Annual Financial Report

of the Government of Canada

Fiscal Year 1996-97

Canada

Price: $16.05 (including GST)
(This price includes the *Fiscal Reference Tables*)

Available from the Finance Canada Distribution Centre
300 Laurier Avenue West, Ottawa K1A 0G5
Tel: (613) 995-2855
Fax: (613) 996-0518

Cette publication est également disponible en français.

Cat no. F1-25/1997E
ISBN-0-660-17224-0

Annual Financial Report

of the Government of Canada

Fiscal Year 1996-97

This is the fourth edition of the *Annual Financial Report* of the Government of Canada. It covers the federal government's spending and revenue performance for the past fiscal year (April 1, 1996 – March 31, 1997), and details the factors affecting these results. Historical data are presented in a separate document entitled *Fiscal Reference Tables*.

The Annual Financial Report responds to recommendations by the Auditor General and the House of Commons Public Accounts Committee. The government shares their view that providing Canadians with accurate, relevant and timely information on its financial activity in an understandable form enhances government accountability and enables Canadians to play a more active and effective role in guiding government decision-making.

As noted in this report, substantial progress has been made in restoring health to the federal government's finances. The deficit has declined from a peak of $42 billion in 1993-94 to $8.9 billion in 1996-97. This decline underlines the soundness of the government's fiscal strategy – basing budget plans on prudent planning assumptions backed by a sizeable Contingency Reserve – which has engendered economic conditions conducive to growth and job creation.

Department of Finance Canada
Ministère des Finances Canada

The government believes that transparency and accountability to Parliament and Canadians are best served by recording liabilities in the year in which they occur. We have been consistent in this practice and will continue to be so in the future. Accordingly, I am disappointed that the Auditor General has expressed a qualified opinion on this year's financial statements regarding the recording of the liability in 1996-97 for the Canada Foundation for Innovation. The government is of the view that, in substance, this transaction represented a financial liability, which must be accounted for in the 1996-97 financial statements. We believe that governments must be held accountable for such liabilities – in the year that they are made – rather than leave them to some future date.

The financial data in this report are based on the audited results which will appear in the *Public Accounts of Canada*, scheduled for tabling in the House of Commons this fall.

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

TABLE OF CONTENTS

Report highlights 5

- The net public debt 5
- Financial requirements/surplus 5
- Deficit down $19.7 billion from 1995-96 . . 7
- Deficit below target 7

Economic developments in 1996 8

Budgetary revenues 11

Budgetary expenditures 14

Financial requirements/surplus and debt 18

The "Scorecard" 20

Opinion of the Auditor General on the condensed financial statements of the Government of Canada 23

The condensed financial statements of the Government of Canada 25

REPORT HIGHLIGHTS

The federal deficit for 1996-97, as measured by budgetary transactions, was $8.9 billion. This is the shortfall between government budgetary spending of $149.8 billion and budgetary revenues of $140.9 billion.

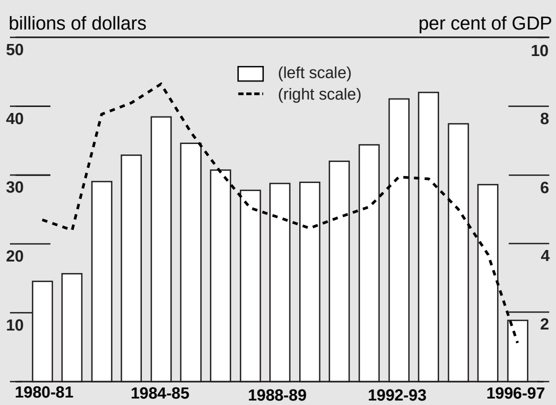
The budgetary deficit of $8.9 billion was:

- the lowest deficit since 1976-77;
- $19.7 billion lower than the 1995-96 deficit of $28.6 billion – the largest single annual decline;
- $33.1 billion below its peak of $42 billion recorded in 1993-94; and
- $15.4 billion lower than the deficit target of $24.3 billion for 1996-97 – the third consecutive year in which the deficit has come in below target.

Budgetary revenues exceeded program spending – total spending less interest charges – in 1996-97 by $36.1 billion, almost double the $18.3 billion recorded in 1995-96. This "operating" surplus was not sufficient to fully cover interest charges on the public debt of $45.0 billion, resulting in the deficit of $8.9 billion.

The decline in the deficit, in combination with modest economic growth in 1996, resulted in a sharp drop in the deficit to economic output (GDP) ratio, from 3.7 per cent in 1995-96 to 1.1 per cent in 1996-97. The ratio in 1996-97 is the lowest since 1970-71.

The deficit and the economy



Source: *Public Accounts of Canada* and Statistics Canada.

Each Canadian's share of the deficit – adults and children – was $295, down from $958 in 1995-96. This reflected government spending equal to $4,961 per person and government revenues equal to $4,666 from each individual.

The net public debt

The 1996-97 deficit brought the federal government's net public debt – the accumulation of annual deficits and surpluses – to $583.2 billion.

- As a share of Canada's economy, the accumulated deficit dropped to 73.1 per cent, down from 74.0 per cent in 1995-96.
- This was the first meaningful decline since 1974-75.
- Ten years ago, the debt-to-GDP ratio was 54.1 per cent.

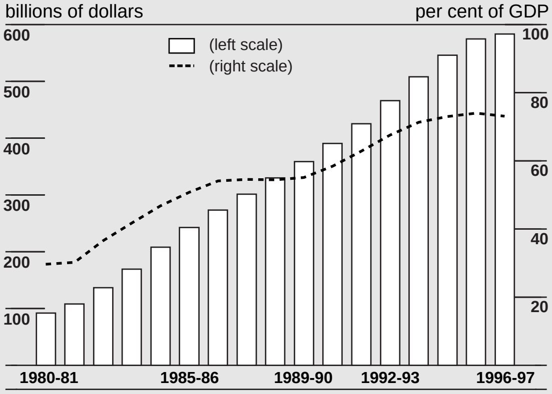
The net public debt at the end of 1996-97 reached $19,313 for each Canadian, up from $19,227 a year earlier.

Financial requirements/surplus

Although the budgetary deficit is the main measure of the government's fiscal position, there are other important measures as well. Financial requirements/surplus measure the difference between cash coming into the government and cash going out. Most industrialized countries use a measure comparable to financial requirements as their main budget measure.

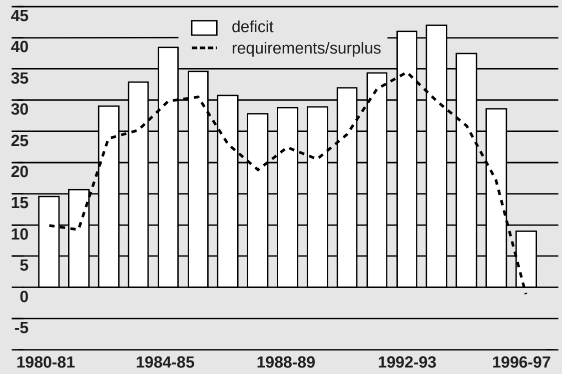
- There was a net financial surplus of $1.3 billion in 1996-97, excluding foreign exchange transactions -- the first financial surplus since 1969-70. Among the G-7 countries, Canada was the only country in surplus in 1996-97.
- In 1995-96, there was a net requirement of $17.2 billion.

Net federal debt and the economy



Source: *Public Accounts of Canada* and Statistics Canada.

Budgetary deficit and financial requirements/surplus*



*Excluding foreign exchange transactions.
Source: *Public Accounts of Canada* and Statistics Canada.

