the financial service component of **interest**, known as FISIM in *SNA 2008*, is not recognized in GFS. Rather, all interest obligations accrued by a government institutional unit are recorded under the expense category 'interest'.

Government interest payments can take a variety of forms depending on the specifications of the associated financial instruments. Interest can accrue on deposits, debt securities, loans and other accounts receivable. The interest may take the form of a coupon on a debt security or it may be implicit within the original price of the instrument, as for a deep-discount bond. It may be fixed when the initial debt contract was undertaken or it may vary over time as in index-linked securities.

As with some other expense categories, interest paid by one government to another appears in the GFS accounts of the two governments when viewed on their own, but disappears when the accounts are consolidated.

9.4.2.6 Subsidies

In GFS as in *SNA 2008*, "subsidies are current unrequited transfers that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import." (*GFSM 2014*, p. 130). They are discussed in Chapter 4.

Subsidies are paid to producers, not final consumers, although households may receive subsidies in their capacity as producers. They may be paid on the production or sale of products, per unit or per dollar of value, or they may be paid on production, as with subsidies on payroll or pollution reduction. They do not include capital grants or other forms of capital transfers. Governments sometimes use the term subsidies to refer to expenses that are treated as social benefits in GFS.

9.4.2.7 Grants

Grants are “transfers payable by government units to other resident or non-resident government units or international organizations and that do not meet the definition of a tax, subsidy, or social contribution.” (*GFSM 2014*, p. 134). They are discussed from the revenue perspective in section 9.4.1.4.

9.4.2.8 Social benefits

According to GFS, “**Social benefits** are current transfers receivable by households intended to provide for the needs that arise from social risks, for example, sickness, unemployment, retirement, housing, education or family circumstances. These benefits are payable in cash or in kind to protect the entire population or specific segments of it against certain social risks. Social risks are events or circumstances that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their income. Examples of social benefits are the provision of medical services, unemployment compensation and social security pensions.” (*GFSM 2014*, p. 134).

Social benefits are classified in three categories based on the type of social protection arrangement governing their payment.

- Social security benefits consist of social benefits paid in cash or in kind to households by social security schemes. Examples in Canada are benefits paid under the Employment Insurance program and under provincial and territorial workers’ compensation programs.
- Social assistance benefits are social benefits paid in cash or in kind to households to meet needs similar to those associated with social security benefits, but which are not made under a social security scheme. Examples in Canada include Old Age Security benefits, Guaranteed Income Supplement benefits, family allowance and child care benefits and veterans’ benefits.
- Employment-related social benefits are non-pension social benefits paid in cash or in kind by government institutional units to their own employees or eligible survivors. Examples of such benefits include sick pay, maternity leave and family, education and other allowances.

9.4.2.9 Other expense

The remaining, residual category of expense includes property expenses other than interest payments, transfers other than those classified to subsidies, grants and social benefits and amounts payable in respect of premiums, fees and claims related to non-life insurance and standardized guarantees.

When the owners of financial assets or natural resources make those assets available to other institutional units, they expect compensation in the form of interest, dividends, rent or some other form of investment return. This is discussed extensively in Chapter 6 and to an extent in Chapter 8. In the GFS presentation, interest is a separate category of expense and the other types of property expense are included in the ‘other expense’ category.

9.4.3 Expenses by function of government

Chapter 3 presents a number of classification systems that are used in *SNA 2008*. One is the Classification of the Functions of Government (COFOG), developed by the Organization for Economic Cooperation and Development and discussed in section 3.4.4.3. The Canadian classification of the functions of government (CCOFOG) is shown in Table 9.6. The classification breaks down government expenditures according to their broad purpose. The following ten high-level divisions are identified:

- general public services
- defence,
- public order and safety,
- economic affairs,
- environmental protection,
- housing and community amenities,

- health,
- recreation, culture and religion,
- education, and
- social protection.

CCOFOG provides a consistent way to compare government expenditures across jurisdictions and through time. The aim is to classify expenditures according to their function, or socioeconomic objective, reflecting the aims the associated government wants to achieve.

As a practical matter individual governments, be they federal, provincial, local or Aboriginal, typically report their expenditures by department or agency, and within these structures by economic class of expenditure (compensation of employees, use of goods and services, social benefits, etcetera). This means they are defined, in part, by the organizational structure which may change over time and which is unlikely to line up well with the organizational structures of other governments. This issue is important within Canada and it is especially acute when it comes to comparing government expenditures across different countries. CCOFOG statistics circumvent these problems of comparability by providing a single, purpose-oriented classification for the expenditures of all jurisdictions and holding this classification constant through time.³⁶

Canada's CCOFOG statistics are shown in Table 9.2 for the year 2009. For the consolidated total Canadian general government sector, the largest functional expenditure categories are social protection (transfers related to sickness, disability, old age, family and children, unemployment, housing and other matters) and health, accounting for 23.7 and 23.4 per cent of total expenditures respectively. General public services (executive and legislative bodies, financial and fiscal affairs, external affairs, foreign economic aid, public debt transactions and some other sub-categories) and education are the next largest categories, accounting for 16.7 and 13.5 per cent of expenditures respectively. The federal government's expenditure breakdown shows a high degree of specialization in three functional categories: general public services, social protection and to a much lesser extent health. The consolidated provincial-territorial and local government sector concentrates on health- and education-related expenditures, as well as social protection and general public services.

Table 9.2
Canadian government finance statistics, outlays, classification of functions of government (COFOG)

	2009	
	millions of dollars	percentage of total
Consolidated Canadian general government		
Total	568,540	100.0
General public services	94,844	16.7
Defence	16,357	2.9
Public order and safety	28,891	5.1
Economic affairs	50,243	8.8
Environmental protection	10,488	1.8
Housing and community amenities	8,830	1.6
Health	132,866	23.4
Recreation, culture and religion	14,478	2.5
Education	76,554	13.5
Social protection	134,989	23.7
Federal government		
Total	259,692	100.0
General public services	86,477	33.3
Defence	16,639	6.4
Public order and safety	9,695	3.7
Economic affairs	18,770	7.2
Environmental protection	2,277	0.9
Housing and community amenities	3,821	1.5
Health	29,981	11.5
Recreation, culture and religion	4,711	1.8
Education	4,047	1.6
Social protection	83,274	32.1
Consolidated provincial-territorial and local governments		
Total	389,257	100.0
General public services	47,189	12.1
Defence	0	0.0
Public order and safety	20,802	5.3
Economic affairs	38,663	9.9
Environmental protection	8,356	2.1
Housing and community amenities	7,147	1.8
Health	127,407	32.7
Recreation, culture and religion	10,155	2.6
Education	73,096	18.8
Social protection	56,442	14.5

Data are for the fiscal year with its end closest to December 31.

