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Latest Developments in the Canadian Economic Accounts

Deriving revenue, expenditure and budgetary balance of the government sector by province and territory

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. not available for any reference period
.. not available for a specific reference period
... not applicable
0 true zero or a value rounded to zero
0s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
p preliminary
r revised
x suppressed to meet the confidentiality requirements of the *Statistics Act*
E use with caution
F too unreliable to be published
* significantly different from reference category ($p < 0.05$)

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Introduction

The Provincial and Territorial Economic Accounts (PTEA) provide annual estimates of macroeconomic variables for each province and territory back to 1981. Historically in addition to components of gross domestic product, the PTEA included detailed estimates of revenues and expenditures for the federal, provincial-territorial, local, and Social Security Funds (Canada Pension Plan and Quebec Pension Plan) sub-sectors of government for each province and territory. However, at the time of the historical revision of the Canadian System of Macroeconomic Accounts (CSMA) in 2012, the publication of the detailed estimates of government sector revenues and expenditures by province and territory was suspended.

As part of the 2015 comprehensive revision of the PTEA and with the integration of the Canadian Government Finance Statistics (CGFS), the CSMA can now reintroduce detailed estimates for all government sub-sectors. The structure of the new tables follow the budgetary balance approach found in the National Income and Expenditure Accounts, with revenues, expenditures, surplus/deficit, and net lending all presented in one table for each government sub-sector, and each province and territory. The estimates range from 2007 to 2014, and will be updated annually.

The general approach to constructing the new tables

The revenue, expenditure and budgetary balance tables for the government sector include estimates of revenue, expenditure and budgetary balances for each province and territory for each of the following:

- General Government [1]
- Federal General Government
- Provincial and Territorial General Government
- Local General Government
- Social Security Funds (Canada Pension Plan and Quebec Pension Plan)
- Aboriginal General Government

Compiling detailed budgetary balance tables for each province and territory is relatively simple for the provincial-territorial, local, and Quebec Pension Plan sub-sectors, as each of the governments exist and operate within the boundaries of their respective provinces and territories, and their related source data are available accordingly from the CGFS. In the case of the Aboriginal General Government sub-sector, each of those governments also exists and operates within the boundaries of their respective provinces and territories. The data used to compile the detailed budgetary balance table for the Aboriginal General Government sub-sector come from the Public Accounts of Canada, federal government taxation files, and from their own financial statements on the website of the Department of Indigenous and Northern Affairs Canada, which are also used to establish the provincial and territorial distribution for this sub-sector.

The compilation of similarly detailed tables for the federal and CPP sub-sectors is more challenging because these governments exist and operate in more than one province or territory, meaning their revenues, expenditures and budgetary balances need to be allocated across the provinces and territories.

As a standard practice to compile the detailed tables for these sub-sectors, the CSMA primarily follows three criteria to determine their provincial/territorial distribution:

1. the geographic location of the economic activity;
2. the geographic location of the counterparty involved and;
3. the point of final consumption of goods and services by the government.

In instances where the geographic location associated with the three primary criteria is unclear, other distribution criteria are used.

Users should take note of the differing criteria used and the difficulties inherent in the geographic distribution of these data when performing their analysis, especially for residual aggregates such as surplus/deficit, and net lending/borrowing.

Overview of the provincial-territorial distribution of the federal government sub-sector

Federal government revenues are generally distributed to the province or territory from which the revenues arise, and the distributors are often available directly from federal government taxation data or the Public Accounts of Canada. Revenue items found in the federal government sub-sector table are distributed as follows:

- Taxes on income from households are based on the province of residence of the payer using taxation data obtained from Canada Revenue Agency (CRA).
- Taxes on income from corporations and government business enterprises are distributed using taxable corporate income and other data on operations filed by corporations with CRA. [2]
- Taxes on income from non-residents are distributed using taxable corporate income and other data on operations filed by corporations with CRA.
- Contributions to social insurance plans are based on the province of employment of the payer as reported on the T-4 supplementary form, which may not be the same as the province of residence of the employee.
- Taxes on production and imports are distributed based on the province of final consumption of the respective goods and services.
- Other current transfers from households follow the distribution of taxes on income from households, as no other direct information is available.
- Current transfers from general governments are based on geographic location of the paying government.
- Other current transfers from non-residents are distributed using taxable corporate income and other data on operations filed by corporations with CRA.
- Investment income – royalties is based on the geographic location of the economic activity which generates the revenue.
- Investment income – interest and other investment income is distributed per capita basis.
- Investment income – remitted profits of government business enterprises is distributed based on the geographic location of the economic activity which generated the income. [3]
- Sales of goods and services are distributed using the federal government employment in each province.
- Capital transfers – from households are distributed on a per capita basis, as there is no direct information available. [4]
- Capital transfers – from business is comprised primarily of settlement amounts received from tobacco companies, and are distributed based on the amounts that the provinces/territories received as part of the same settlement process.