Table 1

Financial highlights

	1993-94	1994-95	1995-96	1996-97
		(billions of dollars)		
Budgetary transactions				
Revenues	116.0	123.3	130.3	140.9
Program spending	-120.0	-118.7	-112.0	-104.8
Operating balance	-4.0	4.6	18.3	36.1
Debt charges	-38.0	-42.0	-46.9	-45.0
Deficit	-42.0	-37.5	-28.6	-8.9
Non-budgetary transactions	12.2	11.6	11.4	10.2
Financial requirements/surplus (excluding foreign exchange transactions)	-29.9	-25.8	-17.2	1.3
Financial position				
Total liabilities	-546.4	-584.8	-624.7	-640.7
Total assets	38.2	39.1	50.4	57.5
Accumulated deficit (net public debt)	-508.2	-545.7	-574.3	-583.2
Financial results as % of GDP				
Deficit	-5.9	-5.0	-3.7	-1.1
Accumulated deficit	-71.3	-73.0	-74.0	-73.1

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Deficit down $19.7 billion from 1995-96

The deficit declined by $19.7 billion between 1995-96 and 1996-97. This decline was attributable to the impact of:

- restraint measures introduced in the 1994 and 1995 budgets, primarily affecting program spending;
- economic growth; and
- one-time factors affecting revenues.

Revenues increased by $10.6 billion or 8.1 per cent. Of this increase:

- $2.5 billion was attributable to the net proceeds from the sale of the Air Navigation System and the acceleration of employment insurance premium revenues.
- Another $0.7 billion was due to the reclassification of the air transport tax from program spending to revenues. Since this reclassification affected both revenues and program spending, there was no impact on the deficit.
- The remaining increase of $7.4 billion was mostly attributable to higher levels of economic activity and the interaction of the tax system with these economic developments.
- The net incremental impact of tax changes announced since 1993 amounted to only $0.2 billion, primarily in areas to increase fairness and tighten the tax system.

Program spending declined by $7.2 billion to $104.8 billion.

- This decline was attributable to the restraint measures introduced in the 1994 and 1995 budgets, as well as to the growth in the economy.
- This marks the fourth consecutive year in which program spending has declined. Spending was $17.8 billion below the 1992-93 level.

Public debt charges declined $1.9 billion. This was attributable to a decline in the average effective interest rate, from 8.0 per cent in 1995-96 to 7.5 per cent in 1996-97, which more than offset the increase in interest-bearing debt of $14.2 billion.

Deficit below target

The deficit for 1996-97 was $15.4 billion below the target of $24.3 billion set out in the 1996 budget.

- Budgetary revenues were $5.9 billion higher, of which $3.2 billion was attributable to one-time special factors, with the rest largely reflecting higher corporate income tax and goods and service tax (GST) collections.
- Program spending was $4.2 billion lower, largely due to tighter controls over direct program spending and lower employment insurance benefit payments.
- Public debt charges were $2.8 billion lower, reflecting the impact of lower interest rates.
- The Contingency Reserve of $2.5 billion was not required.

The deficit was $10.1 billion below the 1997 budget estimate of $19.0 billion.

- Budgetary revenues were $5.4 billion higher, primarily due to higher corporate income tax and GST collections.
- Program spending was $4.2 billion lower, primarily reflecting much lower-than-expected end-of-year accounting adjustments.
- Public debt charges were $0.5 billion lower.

The government's fiscal strategy is to set two-year rolling deficit targets, base these targets on prudent economic planning assumptions, and back these assumptions up with sizeable Contingency Reserves. These operating guidelines have ensured that the final deficit outcome has come in below target in each year this strategy has been in place.

ECONOMIC DEVELOPMENTS IN 1996

The main factors affecting the financial results are:

- impact of budget measures;
- changes in economic conditions; and
- the interaction of the tax system with economic developments.

This section briefly looks at economic developments in 1996.

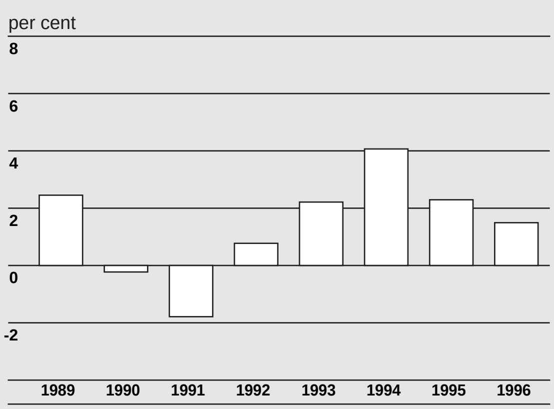
Economic growth slowed in 1996. Real gross domestic product (GDP) – which excludes the effect of inflation – grew 1.5 per cent, compared to an increase of 2.3 per cent in 1995. This slowdown reflected weak growth over the first two quarters of 1996 due to a reduction in business inventory investment and a temporary slowdown in the U.S. economy, which restrained export growth. Growth was much stronger in the second half of 1996. Businesses had adjusted their inventories to more normal levels and inventory investment strengthened. More importantly, the substantial declines in interest rates that had taken place since early 1995 resulted in a strong pick-up in domestic spending, particularly non-residential investment and consumer spending.

Inflation pressures in 1996 remained subdued, with inflation, as measured by the Consumer Price Index (CPI), remaining in the lower half of the Bank of Canada's target range of 1 to 3 per cent. The all-items CPI rose 1.6 per cent, down from a 2.1 per cent increase in 1995. The GDP deflator, the broadest measure of domestic prices, rose 1.3 per cent, after rising 1.5 per cent in 1995.

The key economic variables affecting the federal government's financial results are personal income, corporate profits, consumer demand and interest rates.

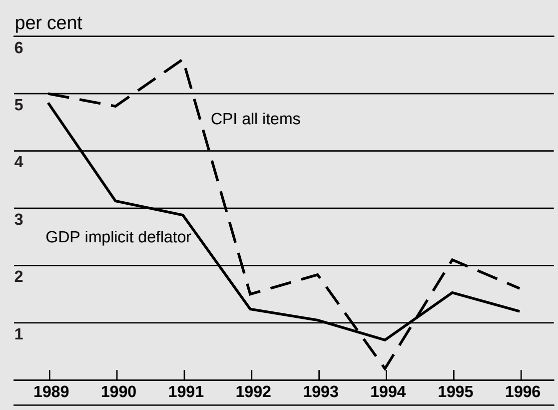
The applicable tax base for personal income tax collections is personal income. Personal income tax collections are affected not only by the change in personal income but also by its composition. Personal income includes labour income, net income of unincorporated businesses, interest and dividend income as well as transfer payments to individuals, consisting primarily of those from government. Personal income increased by 2.0 per cent in 1996, down from the increase of 3.3 per cent reported in 1995. Most of the increase in 1996 was attributable to higher labour income

Real GDP growth



Source: Statistics Canada.

Prices and costs



Source: Statistics Canada.

(wages and salaries and supplementary labour income), up 2.8 per cent, with employment and wage gains contributing about equally. All of the increase in labour income occurred in the private sector as the labour income paid by the government sector declined. Net income from unincorporated businesses rose 3.5 per cent. However, interest and dividend income declined 3.0 per cent, after recording an increase of 9.6 per cent in 1995. The decline primarily reflected the fall in interest rates in 1996. Transfer payments from government were up in 1996 but virtually all of the increase was due to the special one-time payment related to the elimination of subsidies under the *Western Grain Transportation Act*.

Corporate profits, the applicable tax base for corporate income tax collections, were almost unchanged in 1996, after rising 13.1 per cent in 1995. However, there was a compositional shift among the various sectors with increases in the financial sector offsetting declines in the non-financial sector.

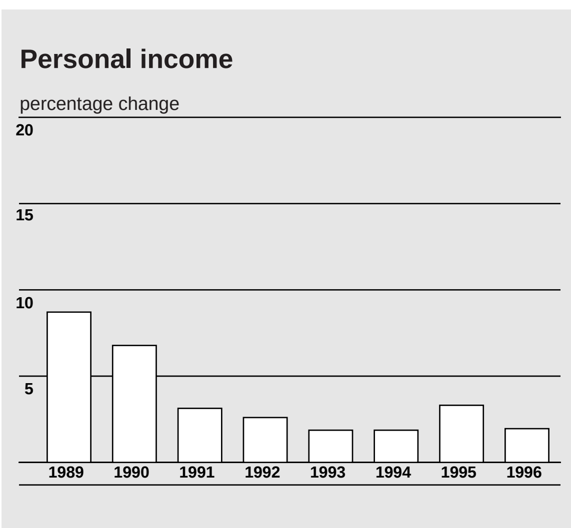
A proxy tax base for the goods and services tax is personal spending on goods and services, excluding food and rent, but including residential construction. The value of these expenditures increased 4.9 per cent, up strongly from the gain of only 0.6 per cent reported for 1995.