Source: Statistics Canada Tables 10-10-0024-01 and 10-10-0005-01.

It is possible, in principle, to cross-classify government expenditures using economic and functional classifications. Thus, for example, it would be of interest to present statistics showing how expenditures on social protection are broken down across compensation of employees, use of goods and services, grants, social benefits and other expenses, or how expenses in the form of compensation of employees are broken down across general public services, defence, public order and safety and the other functional categories. This is on Statistics Canada's agenda for the future.

9.4.4 Transactions in assets and liabilities

The GFS accounting system includes net transactions in assets and liabilities—that is, acquisitions and disposals of assets and incurrence and repayments (or 'redemptions' or 'liquidations' or 'extinguishments') of liabilities—as well as transactions in goods and services. Both sets of transactions aggregate to the change in net worth as a result of transactions during the accounting period. This gives rise to a statistical discrepancy, since the equality between the two concepts—one based on asset and liability transactions and the other based on goods and services transactions—is unlikely to be born out in imperfect statistical measures.

Transactions in assets and liabilities are measured at market prices. They are valued on an accrual basis, recorded at the time economic value is created, transformed, exchanged, transferred or extinguished. For non-financial assets this means when ownership is obtained or relinquished. For financial assets and liabilities this usually means when a contract is signed or when money or some other financial asset is paid by the creditor to the debtor or repaid by the debtor to the creditor. It is important that valuation and timing be reflected in the same manner in the accounts of the creditor and debtor if at all possible. If there is an irreconcilable disagreement, the date on which the creditor records the transaction is deemed in GFS to be the date of record for both.

Net acquisitions of non-financial assets are calculated as acquisitions minus disposals minus consumption of fixed capital. Transactions in financial assets and liabilities are presented in the accounts as the net acquisition of each asset category and the net incurrence of each liability category.

9.5 Statement of other economic flows

9.5.1 Other economic flows

Other economic flows are changes in the value or volume of assets or liabilities **that do not result from transactions**. Recall that transactions are economic interactions between two institutional units that take place by mutual agreement. They include both exchange and transfer events.

As discussed in other chapters of this book (Chapters 3, 6 and 8 in particular) there are two major categories of other economic flows. **One is holding gains and losses** that result from valuation changes resulting from market price fluctuations without association with specific transactions. The other category is **changes in the volume of assets and liabilities** that result from windfall gains or losses, other than holding gains and losses that are unconnected to specific transactions.

9.5.2 Holding gains and losses

In the case of holding gains and losses, the value of an institutional unit's assets or liabilities is modified because the associated market values change without any associated transactions. A holding gain or loss accrues continuously, purely as a result of holding an asset or liability over time without transforming it in any way. Holding gains and losses can apply to virtually any type of asset or liability, and they may accrue on an asset held for any length of time during the reporting period.

A prominent example is holding gains or losses due to changes in the exchange value of the Canadian dollar vis-à-vis other currencies. A public sector institutional unit might have assets or liabilities denominated in some currency other than the Canadian dollar. Since the GFS accounts are compiled in Canadian dollar terms, the value of these assets or liabilities on the balance sheet must be converted. If the exchange rate changes, so will the value of these assets or liabilities even if there are no transactions in these assets or liabilities during the period. Another example would be if an institutional unit held shares in a Canadian corporation that traded on the Toronto Stock Exchange. The market price of those shares would typically fluctuate from day to day and this would imply holding gains and losses even if the institutional unit neither purchased nor sold any shares during the accounting period.

9.5.3 Changes in the volume of assets and liabilities

Changes in the volume of assets and liabilities occur because of certain specific events. One example would be a reduction in the value of assets due to their partial or total destruction by a natural disaster such as an earthquake, flood or ice storm. Another example would be the reduction in the value of assets that results from debt write-offs as a result of the bankruptcy of one of an institutional unit's debtors, or due to theft. In neither example would there be any associated transaction.

Changes in the volume of assets and liabilities can also occur due to **obsolescence** or **technological changes** that alter the value of existing assets.

A further example of changes in the volume of assets and liabilities is differences in the value of certain types of assets or liabilities from one accounting period to another as a result of **classification changes**. A reclassification rearranges assets and liabilities within the public sector or between the public and private sectors without adding to or subtracting from total net worth. For example, an institutional unit in the general government sector might be

reclassified to the government business enterprise sector if it began earning sufficient revenues from the sale of goods and services.

9.5.4 Statement of other economic flows for Canada

Statistics Canada has not yet developed the component parts of the GFS 'other economic flows' tables. However, total other economic flows for each sector and sub-sector can be derived by taking the closing balance sheet, subtracting the opening balance sheet and subtracting the net effect of transactions on the balance sheet.

9.6 Public sector balance sheets

9.6.1 Balance sheet overview

In GFS, the balance sheet for an institutional unit or sector is a statement of the values of stock positions of assets owned and of liabilities owed at a particular point in time. In a macroeconomic balance sheet, a distinction is made between non-financial assets, financial assets, liabilities and net worth. The net worth of an institutional unit or sector is measured as the total value of assets minus the total value of liabilities.

In any given accounting period, such as a quarter or a year, a balance sheet is typically compiled at the end of each reporting period, which is also the beginning of the next reporting period. The ending stocks of the reporting period are calculated as stocks of the beginning of that reporting period plus the net effect of transactions as well as the net effect of other economic flows during the period. This is illustrated in Figure 9.1.