Federal government expenditures are generally distributed to the province or territory in which the expenditures were made, or in which the federal government consumed the goods and services. As with the distribution of federal government revenues, some of the data are distributed using federal government data such as the Public Accounts of Canada, while other items are distributed using more indirect information. The estimates of the specific items in the federal government sub-sector table are distributed as follows:

- Final expenditure on goods and services is distributed according to where the government consumed the goods and services used to deliver programs and services to Canadians, derived from the distribution of the province of employment from T-4 data, and information received from federal government departments.
- Current transfers to households are based on the province of residence of the recipient derived from various sources such as the Public Accounts of Canada, and other federal government data.
- Current transfers to non-profit institutions serving households (NPISH) are distributed using the final consumption expenditure of the NPISH sector in the PTEA.
- Subsidies are distributed based on the province of the recipient. Agricultural subsidies are distributed using administrative data available at Statistics Canada, while non-agricultural subsidies are distributed using the Public

Accounts of Canada.
- Current Transfers to general governments – Provincial and Territorial is distributed primarily using information from the Public Accounts of Canada.
- Current Transfers to general governments – Local is distributed using information from the Public Accounts of Canada.
- Current Transfers to general governments – Aboriginal is distributed using information from the Public Accounts of Canada.
- Current transfers to non-residents are allocated directly to 'Outside Canada'.
- Capital transfers – to households are distributed on a per capita basis.
- Capital transfers – to non-profit institutions serving households are distributed using the final consumption expenditure of the NPISH sector in the PTEA.
- Capital transfers – to business are distributed based on the province of recipient derived from the Public Accounts of Canada.
- Capital transfers to general governments – provincial and territorial is distributed using information from the Public Accounts of Canada.
- Capital transfers to general governments – local is distributed using the distribution available from the recipient as per the CGFS.
- Capital transfers – to non-residents, similar to current transfer to non-residents, are allocated to 'Outside Canada'.
- Interest on debt is distributed on a per capita basis.
- Consumption of fixed capital (CFC) is based on investment flows of the federal government by province and by type of asset. The calculation of CFC is meant to reflect economic depreciation of new asset investment and of existing stock, which is done using the perpetual inventory method.
- Non-financial capital acquisition – new capital comprises federal government net purchases of new non-financial capital, such as buildings and equipment, and the provincial/territorial distribution comes from Statistics Canada's Capital and Repair Expenditures survey, based on where the assets are permanently stationed or assigned.
- Non-financial capital acquisition – existing capital comprises federal government net purchases of existing assets and presently consists of sales of electro-magnetic spectrum. This is distributed provincially/territorially using the distribution of household expenditures on cell phone services.
- Inventories are distributed based on the final consumption expenditure of the federal government sub-sector.

Overview of the provincial-territorial distribution of the Canada Pension Plan sub-sector

The Canada Pension Plan (CPP) sub-sector contains only two revenue streams and they are distributed as follows:

- Contributions to social insurance plans are distributed using the provincial/territorial distribution available from the employers' CPP contributions from the T4 summary file.
- Investment income is distributed on the contributions to the CPP, because it is earned on the cumulative stock of the contributions.

Expenditures of the CPP sub-sector are distributed as follows:

- Final expenditure on goods and services is distributed using CPP administrative expenditure data from the federal government.
- Current transfers to households are essentially the CPP benefits paid from administrative data of Employment and Social Development Canada.
- Current transfers to non-residents are allocated directly to 'Outside Canada'.
- Interest on public debt is distributed on a per capita basis.

Conclusion

The re-introduction of detailed estimates of the government sector by province and territory was greatly facilitated by the newly incorporated CGFS framework into the CSMA, and by the wealth of other data that pre-existed in the CSMA. While measuring the provincial and territorial distributions is relatively straightforward for certain sub-sectors of government, the distribution of the Federal General Government and the CPP sub-sectors is less clear-cut. To complete the task of distributing the estimates for the Federal General Government and CPP sub-sectors, the CSMA has followed three general criteria: (1) the geographic location of the economic activity; (2) the geographic location of the counterparty involved; (3) the point of final consumption of goods and services by the government.

While these criteria are reasonable for national accounting purposes, other criteria could have been used which would have resulted in different allocations. Users should be aware of how different criteria can affect analysis and interpretation of the resulting estimates. For instance, allocating federal government final expenditure on goods and services by point of use/consumption is consistent with the national accounting principle of valuing government production at the cost of its inputs. This methodology does not reflect which province's or territory's residents benefit by selling those inputs to the federal government nor does it begin to measure the value of federal government production consumed by Canadians in different provinces and territories.[5]

Notes

1 The total General Government is only partially consolidated for each province and territory. The current and capital transfers are being consolidated but not the property incomes and sales of goods and services due to a lack of data granularity.

2 Although CRA has established criteria as to how corporations are to report their taxable income and income taxes by province and territory, difficult statistical issues remain regarding the location of productive activity and the income taxes owed by multi-national and multi-provincial corporations.

3 The same measurement challenges for the provincial allocation of direct taxes from corporations and government business enterprises apply to these estimates, when it comes to enterprises that operate in more than one province/territory.

4 The exception is 2007, where the amount is primarily comprised of the amortization of the actuarial surplus of the public service pension plans. This amount is distributed based on the provincial distribution of the federal public service compensation of employees.

5 To pursue the example, all Canadians enjoy, more or less equally, the benefits of the defence services produced by the Department of National Defence but in these Accounts that production is allocated not to where the benefits of those services are consumed and not to where the inputs to those services were produced (some of which would be outside Canada) but to the provinces and territories in which the human and physical assets of DND are stationed and therefore to the location of the consumption of those inputs by government. For a more detailed examination of distributors and how they can affect the analysis and interpretation of the resulting detailed estimates, please see *Federal Government Revenue and Spending by Province: A Scorecard of Winners and Losers in Confederation?*.