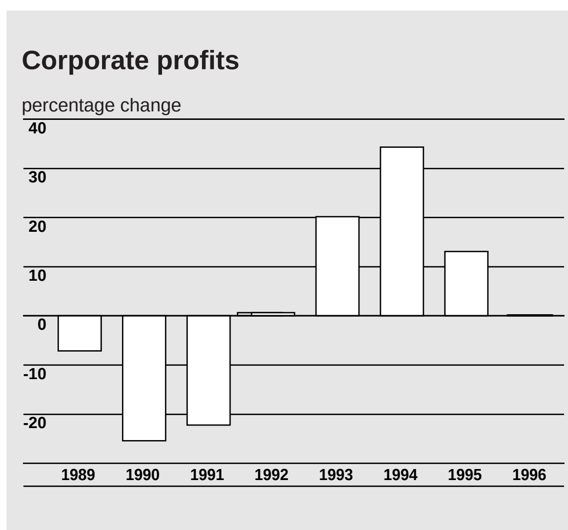
The unemployment rate rose to 9.7 per cent in 1996 from 9.5 per cent in 1995, as employment growth fell short of labour force growth. The labour force grew by 1.5 per cent in 1996, well above its 1995 increase of 0.7 per cent. Employment was up 1.3 per cent in 1996, somewhat less than the 1.6 per cent growth recorded in 1995.

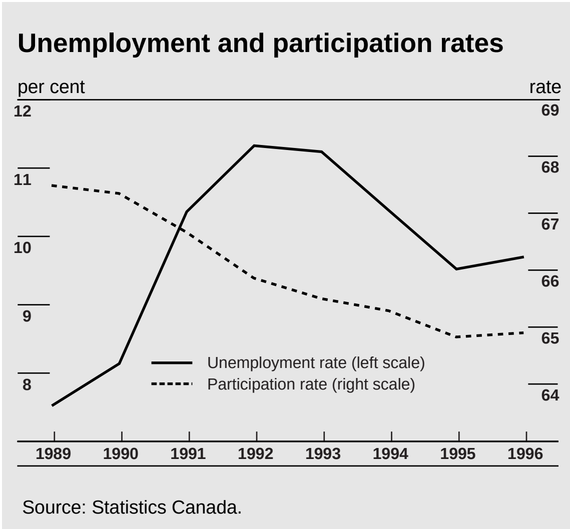
Table 2

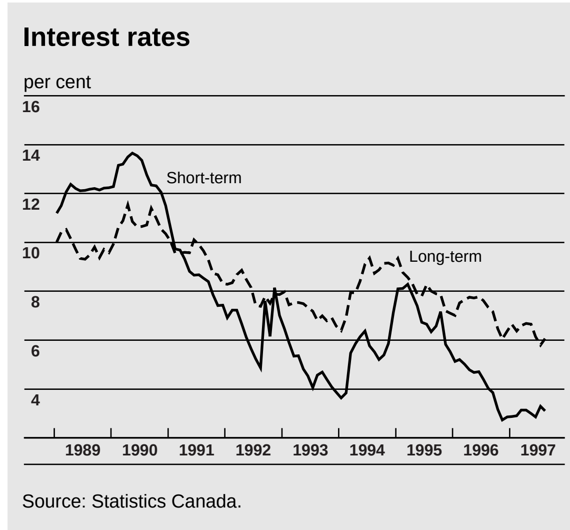
Key economic indicators

	1995	1996
	(year-to-year per cent change – unless otherwise indicated)	
Real GDP	2.3	1.5
Inflation		
CPI	2.1	1.6
GDP implicit price deflator	1.5	1.3
Nominal GDP	3.9	2.8
Personal income	3.3	2.0
Labour income	3.2	2.8
Corporate profits	13.1	0.2
Personal expenditures excluding food/rent but including residential construction	0.6	4.9
Employment	1.6	1.3
Interest rates		
3-month Treasury bill rate (%)	7.0	4.3
10-year government benchmark rate (%)	8.1	7.2









Short-term interest rates fell through 1996, ending the year at 2.9 per cent. For the year as a whole, they averaged 4.3 per cent, compared to an average of 7.0 per cent in 1995. The 10-year Government of Canada benchmark bond rate also declined to average 7.2 per cent in 1996, compared to 8.1 per cent in 1995. The Canadian dollar averaged 73.3 cents U.S. in 1996, slightly above the average of 72.9 cents U.S. in 1995.

BUDGETARY REVENUES

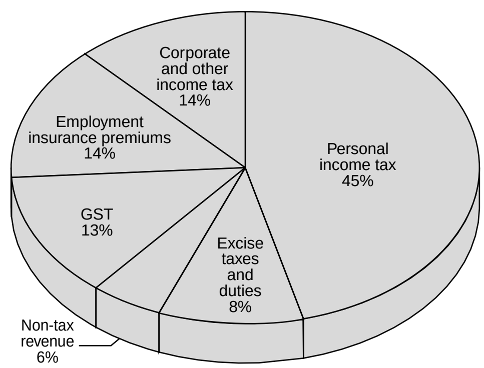
Table 3 shows budgetary revenues on both a budget or "net" basis as well as on a "gross" basis. The results on a gross basis are often more reflective of the underlying economic developments, whereas the net figures reflect the way in which the revenue and spending estimates are presented to Parliament. The difference primarily relates to two areas:

- certain expenditures, such as the child tax benefit and the low-income GST credit, which are netted against tax collections; and
- certain revenues are credited back to departments for specific services, such as the costs of policing services in provinces (which are netted against Royal Canadian Mounted Police expenditures).

The major components of budgetary revenues are:

- personal income tax collections;
- corporate income tax collections;
- other income tax collections, primarily consisting of non-resident taxes;
- employment insurance premium revenues;
- goods and services tax collections;
- other excise taxes and duties, which include customs import duties, excise taxes on motive fuels, and excise taxes and duties, primarily on tobacco and tobacco products, and effective April 1996, the air transport tax; and
- non-tax revenues, which include return on investments and other non-tax revenues, such as net proceeds from the sale of assets, user charges, etc.

Net revenues for 1996-97



Source: *Public Accounts of Canada.*

Table 3
Budgetary revenues

	1995-96		1996-97	
	Gross	Net	Gross	Net
	(millions of dollars)			
Income tax collections				
Personal income tax	64,778	60,167	68,122	63,282
Corporate income tax	15,955	15,955	17,020	17,020
Other	2,105	2,105	2,847	2,847
Total income tax	*82,838*	*78,227*	*87,989*	*83,149*
Employment insurance premium revenues	18,510	18,510	19,816	19,816
Excise taxes and duties				
Goods and services tax	19,174	16,375	20,951	18,079
Customs import duties	2,969	2,969	2,676	2,676
Other excise taxes and duties	7,943	7,260	8,343	8,343
Total excise	*30,086*	*26,604*	*31,970*	*29,098*
Total tax revenues	131,434	123,341	139,775	132,063
Non-tax revenues	10,659	6,960	12,697	8,833
Total revenues	*142,093*	*130,301*	*152,472*	*140,896*

Budgetary revenues, on a gross basis, amounted to $152.5 billion in 1996-97, an increase of $10.4 billion, or 7.3 per cent, from the level reported in 1995-96. Gross revenues were $11.6 billion higher than net revenues in 1996-97, of which $5.2 billion was for the child tax benefit, $2.9 billion for the low-income GST credit, with the remainder ($3.5 billion) primarily related to revenues credited to program spending.

On a net basis, budgetary revenues amounted to $140.9 billion, an increase of $10.6 billion, or 8.1 per cent from the 1995-96 level. Of this increase:

- $2.5 billion was attributable to one-time factors (sale of the Air Navigation System and acceleration of EI premium revenues);
- $0.7 billion was due to the reclassification of the air transport tax from program spending to budgetary revenues; and
- the remainder ($7.4 billion) was primarily attributable to the growth in the economy and the interaction of the tax system with economic developments.