9.6.2 Components of the balance sheet

A balance sheet can be compiled for the general government sector or one of its sub-sectors, for individual government business enterprises and for the public sector as a whole. In the GFS framework, statistics for the general government sector and each of its sub-sectors are presented on a consolidated basis.

As mentioned earlier, a balance sheet consists of non-financial assets, financial assets, liabilities and net worth. Non-financial assets include produced assets (such as buildings, roads, airports, bridges, dams and other structures, weapons systems, machinery and equipment, inventories and valuables) and non-produced assets (such as natural resources, contracts, electromagnetic spectrum and goodwill). Financial assets consist of financial claims plus gold bullion held by the monetary authorities as a reserve asset. Examples of financial assets and liabilities include currency and deposits, loans, bonds and equity.

Components of the balance sheet are valued at current market prices where possible. If market price valuations are not directly measurable, valuations are imputed using different methods such as (i) accumulating and revaluing transactions or (ii) estimating the present value of future returns. The nominal value of financial instruments is also useful when market prices are not available. Due to the lack of information about current market values for aged structures and certain types of machinery and equipment, in these cases the **perpetual inventory method**, as described in section 7.5.1 of Chapter 7, is used. In other cases, such as for timber, sub-soil minerals and intangible assets, the **estimated present value** of the stream of expected future economic benefits is used to estimate current market value.

Tables 10-10-0016-01 through 10-10-0020-01 and 10-10-0022-01 show the balance sheets for the federal government, the provincial and territorial governments, the municipal and local governments, the health and social service institutions, the education institutions and the Canada and Quebec Pension Plans.

As seen in Table 9.3, in 2009 the consolidated Canadian general government sector had a negative net worth of about -\$106 billion and a net financial worth (excluding non-financial assets from consideration) of -\$876 billion. The total provincial and territorial general government sector had positive net worth of \$359 billion and negative net financial worth of -\$342 billion.

Table 9.3
Canadian government finance statistics, statement of operations and balance sheet, consolidated

	2009
	millions of dollars
Government sub-sector	
Consolidated general government	
Gross operating balance	-13,401
Net operating balance	-61,955
Revenue	554,576
Expense	616,531
Net worth	-105,661
Non-financial assets	770,703
Net financial worth	-876,364
Consolidated provincial-territorial and local general government	
Gross operating balance	21,168
Net operating balance	-19,244
Revenue	409,862
Expense	429,105
Net worth	359,083
Non-financial assets	700,955
Net financial worth	-341,872

Data are for the fiscal year with its end closest to December 31.

Source: Statistics Canada Table 10-10-0147-01.

9.7 Statement of sources and uses of cash

As was emphasized in section 9.2.3.1, the main GFS statements are measured on an accrual basis. This means the effects of economic events are recorded in the period in which they occur, regardless of whether cash was received or paid, or was due to be received or paid. However, tax revenues may accrue in one period and be paid in some subsequent period. Goods and services may be purchased in one period, received in another and paid for in yet another. Some expenditures may be recorded as having been accrued even though no cash payments were made or will ever be made.

The differences between the timing of accounting accruals and cash flows³⁷ are important for purposes of the government's liquidity management. For example, if the government bought a large quantity of goods and services in one period but did not need to pay until some future period, it would need to manage its financial affairs carefully in order to have the necessary funds available for disbursement when the bill came due.

The **statement of sources and uses of cash** is similar to the statement of operations in some ways, but it records **actual** cash flows rather than accounting accruals. Thus, for example, revenues are recorded in the period when those revenues are actually received. Expenses are shown when the associated payments are made. Cash flows from transactions in financial assets and liabilities are reported when the associated cash is received or disbursed.

The statement also includes the following balancing items:

- net cash inflow from operating activities,
- cash surplus or deficit,
- net cash inflow from financing activities, and
- net change in the stock of cash.

Within this accounting framework, the cash surplus or deficit must equal the net cash inflow from financing activities. The net change in the stock of cash at the end of the accounting period is equal to the net stock of cash at the start of the accounting period plus the cash surplus or deficit (or equivalently, the net cash inflow from financing activities).

Consumption of fixed capital is of particular interest because it is an expenditure item that can add substantially to the net operating balance even though there are no directly associated cash flows. There may be indirectly associated cash flows, however, if the government decides to replace depreciated capital with newly purchased buildings and equipment at some point in the present or a future period. Barter and other transactions in kind as well

as debt forgiveness and write-offs are additional examples of transaction types that can appear in the statement of operations without ever having an impact on the statement of sources and uses of cash.

Statistics Canada has not yet developed the statement of sources and uses of cash and this task is currently on its future work agenda.

9.8 Government business enterprises

When government finances are referred to in the public conversation the reference is typically to general government, not to government business enterprises. Yet government-owned or controlled enterprises that engage in commercial activities may also be instruments of fiscal policy. Government-owned enterprises, such as the Bank of Canada, Canada Post, VIA Rail and the various port authorities, which are often referred to as public corporations or state-owned enterprises,³⁸ are also part of the overall public sector.

9.8.1 Types of government business enterprises

The public sector universe draws a distinction between financial and non-financial GBEs.

The 19 financial GBEs in the database at time of writing were as follows:

- Alberta Treasury Branches Financial
- Bank of Canada
- Business Development Bank of Canada
- Canada Mortgage and Housing Corporation
- Crown Investments Corporation Asset Management Incorporated
- Columbia Power Corporation
- Exchange Fund Account
- Export Development Canada
- Farm Credit Canada
- Finance PEI
- Gainers Incorporated
- Insurance Corporation of British Columbia
- Investissement Québec
- Manitoba Development Corporation
- Manitoba Public Insurance Corporation
- N.A. Properties (1994) Limited
- Saskatchewan Government Insurance
- Société Nationale de L'amiante
- 3052155 Nova Scotia Limited

Some of these are public deposit-taking corporations while others are classified as financial for a variety of other reasons. For example, N. A. Properties (1994) Limited is an Alberta GBE originally established to dispose of the assets of some failed companies, banks, credit unions and trust companies in the 1980s. It has no employees currently, but has not been closed down because it has assets maturing in 2027. The corporation 3052155 Nova Scotia Limited was incorporated in 2001 for the purpose of holding and administering various assets and obligations transferred from Nova Scotia Resources Limited prior to the sale of that company's shares.