Personal income tax collections, on a net basis, were up $3.1 billion, or 5.2 per cent from 1995-96. This was somewhat lower than the increase of $3.8 billion reported in 1995-96, as personal income growth slowed in 1996. The increase in 1996-97 reflected both higher payments by quarterly filers and increased deductions from employment income. Under regulations introduced in 1994, taxpayers, primarily the self-employed and those in receipt of investment income, who have tax liabilities not subject to withholding in excess of a specified threshold in one taxation year are required to make quarterly installment payments in the following year. Increased tax liabilities in 1995 on income not subject to withholding resulted in more taxpayers required to make installment payments in 1996. Deductions from employment income mirrored the gains in labour income.

Corporate income tax collections were up $1.1 billion, or 6.7 per cent. Although corporate profits were virtually unchanged in 1996 from 1995, profits rose in those sectors with higher effective tax rates (primarily the financial sector) and declined in those with lower effective tax rates (non-financial sector), thereby resulting in an increase in net collections. Other income taxes, primarily non-resident withholding taxes, which largely reflect developments in the corporate sector, were up $0.7 billion.

Employment insurance premium revenues rose $1.3 billion, of which an estimated $1 billion was due to the change in remittance procedures. Effective January 1, 1997, the base to which the premium rates are applied was changed from weekly maximum insurable earnings to annual maximum insurable earnings. Although the annual amount paid is unchanged for most employees and their employers, those employees earning above the annual maximum insurable earnings are now required to pay more of their premium liability earlier in the calendar year and less in the latter. As the government's fiscal year overlaps the calendar year, there was a one-time positive cash-flow impact in the last quarter of 1996-97. The effect of lower premium rates was offset by more people being employed, accounting for the remaining increase in premium revenues.

Total excise taxes and duties increased $2.5 billion, or 9.4 per cent in 1996-97, a substantial reversal from the decline of $0.5 billion reported in 1995-96. Part of this turnaround was due to the reclassification of the air transport tax, with most of the remaining increase attributable to a recovery in goods and services tax collections.

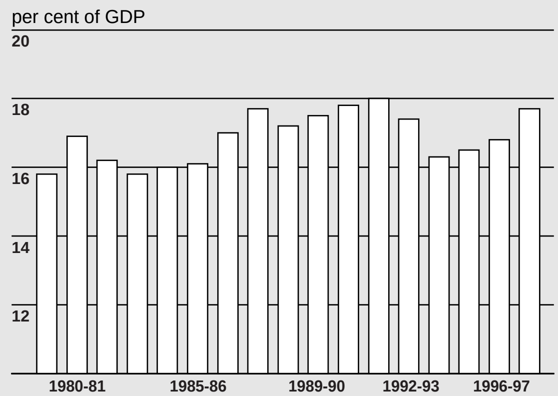
- GST collections were up $1.7 billion, or 10.4 per cent, compared to a decline of $0.4 billion in 1995-96. The increase in 1996-97 was attributable to the recovery in consumer demand, witnessed in 1996, and timing in receipts, and in the payment of refunds as well as reporting factors which depressed collections in the previous fiscal year.

- Customs import duties were down $0.3 billion, or 9.9 per cent, as the growth in imports in 1996 was more than offset by reductions in tariffs, as specified under international agreements.
- Other excise taxes and duties were up $1.1 billion in 1996-97. Of this increase, $0.7 billion was due to the reclassification of the air transport tax. Prior to April 1996, receipts from this tax were netted against the costs of running the federal airports and therefore lowered program spending accordingly. With the sale of the Air Navigation System, these receipts are now included as part of budgetary revenues. Since this change affects both net revenues and program spending by an equivalent amount, the deficit is unaffected.

Non-tax revenues increased $1.9 billion, or 26.9 per cent in 1996-97. Most of this increase ($1.5 billion) was due to the sale of the Air Navigation System.

As a percentage of GDP, net revenues, or the "revenue ratio", stood at 17.7 per cent, up from 16.8 per cent recorded in 1995-96. About half of this increase was due to special factors (sale of the Air Navigation System, acceleration of EI premium revenues and reclassification of the air transport tax). The remainder was largely attributable to the strong growth in corporate and other income tax collections and in GST revenues.

The revenue ratio



Source: Department of Finance and Statistics Canada.

BUDGETARY EXPENDITURES

Table 4 presents budgetary expenditures on both a gross and net basis. Gross budgetary expenditures include certain expenditures that are determined through the tax system, such as the child tax benefit and the low-income GST credit.

In addition, gross expenditures exclude certain revenues directly related to the services being provided which, on a net basis, are credited directly to the department providing the service.

Table 4

Budgetary expenditures

	1995-96		1996-97	
	Gross	Net	Gross	Net
	(millions of dollars)			
Transfer payments to persons				
Old Age Security benefits	20,430	21,034	21,207	21,606
Employment insurance benefits	13,476	13,476	12,380	12,380
Child tax benefit/low-income GST credit	8,014	0	8,111	0
Total	*41,920*	*34,510*	*41,698*	*33,986*
Transfer payments to other levels of government				
Canada Health and Social Transfer[1]	18,583	18,583	14,758	14,758
Fiscal arrangements	9,803	9,803	9,820	9,820
Alternative Payments for Standing Programs	-1,912	-1,912	-2,014	-2,014
Total	*26,474*	*26,474*	*22,564*	*22,564*
Other transfer payments				
Agriculture and Agri-Food	924	924	1,035	1,035
Foreign Affairs and International Trade	2,081	2,081	2,052	2,052
Human Resources Development	2,521	2,521	2,080	2,080
Indian Affairs and Northern Development	3,666	3,666	3,897	3,897
Industry Canada/Regional Agencies	2,402	2,402	2,093	2,093
Veterans Affairs	1,391	1,391	1,369	1,369
Other	5,169	5,169	4,934	4,934
Total	*18,154*	*18,154*	*17,460*	*17,460*
Total transfer payments	*86,548*	*79,138*	*81,722*	*74,010*
Crown corporation expenditures				
Canada Mortgage and Housing Corporation	1,940	1,940	1,967	1,967
Canadian Broadcasting Corporation	1,649	1,171	1,391	997
Other	2,451	1,210	1,465	614
Total	*6,040*	*4,321*	*4,823*	*3,578*
Defence				
Personnel	4,365	4,365	3,454	3,454
Capital	2,686	2,686	2,246	2,246
Other operating	3,242	2,884	3,231	2,841
Total	*10,293*	*9,935*	*8,931*	*8,541*
All other departmental spending				
Personnel	12,382	12,382	11,904	11,904
Capital	1,356	1,356	1,609	1,609
Other operating	7,186	4,881	7,407	5,178
Total	*20,924*	*18,619*	*20,920*	*18,691*
Total program expenditures	*123,805*	*112,013*	*116,396*	*104,820*
Public debt charges	46,905	46,905	44,973	44,973
Total budgetary expenditures	*170,710*	*158,918*	*161,369*	*149,793*

[1] In 1996-97, the Canada Health and Social Transfer replaced Established Programs Financing and the Canada Assistance Plan. The figures for 1995-96 have been restated to be on a comparable basis.

Total budgetary expenditures, on a gross basis, by the federal government amounted to $161.4 billion in 1996-97, a decline of $9.3 billion, or 5.5 per cent, from 1995-96. Gross program spending fell by $7.4 billion, while public debt charges declined by $1.9 billion.

Total budgetary expenditures, on a net basis, amounted to $149.8 billion in 1996-97, down $9.1 billion or 5.7 per cent from 1995-96. Adjusting net expenditures for the reclassification of the air transport tax, the decline would have been $9.8 billion.

- Public debt charges were down $1.9 billion.
- Program spending was $7.2 billion lower, most of which was attributable to the impact of restraint measures.

As a percentage of net budgetary revenues, net budgetary expenditures, or the “expenditure ratio”, stood at 106.3 per cent, down from 122.0 per cent in 1995-96. This implies that, in 1996-97, expenditures exceeded revenues by 6.3 per cent and that amount had to be financed by borrowings. In 1993-94, the expenditure ratio stood at 136.2 per cent, which meant that an amount equivalent to 36.2 per cent of revenues had to be financed by borrowings.

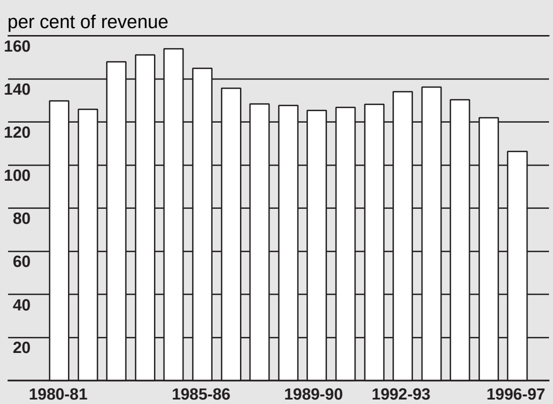
Public debt charges were $1.9 billion, or 4.1 per cent, lower in 1996-97 than in 1995-96. This decline, the first in three years, was due to the drop in interest rates during 1996. The average effective interest rate on the government’s interest-bearing debt (unmatured debt and pension liabilities) declined from 8.0 per cent in 1995-96 to 7.5 per cent in 1996-97.

As a percentage of budgetary revenues, public debt charges declined from 36.0 per cent in 1995-96 to 31.9 per cent in 1996-97. This means that the government spent about 32 cents of every revenue dollar in 1996-97 for interest on the public debt.

Net program spending – net budgetary expenditures less public debt charges – declined by $7.2 billion in 1996-97 or by 6.4 per cent. This decline was attributable to the expenditure reduction measures announced in the February 1994 and 1995 budgets. This is the fourth consecutive year in which program spending has declined, with program spending $17.8 billion below the 1992-93 level.

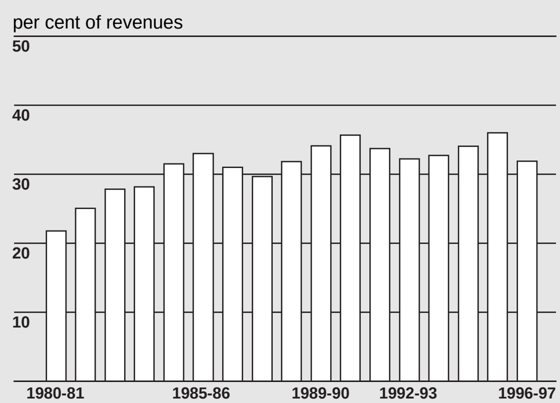
As a percentage of net revenues, program spending, or the “program share”, amounted to 74.4 per cent, down from 86.0 per cent in 1995-96.

The expenditure ratio



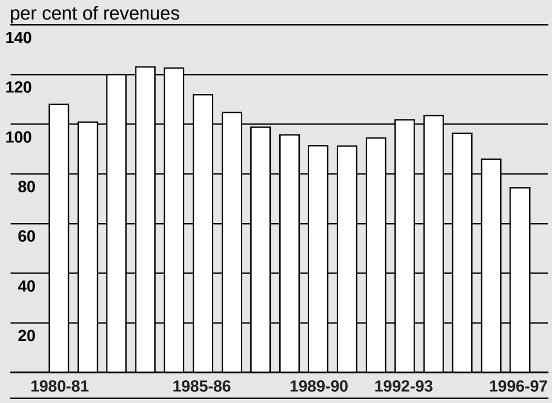
Source: Department of Finance.

The interest ratio



Source: Department of Finance.

Program share

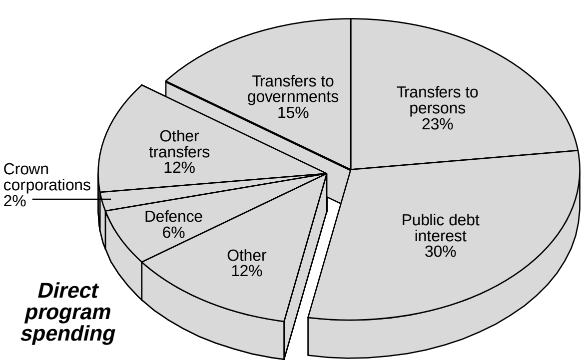


Source: Department of Finance.

Program spending can be divided into the following components:

- major transfer payments to persons;
- major transfers to other levels of governments; and
- direct program spending, which includes:
  - other transfers and subsidies;
  - expenditures related to Crown corporations;
  - defence; and
  - operating and capital costs of government departments and agencies, excluding defence.

Total net expenditures for 1996-97



Source: *Public Accounts of Canada.*

Net major transfer payments to persons consist of elderly benefits and employment insurance benefits. This component declined by $0.5 billion, or 1.5 per cent.

- Employment insurance benefits were $1.1 billion lower than in 1995-96. With the number of unemployed rising slightly in 1996, the decline in benefit payments was due to the structural changes implemented in 1996, including the changes in qualification criteria, reduction in maximum insurable earnings, reduction in benefits for repeat users, and reduction in maximum benefit duration.
- Elderly benefits consist of Old Age Security payments, Guaranteed Income Supplement payments and Spouse's Allowance payments. Total benefits were up $0.6 billion in 1996-97, reflecting higher average benefits and an increase in the number of recipients.

Major transfer payments to other levels of government include cash transfers under the Canada Health and Social Transfer (CHST), Equalization, transfers to the territories, Alternative Payments for Standing Programs, as well as a number of small transfer programs. Net cash transfers declined by $3.9 billion in 1996-97, with the decline concentrated in lower CHST cash transfers.

- In the 1995 budget, the government introduced the CHST – a new block-funded transfer – which replaced Established Programs Financing (EPF) and the Canada Assistance Plan (CAP). Total CHST entitlements were set at $26.9 billion for 1996-97, down $2.8 billion from the comparable 1995-96 entitlements under EPF and CAP. Total entitlements – which are the most appropriate measure of federal support – are paid in the form of tax point transfers with the residual paid in cash. The tax point transfer represents the value of "tax points" that the federal government made available to provinces, by reducing federal tax rates so that provinces could increase theirs by an equivalent amount, with no impact on taxpayers. The value of these tax points fluctuates with changes in the applicable tax bases – personal and corporate income taxes. As these taxes broadly increase in line with the growth in the economy, the value of the tax point transfers also increases. Even with no change in CHST entitlements, cash transfers would decline as the value of tax point transfers increases. For 1996-97, therefore, $2.8 billion of the $3.9 billion decline in CHST cash transfers was directly attributable to the reduction in total entitlements. The remainder was due to the growth in the value of tax point transfers and recoveries for overpayments in previous years under EPF.

Excluding the major transfer programs, the remaining components of program spending – other transfer payments, expenditures related to Crown corporations, defence, and operating and capital expenditures of non-defence departments and agencies – are referred to as direct program spending.

- Spending in this component amounted to $48.3 billion in 1996-97, down $2.8 billion, or 5.4 per cent, from 1995-96. This understates the underlying decline ($3.5 billion), as the air transport tax was classified as part of budgetary revenues in 1996-97, but netted against program spending in 1995-96. In 1995-96, there was a decline of $5.6 billion.
- The decline in 1996-97 primarily reflected the impact of the Program Review reductions, as set out in the 1995 budget. The objective of the Program Review was to review federal programs in order to bring about the most efficient and cost-effective way of delivering programs and services.

Within direct program spending:

- Other transfer payments declined by $0.7 billion, or 3.8 per cent. The Program Review actions primarily affected this component in 1995-96, as spending declined by $1.8 billion. Program Review resulted in fundamental changes to Canada's transport system, to agricultural subsidies and to subsidies to business.
- Expenditures related to Crown corporations were down $0.7 billion, or 17.2 per cent, in 1996-97. This decline was attributable to the Program Review restraint measures as well as to the improved financial situation of enterprise Crown corporations in 1996-97.
- Defence spending was down $1.4 billion, reflecting the impact of the 1994 and 1995 budget reductions, as well as an accounting adjustment related to the difference between the pension liability under the Canadian Forces Superannuation Account and the actuarial obligation.
- All other departmental spending includes the costs of government administration and specific services delivered to the public, such as:
  - health care to natives and veterans;
  - research undertaken by government departments;
  - operation of national parks and historic sites;
  - collection of taxes;
  - operation of federal correctional institutions and provision of police services; and
  - delivery of programs such as elderly benefits and employment insurance.