There were a lot more non-financial public enterprises in the database at time of writing, 28 at the federal level and 83 at the provincial and territorial level. Some examples are:

- Canada Lands Company Limited
- C.A. Pippy Park Commission
- Charlottetown Area Development Corporation
- Nova Scotia Provincial Lotteries and Casino Corporation
- New Brunswick Power Corporation
- Société des Traversiers du Québec
- Metropolitan Toronto Convention Centre Corporation
- Manitoba Hydro-Electric Board
- Saskatchewan Research Council
- Alberta Gaming and Liquor Commission
- BC Transit
- Nunavut Liquor Commission
- Yukon Energy Corporation
- Western Canada Lottery Corporation – Northwest Territories portion

9.8.2 Government business enterprise statistics

Table 10-10-0023-01 shows GFS information for government business enterprises. In 2009, overall the reported revenue was \$136,546 million, expense was \$131,954 million and the operating balance was \$4,592 million. Non-financial assets for these enterprises were \$127,059 million, financial assets were \$555,532 million and liabilities were \$687,058 million. Provincial and territorial GBEs account for the majority of non-financial assets, 87.4 per cent, while federal GBEs own most of the financial assets, 86.4 per cent. Local government GBEs account for relatively small percentages of revenue and expense, although they do account for over half of subsidies and transfers received from government, 55.9 per cent.

9.9 Uses of government finance statistics

GFS provide a measure of the financial position of the various public sector components and sub-components, as well as for the sector as a whole. They reveal how the multitude of transactions involving public sector institutional units within a given accounting period have the effect of either adding to or subtracting from the assets, debt and net worth of the public sector. These statistics are used by a wide variety of economists and industry analysts in both the private and government sectors, both within Canada and internationally. Citizens use the statistics, both directly and via the news media, to help in assessing the performance of elected governments in terms of whether good judgement is shown in managing expenditures and taxes and also in terms of whether political commitments have been met. The statistics are also used as inputs to federal-provincial-territorial transfer payment formulas.

9.9.1 Sequence of accounts versus government finance statistics

As was mentioned toward the start of this chapter, the government financial accounts are presented in two quite different ways in Canada's System of Macroeconomic Accounts. One shows them as part of the broader structure of the economy as a whole while the other aims more specifically at the public sector itself.

In the first of these, the transaction elements of these accounts (income and sales tax revenues, other transfers to governments, interest and other types of public sector income, compensation of employees, transfers to other sectors, interest and other types of public sector expenses, assets and liabilities) appear in the **sequence of accounts** as described in Chapters 3, 5, 6 and 8. The landscape there comprises the entire Canadian economy. Within that accounting framework users can see the government sector as one of six that together comprise the Canadian economy as a whole, with government business enterprises as part of the financial and non-financial corporations sector and non-profit institutions serving households in the NPISH sector. Public sector institutional units and

sub-sectors are presented in a way that is directly comparable with private sector institutional units and sub-sectors. Their production, consumption, investment, saving and financial activities are integrated with those of the private sector. The similarities and differences between the organization and behaviour of governments as compared to households, corporations, non-profit organizations and non-residents are revealed and the transactions between these sectors are presented.

In the second presentation, GFS, the focus is on the public sector itself and in particular on the amount and variety of transactions during any given accounting period. These millions of transactions are aggregated and presented in a carefully constructed and inter-governmentally comparable classification system. Transactions by institutional units in one sub-sector, such as the federal government, can be analyzed by comparing them with transactions within the same sub-sector in a different accounting period, or with transactions in a different sub-sector such as the provinces and territorial governments or the local governments. Moreover, the GFS accounting structure is designed to be similar to that which is typically presented to Parliament, provincial and territorial legislatures and municipal councils in before-the-fact budget planning documents and after-the-fact audited financial statements.³⁹ This makes the GFS tables readily interpretable by analysts.

Table 9.4
Mapping the sequence of accounts to the statement of operations

Item no.	Accounts categories
	Transactions affecting net worth
1	Revenue
2	Taxes on production, products and imports ¹
3	Taxes on income and wealth ¹
4	Property income received ¹
5	Social contributions ¹
6	Other current transfers received ¹
7	Sales of goods and services ¹
8	Capital transfers received ¹
9	Expense
10	Compensation paid to employees ¹
11	Purchases of goods and services ¹
12	Subsidies on production and products ¹
13	Property income paid ¹
14	Social benefits paid ¹
15	Current transfers paid ¹
16	Capital transfers paid ¹
17	Consumption of fixed capital ¹
18	Gross operating balance (1-9+17)
19	Net operating balance (1-9)
	Transactions in non-financial assets
20	Gross investment in non-financial assets
21	Fixed assets ¹
22	Inventories ¹
23	Valuables ¹
24	Non-produced assets ¹
25	Expenditure (9+20)

Table 9.4
Mapping the sequence of accounts to the statement of operations

Item no.	Accounts categories
Transactions affecting net worth	
26	Net lending (+) or borrowing (-) (1-25)
Transactions in financial assets and liabilities	
27	Net acquisition of financial assets
28	Net incurrence of liabilities
29	Net lending (+) or borrowing (-) (27-28)

1. Item comes from the sequence accounts.

Source: Statistics Canada.

9.9.2 Fiscal analysis

Since the publication of John Maynard Keynes' master work in 1936⁴⁰ if not earlier, it has been recognized that governments can have an important influence on the economic direction of their countries by means of fiscal policy. The fiscal policy of a country is reflected in the combined net lending or borrowing (surplus or deficit) of **all** its various governments combined. GFS provides vital time series information about fiscal policy through its consolidated statement of government operations and balance sheet.

But there is more to fiscal policy than aggregate surpluses and deficits. The impact on economic growth of any given change in net lending or borrowing depends very much on the **source** of that change. Is it due to a change in taxes and if so, what specific taxes in what parts of the country? Does it reflect the impact of changes in interest rates on government interest payments? Did governments spend more or less and if so, what and where were the associated purchases? Did the purchases have large or small fiscal multipliers? These questions and many others like them have answers in the GFS database.