Spending in this area was virtually unchanged from 1995-96. In part, this was due to the reclassification of the air transport tax in 1996-97 to budgetary revenues, whereas in 1995-96, it was netted against all other departmental spending. On a comparable basis, there would have been a decline of about $0.7 billion between 1995-96 and 1996-97. In 1995-96, all other departmental spending declined 11.3 per cent, reflecting the impact of the restraint measures introduced in the 1994 budget and in Program Review.

FINANCIAL REQUIREMENTS/SURPLUS AND DEBT

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. These include transactions in loans, investments and advances, government employees' pension accounts, other specified purpose accounts, and other financial assets and liabilities. In addition, the budgetary deficit is largely presented on an accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions in 1996-97 resulted in a net source of funds amounting to $10.2 billion, down $1.2 billion from 1995-96. This decline was largely attributable to the sale of Canadian National Railways in 1995-96.

With a budgetary deficit of $8.9 billion and a net source of funds from non-budgetary transactions of $10.2 billion, there was a net financial surplus, excluding foreign exchange transactions, of $1.3 billion in 1996-97. This was the first surplus since 1969-70. In 1995-96, there was a net financial requirement of $17.2 billion.

Total financial requirements/surplus include the transactions of the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability of the Canadian dollar in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency. During 1996-97, foreign exchange transactions resulted in a net requirement of funds amounting to $7.8 billion, compared to a net requirement of $4.7 billion in 1995-96.

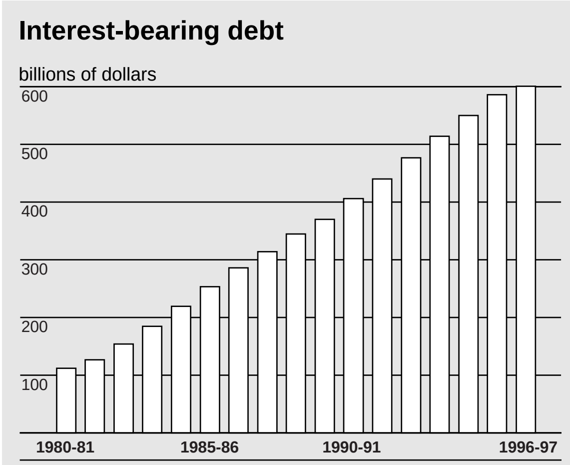
Including the net requirements resulting from foreign exchange transactions, total financial requirements – the budgetary deficit minus non-budgetary and foreign exchange transactions – were $6.5 billion in 1996-97, down $15.4 billion from 1995-96.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to $7.3 billion in 1996-97, compared to $28.5 billion in 1995-96. As a result, cash balances as of March 31, 1997 stood at $9.4 billion, up $0.8 billion from March 31, 1996.

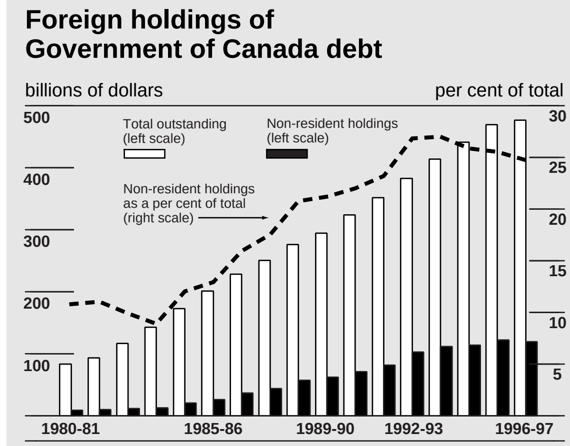
Table 5

Financial requirements/surplus and the debt

	1993-94	1994-95	1995-96	1996-97
	(billions of dollars)			
Budgetary deficit	-42.0	-37.5	-28.6	-8.9
Non-budgetary transactions	12.2	11.6	11.4	10.2
Financial requirements/surplus (excluding foreign exchange transactions)	-29.9	-25.8	-17.2	1.3
Foreign exchange requirements/surplus	-2.1	-1.4	-4.7	-7.8
Financial requirements/surplus	-32.0	-27.3	-21.9	-6.5
Unmatured debt transactions	31.2	27.0	28.5	7.3
Change in cash balances	-0.7	-0.2	6.7	0.8
Cash in bank (March 31)	2.1	1.9	8.6	9.4



Source: *Public Accounts of Canada.*



Source: Statistics Canada.

Interest-bearing debt includes unmatured debt and borrowings from pension and other accounts. As of March 31, 1997, interest-bearing debt amounted to $600.6 billion, compared to $586.4 billion at March 31, 1996. Of this amount, $23.0 billion was payable in foreign currencies, up $6.2 billion from the level at March 31, 1996.

Foreign holdings of the Government of Canada's outstanding market debt are estimated at $119.7 billion at the end of March 1997. This represented 25.1 per cent of the government's total market debt, virtually unchanged from the previous year.

Table 6

Outstanding debt at year-end

	1993-94	1994-95	1995-96	1996-97
		(billions of dollars)		
Interest-bearing debt				
Unmatured debt	414.0	441.0	469.5	476.9
Pension and other accounts	100.5	109.2	116.9	123.7
Total interest-bearing debt	514.5	550.2	586.4	600.6
Other liabilities	31.9	34.6	38.3	40.1
Total liabilities (gross debt)	546.4	584.8	624.7	640.7
Less: Financial assets	38.2	39.1	50.4	57.5
Accumulated deficit (net public debt)	508.2	545.7	574.3	583.2

The "Scorecard"

This section compares the actual outcome for selected economic indicators and for the financial results with the forecasts presented in the March 1996 and February 1997 budgets.

The government's deficit target for 1996-97, as presented in the March 1996 budget, was $24.3 billion. As part of the government's overall fiscal strategy, the deficit targets are based on the average of private sector economic forecasts available at that time. In addition, a prudence factor is applied to the interest rates in the average private sector forecast and the impacts are allowed to flow through to output and inflation. This procedure reflects the advice given at a December 1993 meeting with private sector economists and the recommendations of the House of Commons Standing Committee on Finance. The deficit targets also include a Contingency Reserve to cover risks arising from unpredictable events and unavoidable inaccuracies in the economic and fiscal models used to translate the economic assumptions into detailed budget forecasts. For 1996-97, the Contingency Reserve was set at $2.5 billion.

In the March 1996 budget, it was assumed that the economic growth would be weak in the first half of 1996, due to slowing growth in the United States and the lagged impact of high interest rates in 1996. However, with the combined effects of lower inflationary pressures in the United States and success at both the federal and provincial government levels in addressing their respective fiscal imbalances, interest rates were expected to decline throughout 1996 and lead to stronger growth in the second half of the year. Economic growth of only 1.8 per cent was assumed for fiscal planning purposes, down from 2.2 per cent in 1995. Short-term interest rates were assumed to average 5.8 per cent in 1996, down from 7.0 per cent in 1995. Long-term rates were assumed, for fiscal planning purposes, to fall from 8.2 per cent in 1995 to 7.7 per cent in 1996.

Economic growth was weaker than expected in the first half of 1996. Real GDP advanced only 1.5 per cent, with both exports and domestic demand weakening considerably. As a result, nominal income – the applicable tax base for federal government budgetary revenues – was lower. However, interest rates declined much more than expected in the 1996 budget. Short-term rates were 160 basis points lower, while long-term rates were 50 basis points lower.

The deficit for 1996-97, at $8.9 billion, was $15.4 billion below the target of $24.3 billion. Budgetary revenues were $5.9 billion higher, program spending was $4.2 billion lower, and public debt charges were $2.8 billion lower. The Contingency Reserve of $2.5 billion was not required.