Moreover, fiscal policy has longer-term dimensions as well as shorter-term ones. Fiscal surpluses reduce the public sector debt while deficits add to them. GFS provides information not just about period-to-period changes in revenues, expenditures, infrastructure investment and net lending or borrowing, which affect the year-to-year business cycle, but also about government assets, liabilities and net debt. The latter can affect a country's longer-term economic growth and inflation **sustainability** over a time frame measured in decades rather than quarters or years. The GFS balance sheet time series statistics are what is needed for this kind of analysis.

A variety of other fiscal indicators are often constructed from GFS information. The database is the primary factual source on trends in **the size of the public sector**. Various definitions of size are possible. The focus can be on revenues, or expenses, or a broader definition of expenses that also includes capital spending (referred to as total expenditures or outlays). A still broader definition can include the revenues and/or expenditures of government business enterprises. Often indicators of this nature are expressed as ratios to gross domestic production, or to population, to bring out the trend in government activity after allowing for broad scale influences such as those of inflation and population change.

Table 9.5 provides a list of selected fiscal indicators that are either directly available or can be constructed from the GFS database. These and several other such indicators are listed in *GFSM 2014*. It is these indicators that are used by the International Monetary Fund to assess the stance of fiscal policy and the sustainability of government finances in member countries.

Table 9.5
Selected fiscal indicators available from the GFS framework

Fiscal indicator	Definition
Net operating balance	Revenue minus expense. The net operating balance is also equal to the change in net worth due to transactions.
Gross operating balance	Revenue minus expense, excluding consumption of fixed capital.
Net lending or borrowing	Revenue minus expense minus net investment in non-financial assets.
Primary operating balance	Net operating balance excluding net interest expense.
Fiscal burden	Revenue in the form of taxes and social contributions.
Tax burden	Revenue in the form of taxes.
Government final consumption expenditure	Approximated by compensation of employees, plus the use of goods and services, plus consumption of fixed capital, plus purchases of goods and services for direct transfer to households (mainly social benefits in kind), minus the sales of goods and services.
Total expenditure or outlays	Expense plus net investment in non-financial assets.
Total financing	Transactions in financial assets minus transactions in liabilities.
Gross debt	Stock position in financial claims that require payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. Includes all liabilities held in debt instruments.
Net debt	Gross debt minus the stock position in financial assets corresponding to debt instruments.
Net worth	Stock position in assets minus stock position in liabilities at the end of the reference period.

Each of these indicators can also be expressed as a ratio to GDP or population.

Source: *Government Finance Statistics Manual 2014*, Table 4A.1, selected components.

9.9.3 Federal-provincial-territorial transfers

GFS provide a good way for policy analysts and others to track intergovernmental transfers through time. In addition, the amounts of some of these transfers—notably the Equalization and Territorial Formula Financing Transfers—are determined by formulas that make use of data from the GFS database.

The Equalization formula compares the per capita revenue-raising capacities of the ten provinces individually to the revenue-raising capacity of the ten provinces combined. Note that it is the **capacity** to raise revenues rather than the actual raising of revenues that is compared. Thus, for example, if one province has a lower tax rate in a particular revenue category than the average rate for all provinces combined, the comparison is based on what that province's hypothetical revenues would be if it levied the average rate. The calculations are made separately for personal income taxes, business income taxes, consumption taxes, property taxes and natural resource revenues. The latter category gets a different treatment in view of its volatility.⁴¹

There are many ingredients in the Equalization formula and several of them come from the GFS database. Its statistics are especially useful for this purpose because they use a common accounting framework for all ten provinces. For similar reasons the Territorial Formula Financing Transfers are also calculated with an equation that uses a lot of GFS information. Statistics Canada supplies fiscal arrangements certificates to Finance Canada every year for the use of the latter in calculating provincial and territorial transfer entitlements.

9.9.4 International organizations

International organizations, such as the United Nations (UN), the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) in particular, make extensive use of Canada's GFS for monitoring and analytical purposes.

Of the three, the IMF probably makes greatest use of these statistics since it has responsibility for monitoring and commenting on monetary and fiscal policies in member countries. Reflecting the organization's strong interest in this information source, the IMF also coordinates and participates actively in ongoing international discussions on the GFS standard itself and was the institution that published *GFSM 2014*. IMF staff visit most member countries annually, including Canada, as part of its surveillance program and the GFS information source is a key foundation for discussions at these encounters. The IMF also collects GFS data from all of its member countries and makes them available in the *Government Finance Statistics Yearbook*.

The OECD has used GFS in a variety of analytical studies. A recent example was a volume published in 2016.⁴² Among many interesting findings that study found Canada, as a very decentralized nation, had larger sub-national (provincial, local and Aboriginal) government expenditure as a percentage of total general government expenditure than all of the 94 other countries in the study except China. In addition, Canada's sub-national government expenditure as a percentage of gross domestic product was greater than in all other countries except Denmark.⁴³ These results are derived from the GFS database.

Annex A.9.1 The move from the financial management system to government finance statistics

A.9.1.1 Financial management system statistics

For most of the period since World War II, Statistics Canada produced government sector statistics under the **financial management system** (FMS) accounting standard.⁴⁴

The purpose of the FMS was to provide comparable financial statistics for the federal government, the (now) 13 provincial and territorial governments, the (now) approximately 3,700 local governments and the Canada and Quebec Pension Plans. In addition, the FMS allowed for consolidated statistics for these government sub-sectors and for the government sector as a whole.

A **cash accounting system** is one that requires revenue and expense to be reflected in the accounts only when the related cash receipts and disbursements occur. The FMS was founded on a **modified-cash-based system** of accounting. This means the system used the cash accounting system during an accounting period, but accrued certain items at the end of the period such as trade accounts, sales and purchases of goods and services and in some cases, taxes. There was no uniformity on the items subject to accrual.