Over half of the higher-than-expected revenues was attributable to one-time or special factors, not included at the time of the 1996 budget. These were the net proceeds from the sale of the Air Navigation System ($1.5 billion), the acceleration of employment insurance premiums for those employees earning above the annual maximum insurable earnings ($1 billion), and the reclassification of the air transport tax ($0.7 billion) from program spending to budgetary revenues. Most of the remaining difference ($2.7 billion) was largely attributable to higher-than-expected corporate income tax collections (up $1.9 billion) and other income tax ($0.7 billion), primarily non-resident withholding taxes, as the anticipated weakness in collections did not materialize.

Among the major components of program spending, major transfers to persons were $1.7 billion lower while direct program spending was down $2.0 billion. Lower employment insurance benefits accounted for most of the lower transfers to persons, as the number of beneficiaries in receipt of EI benefits was much lower than expected. Within direct program spending, higher spending in other transfers was more than offset by lower spending in the other components.

The higher spending in other transfers was attributable to reallocations of spending to this component from the other components comprising direct program spending. The overall decline in direct program spending was attributable to lower-than-expected year-end accounting adjustments. Changes in operating procedures in recent years have permitted departments to carry forward a portion of unused but committed funding, thereby providing more cost-effective management of resources and reducing the previous incentive for end-of-year spending.

Public debt charges were $2.8 billion lower than forecast in the 1996 budget, due to the lower outcome for interest rates.

Non-budgetary transactions were slightly lower than assumed in the 1996 budget. However, with the much lower-than-expected deficit outcome, there was a financial surplus of $1.3 billion in 1996-97, rather than a net requirement of $13.7 billion.

The deficit outcome for 1996-97 was $10.1 billion below the 1997 budget estimate of $19 billion. Budgetary revenues were $5.4 billion higher, program spending was $4.2 billion lower and public debt charges were $0.5 billion lower.
All components of budgetary revenues were higher with the exception of personal income tax collections. The better outcome largely reflected the much stronger-than-expected economic growth in the final quarter of 1996-97 and lower-than-expected end-of-year adjustments. Among budgetary revenues, corporate income tax collections were up $1.2 billion. About 30 per cent of all corporate income tax collections for the year as a whole are received in February and March, reflecting the settlement period for most large corporations. This makes estimating the results for the year difficult. As corporate profits were relatively unchanged in 1996 from 1995, relatively weak settlement period collections were expected but did not materialize. GST collections were also $1.2 billion higher than estimated in the 1997 budget, as collections were extremely strong in the final quarter of the fiscal year, reflecting the strength in consumer demand. Other revenues were $1.9 billion higher, in part reflecting end-of-year accounting adjustments. The lower outcome for program spending was concentrated in direct program spending (down $3.4 billion), primarily reflecting lower-than-expected end-of-year accounting adjustments.

Table 7

The scorecard

	Actual	1996 budget (forecast)	1997 budget (estimate)
		(per cent)	
Economic indicators			
Real GDP	1.5	1.8	1.4
Nominal GDP			
Per cent change	2.8	3.3	2.7
$ billions	798	806	798
Interest rates			
91-day Treasury bill rate	4.3	5.8	4.2
10-year government bond rate	7.2	7.7	7.2
		(billions of dollars)	
Financial results			
Budgetary revenues			
Personal income tax	63.3	63.5	63.3
Corporate income tax	17.0	15.1	15.8
Employment insurance premiums	19.8	18.8	19.6
Goods and services tax	18.1	17.9	16.9
Sales and excise taxes/duties	11.0	10.4	10.1
Other revenues	11.7	9.3	9.8
Total	*140.9*	*135.0*	*135.5*
Program spending			
Major transfers to persons	34.0	35.7	34.7
Major transfers to other levels of government	22.6	23.0	22.6
Other transfers	17.5	15.5	18.3
Crown corporation expenditures	3.6	4.2	4.3
Defence	8.5	9.8	9.6
Other departmental spending	18.7	20.8	19.5
Total	*104.8*	*109.0*	*109.0*
Public debt charges	45.0	47.8	45.5
Contingency Reserve	0.0	2.5	0.0
Deficit	-8.9	-24.3	-19.0
Non-budgetary transactions	10.2	10.6	13.0
Financial requirements/surplus (excluding foreign exchange transactions)	1.3	-13.7	-6.0

OPINION OF THE AUDITOR GENERAL ON THE CONDENSED FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

To the Minister of Finance:

The accompanying condensed financial statements are derived from the complete financial statements of the Government of Canada, comprised of a statement of assets and liabilities as at March 31, 1997 and statements of revenues, expenditures and accumulated deficit, changes in financial position and transactions for the year then ended.

In my auditor's report dated July 28, 1997, I expressed a qualified opinion that, except for showing an $800 million transaction related to the Canada Foundation for Innovation as if it were a liability, which overstates the 1996-97 deficit, accounts payable and accrued liabilities as well as the accumulated deficit by the same amount, the complete financial statements are, in all material respects, fairly presented in accordance with the stated accounting policies of the Government of Canada as set out in Note 1 to the financial statements.

Management is responsible for the condensed financial statements. My responsibility is to compare the condensed financial statements with the Government of Canada's complete financial statements. In my opinion, the accompanying financial statements, in all material respects, fairly summarize the related complete financial statements (on which I expressed a qualified opinion).

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
July 28, 1997

THE CONDENSED FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

The fundamental purpose of these condensed financial statements is to provide Parliament and the public with an overview of the financial affairs and resources for which the government is responsible. Responsibility for the integrity and objectivity of these statements rests with the government.

The condensed financial statements reflect the financial position of the government at the end of the year, as well as its results of operations, deficit, financial requirements and changes in financial position for the year. These financial statements and the accompanying notes are extracted and summarized from the audited financial statements included in Section 1 of Volume I of the 1997 *Public Accounts of Canada*, which are expected to be tabled in Parliament later this year. These condensed financial statements were prepared by the Government of Canada in accordance with the accounting policies set out in the accompanying notes on a basis consistent with that of the preceding year.

Table 8

Government of Canada
Condensed statement of revenues and expenditures
for the year ended March 31, 1997

	1997	1996
	(millions of dollars)	
Revenues		
Tax revenues		
Income tax	87,989	82,838
Excise taxes and duties	31,970	30,086
Employment insurance premiums	19,816	18,510
	139,775	*131,434*
Non-tax revenues	12,697	10,659
Total gross revenues	*152,472*	*142,093*
Amounts deducted to arrive at net revenues	11,576	11,792
Total net revenues	*140,896*	*130,301*
Expenditures		
Transfer payments		
Old Age Security and related payments	21,207	20,430
Employment insurance benefits	12,380	13,476
Other levels of government	22,564	26,474
Other transfer payments	25,571	26,168
	81,722	*86,548*
Crown corporation expenditures	4,823	6,040
Other program expenditures	29,851	31,217
Total gross program expenditures	*116,396*	*123,805*
Amounts deducted to arrive at net program expenditures	11,576	11,792
Total net program expenditures	*104,820*	*112,013*
Interest on debt	44,973	46,905
Total net expenditures	*149,793*	*158,918*
Deficit for the year	8,897	28,617
Accumulated deficit		
Beginning of year	574,289	545,672
End of year	583,186	574,289

Table 9

Government of Canada
Condensed statement of assets and liabilities
as at March 31, 1997

	1997	1996
	(millions of dollars)	
Liabilities		
Current liabilities and allowances		
Accounts payable and accruals	29,667	28,584
Allowances for guarantees and employee benefits	10,433	9,730
	40,100	*38,314*
Interest-bearing debt		
Pension and other accounts		
Public sector pensions	114,205	107,882
Canada Pension Plan (net of securities)	3,718	3,636
Other	5,782	5,322
	123,705	*116,840*
Unmatured debt		
Marketable bonds	282,498	252,700
Treasury bills	135,400	166,100
Canada Savings Bonds	32,470	30,460
Bonds for Canada Pension Plan	3,468	3,478
Total payable in Canadian currency	453,836	452,738
Payable in foreign currencies	23,016	16,809
	476,852	*469,547*
Total interest-bearing debt	*600,557*	*586,387*
Total liabilities	*640,657*	*624,701*
Assets		
Current assets		
Cash	10,175	9,044
Accounts receivable (net of allowance for doubtful accounts)	4,416	5,972
	14,591	*15,016*
Foreign exchange accounts	26,813	19,054
Loans, investments and advances		
Enterprise Crown corporations	13,842	14,663
Other	12,779	12,949
	26,621	*27,612*
Less: Allowance for valuation	10,554	11,270
	16,067	*16,342*
Total assets	*57,471*	*50,412*
Accumulated deficit	583,186	574,289

Government of Canada Notes to the Condensed Financial Statements

Introduction

These notes are a brief summary of the accounting policies followed by the Government of Canada and other explanatory material related to these condensed financial statements. For more detailed notes on accounting policies and for more extensive information on the financial position and results of operations of the government, the reader should refer to the audited financial statements in Section 1 of Volume I of the 1997 *Public Accounts of Canada.*

Significant accounting policies

Reporting entity

The Government of Canada as a reporting entity includes the financial activities of all departments, agencies, corporations and funds which are owned or controlled by the government and which are accountable to Parliament, except for the Canada Pension Plan and enterprise Crown corporations.