The FMS was a uniquely Canadian accounting system, created to meet the specific requirements of Canada's federation. Along with its many other uses, the FMS provided statistics as inputs to the formulas for federal-provincial-territorial funding agreements as specified in the *Federal-Provincial Fiscal Arrangements Act*.⁴⁵ Statistics Canada developed FMS in cooperation with representatives of all levels of government and with the academic and business communities.

Although FMS concepts and classifications have not been used by Canadian governments for their internal purposes, they have been recognized by these same governments as suitable for their external dealings. This was seen in the selection of the FMS as the most appropriate system for the work of the Tax Structure Committee in the 1960s, the Tri-Level Task Force on Public Finance in the 1970s and by its usage in the successive Federal-Provincial Fiscal Arrangements Acts.

A.9.1.2 The move to government finance statistics

The first substantial effort to develop a standard **international** accounting system for government sector transactions was the publication by the International Monetary Fund of *A Manual on Government Finance Statistics, 1986 (GFSM 1986)*. That system used modified cash accounting. Fifteen years later the IMF published an updated version called the *Government Finance Statistics Manual 2001 (GFSM 2001)* that adopted accrual accounting and also provided a much tighter integration of financial flows and stocks. In 2014 the current version of the standard was released called the *Government Finance Statistics Manual 2014 (GFSM 2014)*.

In Canada as governments moved from modified-cash-based accounting systems to **accrual-based accounting systems**, Statistics Canada began to move from the FMS to the 2014 version of the GFS.

“... governments have become less liquidity constrained in carrying out fiscal policy and have become more adept at separating the time of a fiscal action from the time it is paid for, so that cash transactions do not adequately capture either the timing of activities or their economic impact. In consequence, there has been increasing recognition worldwide of the need to adopt the accrual system of recording, which includes a cash-flow statement for assessing fiscal policy.”

“The GFS analytic framework facilitates a more comprehensive assessment of the economic impact of government activity and the resulting changes on liquidity and the implications for the sustainability of fiscal policy. More specifically, the use of accrual-based statements and the integration of balance sheets with

flows are consistent with the need for government behaviour to be determined in the context of its inter-temporal budget constraint.¹⁴⁶

At time of writing, Canada's GFS are largely complete although the statement of other economic flows and the statement of sources and uses of cash remain to be developed.

The federal and provincial government quarterly statistics are compiled from the general ledgers of the various governments. In future, this will be done for the municipal governments as well. Preliminary quarterly estimates are compiled for the income and expenditure accounts and are then bridged to the GFS system. Once the annual audited public accounts data become available they are used to benchmark the preliminary quarterly estimates.

Annex A.9.2 Government finance statistics data sources

A.9.2.1 Government finance statistics releases and data sources

The GFS are produced by Statistics Canada on a quarterly basis and released approximately 90 days after the reference period. The statistics are available on the Statistics Canada website in 11 tables numbered 10-10-0015-01 through 10-10-0020-01, 10-10-0022-01 through 10-10-0024-01, 10-10-0005-01 and 10-10-0147-01.

GFS cover all general government (federal, provincial, territorial, local and Aboriginal) and the Canada and Quebec Pension Plans. Data for the federal government and provincial and territorial governments are obtained mostly from administrative data sources, known as public accounts, for the benchmark years. Supplementary information from surveys conducted by the Canadian Institute for Health Information and from Statistics Canada surveys of school boards, colleges and universities is also used. For the non-benchmark years, which are the most recent two-to-three years, the main sources of data for the federal, provincial and territorial governments are the published budget estimates and quarterly administrative files, known as general ledgers. For some provincial and territorial governments quarterly administrative files are not available and estimates are made.

For local governments, the most recent data are obtained through a questionnaire since budget estimates and financial statements, obtained through the provincial and territorial departments of municipal affairs, are not available until later.

For the Canada and Quebec Pension Plans, data are obtained from the Canada Pension Plan Investment Board and the Caisse de dépôt et placement du Québec.

A.9.2.2 Data processing and revisions

Most of the data come from general ledgers and audited financial statements of governments. In many cases adjustments are required so the estimates conform to GFS and *SNA 2008*. For survey data, which represent roughly one per cent of the total value, several automated checks are performed to verify internal consistency and identify extreme values. For non-responding units, imputation is performed using historical information where available, or donor imputation otherwise. The donor imputation procedure involves using auxiliary information to substitute the data or using ratios from an entity with similar characteristics.

The coverage of the general government population is virtually complete. Imputation for non-response varies by public sector sub-component, but for all components the imputation rate is less than two percent. Similarly, the overall impact of imputation on major financial variables is less than two per cent.

Estimates are derived from the compilation of data obtained from the sources for each institutional unit in the population of interest. The practice is first to obtain the published financial information and then to approach individual government organizations when necessary in order to solicit the additional detail required to apply the classifications accurately.

Annex A.9.3 Government finance statistics classifications

A.9.3.1 Classification of revenue

Revenue elements in GFS are classified according to different characteristics depending on the type of revenue. For taxes, the classification scheme is determined mainly by the base on which the tax is levied—income, payroll, property, sales of goods and services, etcetera. Revenue from sources other than taxes is classified by the nature of the economic flow and in some cases by the source from which the revenue is derived.

A.9.3.2 Classification of expense

While the GFS expense classification structure provides guidance on the minimum requirements for internationally-comparable classifications of expense, analytical needs necessitate further detailed classifications be added as sub-items in Canada's data presentations. These items usually relate to the need for consolidation of the general government or public sector, input into other macroeconomic datasets or items that will allow the calculation of supplementary aggregates or balances.⁴⁷

A.9.3.3 Classification of functions of government

The classification of the functions of government (COFOG) is an official United-Nations-approved classification system, developed by the Organization for Economic Cooperation and Development that enables government expenditures to be compared functionally among different countries. The classification was first published in 1980 and has been updated since. It has 10 high-level divisions of expenditure, with two-digit codes, and 69 lower-level groups of expenditure, with three-digit codes. The classification is shown in Table 9.6.

Table 9.6
Canadian classification of functions of government (COFOG)

Code	Expenditure category
701	General public services
7011	Executive and legislative organs, financial and fiscal affairs, external affairs
7012	Foreign economic aid
7013	General services
7014	Basic research
7015	R&D General public services
7016	General public services not elsewhere classified
7017	Public debt transactions
7018	Transfers of a general character between different levels of government
702	Defence
7021	Military defence
7022	Civil defence
7023	Foreign military aid
7024	R&D Defence
7025	Defence not elsewhere classified
703	Public order and safety
7031	Police services
7032	Fire-protection services
7033	Law courts
7034	Prisons
7035	R&D Public order and safety

Table 9.6
Canadian classification of functions of government (COFOG)

Code	Expenditure category
7036	Public order and safety not elsewhere classified
704	Economic affairs
7041	General economic, commercial and labour affairs
7042	Agriculture, forestry, fishing and hunting
7043	Fuel and energy
7044	Mining, manufacturing and construction
7045	Transport
7046	Communication
7047	Other industries
7048	R&D Economic affairs
7049	Economic affairs not elsewhere classified
705	Environmental protection
7051	Waste management
7052	Waste water management
7053	Pollution abatement
7054	Protection of biodiversity and landscape
7055	R&D Environmental protection
7056	Environmental protection not elsewhere classified
706	Housing and community amenities
7061	Housing development
7062	Community development
7063	Water supply
7064	Street lighting
7065	R&D Housing and community amenities
7066	Housing and community amenities not elsewhere classified
707	Health
7071	Medical products, appliances and equipment
7072	Outpatient services
7073	Hospital services
7074	Public health services
7075	R&D Health
7076	Health not elsewhere classified
708	Recreation, culture and religion
7081	Recreational and sporting services
7082	Cultural services
7083	Broadcasting and publishing services
7084	Religious and other community services
7085	R&D Recreation, culture and religion
7086	Recreation, culture and religion not elsewhere classified

Table 9.6
Canadian classification of functions of government (COFOG)

Code	Expenditure category
709	Education
7092	Primary and secondary education
7093	College education
7094	University education
7095	Education not definable by level
7096	Subsidiary services to education
7097	R&D Education
7098	Education not elsewhere classified
710	Social protection
7101	Sickness and disability
7102	Old age
7103	Survivors
7104	Family and children
7105	Unemployment
7106	Housing
7107	Social exclusion not elsewhere classified
7108	R&D Social protection
7109	Social protection not elsewhere classified

Source: Statistics Canada, [Canadian Classification of Functions of Government \(CCOFOG\) 2014](#) and [United Nations](#).

Most governments display expenditures in their own public accounts by government department, with program breakdowns. Thus, for example, Canada's federal government shows the expenditures of Statistics Canada, one of its departments, for fiscal year 2016-2017 displayed in the following categories:

- censuses,
- economic and environmental statistics,
- socio-economic statistics,
- statistical infrastructure,
- cost-recovered statistical services, and
- internal services.

A breakdown can also be obtained for operational expenditure categories similar to those in GFS (see section 9.4.2), although not all of these are applicable in the Statistics Canada example:

- compensation of employees,
- use of goods and services,
- consumption of fixed capital,
- interest expense,

- subsidy payments,
- grant payments,
- social benefit payments, and
- other expenses.

For many purposes, the program expenditure classification is the more useful of the two as it provides information about the **goals** government is trying to achieve by means of its expenditures.⁴⁸ It also facilitates the accountability of government departments. The difficulty, though, is that governments frequently pursue one aim through expenditures in several different departments. Moreover, different governments use different terminology in reference to any given goal. In addition, specific programs within individual departments may be designed to serve more than one of the government's goals. Thus, for example, the federal government's environmental protection goals are pursued partly by expenditure on environmental statistics produced by Statistics Canada, but also by the program expenditures of Environment and Climate Change Canada and some other departments.

COFOG is an alternative classification of government expenditures that re-aggregates individual expenditure line items in a strictly functional classification. The categories are intended to be widely applicable around the world so statistics compiled on this basis can be directly compared country-to-country for all levels of government, or among different levels of government within a particular country.

Referring to Table 9.6, the broad COFOG categories are:

- general public services,
- defence,
- public order and safety,
- economic affairs,
- environmental protection,
- housing and community amenities,
- health,
- recreation, culture and religion,
- education, and
- social protection.

Each of these has more detailed sub-categories. Using this breakdown of expenditures it is possible, for example, to compare intergovernmentally the intensity of government spending, as a percentage of gross domestic product, on health care. Similarly, it is useful for some purposes to compare the share of government expenditure devoted to defence or environmental protection in different countries.