Table 10

Government of Canada
Condensed statement of changes in financial position
for the year ended March 31, 1997

	1997	1996
	(millions of dollars)	
Net cash requirements:		
Cash provided by (required for) operating activities		
Deficit for the year	(8,897)	(28,617)
Add expenditures not requiring cash	9,228	9,583
Cash provided by (used for) operations	*331*	*(19,034)*
Net payments from pension and other accounts	(3,902)	(3,182)
Net change in current assets and liabilities	4,165	2,372
	594	*(19,844)*
Cash required for investing activities		
Net increase in foreign exchange accounts	7,759	4,704
Net decrease in loans, investments and advances	(991)	(3,660)
	6,768	*1,044*
Net cash requirements	*6,174*	*20,888*
Financed by:		
Net increase (decrease) in borrowings		
Canadian currency	1,098	28,661
Foreign currencies	6,207	(112)
	7,305	*28,549*
Net change in cash	1,131	7,661
Cash at beginning of year	9,044	1,383
Cash at end of year	*10,175*	*9,044*

The Canada Pension Plan, which is under joint control of the government and participating provinces, is financed from contributions by employees, their employers, and self-employed persons, and interest earned on investments which are mainly in provincial government securities. Enterprise Crown corporations, which are reported as investments, are not dependent on the government for financing their activities.

Basis of accounting

In general, the government accounts for transactions on an accrual basis with two notable exceptions:

- Tax revenues and related refunds are generally accounted for on a cash basis (when taxes are collected and refunds are paid out), except for certain significant refunds which are reported on an accrual basis.
- Capital assets and inventories are fully charged to expenditures at the time of acquisition or construction.

As a consequence, the only assets recorded on the Condensed Statement of Assets and Liabilities are financial assets, as they can provide resources to discharge liabilities or finance future operations. These assets include cash, gold, receivables, as well as loans, investments and advances. Assets are recorded at the lower of cost or net estimated realizable value, except for gold (1997 – 3.1 million ounces at $67.20 per ounce; 1996 – 3.3 million ounces at $69.51 per ounce), which is valued at its approximate cost in foreign currency terms.

Liabilities are generally recorded on an accrual basis. Public sector pension and severance liabilities are determined on an actuarial basis.

Valuation allowances are established for outstanding loan guarantees, concessionary and sovereign loans, and other obligations. Unmatured debt is recorded at face value with foreign currency amounts translated to Canadian dollar equivalents using rates at March 31.

Some amounts in these statements, such as public sector pensions, are based on estimates and assumptions made by the government, all of which are believed to be reasonable at this time. By their nature, such estimates are subject to measurement uncertainty. If actual events differ from these estimates and assumptions, this could have a significant effect on the results reported in the condensed financial statements in future years.

Comparative figures for 1996 are reclassified to conform to the current year's presentation.

Reporting of revenues and expenditures on a gross basis

Detailed amounts on the Condensed Statement of Revenues and Expenditures are presented on a full (gross) disclosure basis only. Gross revenues include revenues of consolidated Crown corporations, and revenues of government departments which, on the net basis, are deducted from expenditures for budget and parliamentary authority purposes. Gross expenditures include expenditures determined through the tax system, such as Child Tax Benefit payments and quarterly GST tax credits, that are deducted from revenues on the net basis. The Statement of Revenues and Expenditures in the audited financial statements in Section 1 of Volume I of the *Public Accounts of Canada* presents detailed amounts on both a gross and net basis.

Authorities for transactions

Authority of Parliament is required before revenue can be raised and moneys spent or borrowed by the government. Spending authorities on a net basis granted by Parliament were $153.5 billion ($163.1 billion in 1996), whereas $149.8 billion ($158.9 billion in 1996) was spent.

Of the total borrowing authority of $18.7 billion ($28.9 billion in 1996), $6.8 billion ($28.7 billion in 1996) was used.

Public sector pensions

Separate funds are not set aside to provide for payment of pension benefits to government employees, Members of Parliament, the Canadian Forces, the RCMP, and judges. Pension liabilities are estimated annually using the government's best estimates for demographic and economic assumptions affecting these pension obligations. Changes in assumptions can result in significantly higher or lower estimates of these liabilities.

Contractual commitments

The nature of the government's activities requires negotiation of contracts that are significant in relation to its current financial position or that will materially affect the level of future expenditures. Contractual commitments pertain to transfer payment agreements, capital asset acquisitions and other purchases, operating and capital leases, funding of international organizations, and benefit plans for veterans. At March 31, 1997 contractual commitments amounted to approximately $27.0 billion ($26.0 billion in 1996). Estimated annual payments related to these commitments for the next five years decrease from $6.9 billion in 1998 to $3.5 billion in 2002.

Insurance programs

Three enterprise Crown corporations – Canada Deposit Insurance Corporation, Canada Mortgage and Housing Corporation, and Export Development Corporation – operate insurance programs for the government. These programs are intended to be self-sustaining, but in the event that the corporations have insufficient funds, the government will have to provide financing. Insurance in force at March 31, 1997 amounted to approximately $462 billion ($454 billion in 1996). The government expects that it will not incur any costs to cover the claims for these insurance programs.

Contingent liabilities

The contingent liabilities of the government, generally, are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. They are recorded in the accounts of Canada when they become actual liabilities. However, potential losses on loan guarantees, including those in respect of borrowings of enterprise Crown corporations, are recorded as actual liabilities when it is likely that a future payment will be made and the amount of the potential loss can be reasonably determined.

Contingent liabilities result from the exercise of guarantees; environmental contingencies; callable share capital in international organizations; claims, and pending and threatened litigation; and like items. At March 31, 1997, these contingent liabilities amounted to approximately $71.7 billion ($68.7 billion in 1996), of which $5.3 billion ($5.4 billion in 1996) related to loan guarantees and borrowings of enterprise Crown corporations recorded as liabilities in the financial statements.

Other sources of information

The Public Accounts of Canada

The *Public Accounts of Canada*, as required under Section 64(1) of the Financial Administration Act, are tabled in the fall of each year by the President of the Treasury Board. This report is presented in two volumes:

- Volume I contains the government's audited financial statements and supporting schedules and information; and
- Volume II contains details of financial operations by Ministry (Part I) and additional information and analyses (Part II).

The Budget

The budget that is introduced, usually in February, presents the government's overall fiscal plan, incorporating revenue projections and spending plans which combine to determine the resulting budgetary deficit. The budget also introduces proposals for changes in taxation.

The Estimates

The Estimates are the detailed annual expenditure plans submitted to Parliament each spring. The Estimates are presented in three parts:

- Part I presents an overview of the government's expenditure plan;
- Part II outlines spending according to departments, agencies and programs; and
- Part III provides additional detail on each department and its programs.

The Debt Operations Report

This annual document provides an overview of the federal government's borrowing operations. It outlines the key elements of current federal debt strategy and describes various strategic and operational aspects of the government's debt program and cash management activities over the past fiscal year.

The Fiscal Monitor

This monthly newsletter produced by the Department of Finance highlights the financial results of the government together with the reasons underlying major variances.