Notes for chapter 9

1. According to the income and expenditure accounts. See Chapter 5.
2. According to the survey of employment, payrolls and hours (SEPH), classified using the North American Industry Classification System (Table 14-10-0202-01). Total employment as reported in SEPH excludes agriculture, fishing and trapping, private household services, religious organizations and the military.
3. See Table 10-10-0023-01.
4. For example, the *Consolidated Financial Statements of the federal government and Report of the Auditor General of Canada, 2014-2015* reports a statement of operations and accumulated deficit showing revenues, expenses and the annual surplus or deficit, a statement of financial position showing liabilities, financial assets, net debt and non-financial assets, a statement of change in net debt and a statement of cash flow.
5. The government business enterprise sector combines sub-sectors of the non-financial corporations and financial corporations sectors that consist of government-controlled enterprises producing market output.
6. See Tables 10-10-0015-01 (total government), 10-10-0016-01 (federal government), 10-10-0017-01 (provincial and territorial governments), 10-10-0018-01 (health and social service institutions), 10-10-0019-01 (education institutions), 10-10-0020-01 (municipalities and other local administrations), 10-10-0022-01 (Canada and Quebec Pension Plans) and 10-10-0023-01 (government business enterprises).
7. In Canada the closing balance sheet is estimated directly and the aggregate other flows are derived residually since the statement of other economic flows has not yet been developed.
8. This presents problems for the provincial economic accounts, as discussed in Chapter 5. It becomes necessary to allocate federal institutional units across the provinces and territories.
9. The federal pension plan is treated differently in the income and expenditure accounts, where the pension assets are considered to be on the balance sheet of the household sector.
10. Statistics Canada collects information on trustee pension plans in the Pension Plans in Canada annual census. The results for 2016 indicate the market value of employer-sponsored trustee pension fund assets was \$1.7 trillion in 2016. The number of trustee pension funds in Canada was 8,592. Public sector funds had 3.1 million active members and active members in private sector funds were 2.2 million. See Table 11-10-0106-01.
11. See Sagé De Clerck, "Special Purpose Entities in the Public Sector", by, paper presented at the fourth meeting of the *Task Force on Harmonization of Public Sector Accounting* in Washington, D.C., October 3-6, 2005.
12. Accounting rules are also discussed in Chapter 3, section 3.5 of this publication. See also *GFSM 2014*.
13. In the private sector, consolidation can also be applied within a business enterprise. If the enterprise is made up of several corporations that engage in financial and non-financial transactions with one another, these transactions and the balance sheets can be consolidated to provide a coherent, non-duplicative picture of the enterprise as a whole.
14. [Canadian Classification of Institutional Units and Sectors \(CCIUS\) 2012](#) on the Statistics Canada website.
15. By 'control' is meant the ability to determine general corporate policy relating to a corporation's strategic objectives as a market producer. Control is assessed using a variety of indicators such as majority ownership, control of the board or other governing body, control of the appointment and removal of key personnel, ownership of 'golden' shares and options and control attached to lending from the government to the corporation.
16. At time of writing the database did not contain all of the health and education units and local government GBEs. However, it is planned that these will be added in future annual updates to the database.
17. [Public Sector Universe](#) on the Statistics Canada website.
18. In the international standard for GFS accounting the components of the general government sector are referred to as central, state and local governments.

19. This includes the Yale Final Agreement, the Tla'amin Final Agreement and the Déline Final Self-Government Agreement which have been signed, but are not yet in effect. In addition, other forms of governance or self-government have been negotiated and implemented in Canada including the Nunavut Land Claims Agreement, the *Cree-Naskapi Act* in 1984 and the Mi'kmaq Education Partnership in Nova Scotia. This information comes from the website of Indigenous and Northern Affairs Canada.

20. [Public Sector Universe](#) on the Statistics Canada website.

21. [CMHC](#) website.

22. CHMC 2015 Annual Report.

23. Hydro-Québec 2016 Annual Report.

24. [Agricultural Implements Act](#) on the Government of Saskatchewan website.

25. [CBC](#) website.

26. The [Canadian Government Finance Statistics](#) classification of revenue is available on the Statistics Canada website.

27. Social contributions sometimes take the form of payroll taxes, as with the Employment Insurance scheme. However, the reference here is to **unrequited** payroll and workforce taxes.

28. *GFSM 2014*, page 94.

29. When a government wishes to impose a tax on a specific commodity, such as alcoholic beverages, it can do so directly or indirectly. The indirect approach is to establish a fiscal monopoly with exclusive rights to sell the product and charge higher prices than would otherwise prevail in a competitive market. This approach might be chosen to allow the government to more tightly regulate the sale of the product. The difference between the higher monopoly price and the competitive market price is effectively a tax on the commodity and is treated as such in the GFS.

30. *GFSM 2014* recommends social contributions for pensions not be treated as a revenue item, but rather as the acquisition of an asset (currency) in exchange for a liability (future pension entitlements). "... transactions that create a recognized liability are not part of revenue. In GFS, social contributions exclude contributions to autonomous and non-autonomous pension funds and to unfunded employment-related schemes that provide pension and other retirement benefits. These transactions should be recorded in GFS as incurrence of liabilities for future pension and other retirement benefits payable. *SNA 2008* records them both as social contributions and incurrence of liabilities, with the double recording being neutralized by an adjustment in the use of income account for the change in pension entitlements." (*GFSM 2014*, p. 102). Canada has not followed this approach in its GFS accounts.

31. The distinction between current and capital transfers is discussed in Chapter 3, 5 and 8.

32. [Finance Canada](#) website.

33. Slack, Enid, "Provincial-Local Fiscal Transfers in Canada: Provincial Control Trumps Local Accountability," paper prepared for the *Conference on 'General Grants vs. Earmarked Grants: Theory and Practice'*, Copenhagen, September 2009.

34. The [Canadian Government Finance Statistics](#) classification of expense is available on the Statistics Canada website.

35. Consumption of fixed capital is discussed extensively in Chapter 3 and also in Chapter 7.

36. As discussed in the section on consolidation, it is also important, when making inter-governmental comparisons between countries or between governments within Canada, to use consolidated rather than unconsolidated statistics. This is especially true for expenditures on large expense categories such as health and education where inter-governmental transfers are substantial.

37. The word cash refers to both currency and deposits.

38. Recall that an **enterprise** is the view of an institutional unit as a producer of goods and services. The term enterprise may refer to a corporation, a quasi-corporation, a non-profit institution, or an unincorporated enterprise.

39 The GFS accounting structure is not and indeed cannot be identical to that of any particular public sector institutional unit, since each of these units is free, within limits, to define its accounting architecture as it see fit. But the structure is quite similar to that of most public sector units.

40. John Maynard Keynes, *The General Theory of Employment, Interest and Money*, Macmillan, London, Melbourne, Toronto, 1967. Originally published in 1936.

41. For more details on the Equalization formula see "[Canada's Equalization Formula](#)," Library of Parliament Research Publications, September 2013.

42 See Organization for Economic Cooperation and Development, [Subnational Governments Around the World: Structure and Finance](#), 2016. See also Organization for Economic Cooperation and Development, [OECD Regions at a Glance](#) 2016.

43. *Ibid*, page 20.

44. Statistics Canada, *Financial Management System (FMS)*, catalogue number 68F0023X, 2009.

45. Revised Statutes of Canada, 1985, c. F-8, last amended on June 22, 2016.

46. *GFSM 2014*, page 67.

47. For more information see *GFSM 2014*, Chapter 6, section C.

48. The operational expenditure classification, in contrast, is more about the **means** by which governments pursue different objectives, whether by employing public servants, making social benefit transfers, using capital equipment, etcetera.