Consolidated government statistics

Introduction

The concept of consolidation is routinely used in the field of accounting in both the private and public sectors. In its simplest terms, consolidation is the combination of the financial accounts of two or more entities for which separate sets of accounts exist. The combined accounts appear as though they represent a single entity.

As the word “consolidation” in its non-technical usage implies, consolidating the accounts of two entities involves adding up corresponding entries in the two sets of accounts. For example, adding up the revenues, the expenses, the assets, the liabilities, and so forth. If there were no transactions whatsoever between two entities **A** and **B**, then the consolidated revenues would be the revenues of **A** added to the revenues of **B**, and the consolidated expenses would simply be the expenses of **A** added to the expenses of **B**. The reality is that there are generally financial transactions among the entities whose accounts are being consolidated. For example, if **A** sells goods to **B**, then some of **A**’s revenues are **B**’s expenses. When their accounts are consolidated, if one were to simply add up the revenues of each component, then **A**’s revenues from the sale to **B** would be *internal* to the consolidated entity. They must therefore, be deducted from total revenues of the consolidated entity.

In order for consolidation to proceed, the accounts of the entities to be included in the consolidation must be expressed according to a single accounting standard. If they are not on a common accounting standard, they must be converted to a common standard before consolidation can take place.

The Financial Management System (FMS) is the classification framework used to produce the government financial statistics. FMS standardizes individual government accounts to provide consistent and comparable statistics. As a result, FMS statistics generally differ from the figures published in individual government financial statements. The need for a standardized classification arises from the fact that financial reports produced by individual governments are based on the organizational structures, and on the accounting and reporting practices, of those individual governments. Since each government’s structure and practices are designed to serve that governments own purposes, there is little uniformity across governments in these structures and practices. For example, one government may discharge a function through a departmental structure, while another prefers a Crown corporation, a board, a commission, or an agency. When it comes to classifying expenditures by the function of the expenditure, across governments, similar departmental titles do not necessarily mean similar responsibilities. The FMS assures that expenditures are classified in a coherent manner according to their principal objective or function. As well, organizational structures change frequently as new programs are introduced, existing ones amended, and responsibilities are assigned or reassigned. The FMS serves to minimize the impact of such changes on movements in government finances. Moreover, governments employ different accounting conventions. For example, some report on a cash basis, others use the accrual approach, and others use a combination of both approaches. FMS adjustments serve to bring data produced under these various conventions to a common basis. Consolidated government is the general term for the consolidation of the data of the federal government, the provincial, territorial, and local governments and the Canada and Quebec pension plans.

For more info on the FMS, please refer to the document entitled “The Financial Management System (FMS)” accessible through the ‘Additional documentation’ link in the “Statistical activity” section at the beginning of the detailed information for this program. For a complete description of the Financial Management System (FMS), see Statistics Canada, Catalogue no. 68F0023X, (free).

Consolidation is a fundamental aspect of the Financial Management System

Consolidation is about combining the financial accounts of units within a government, or combining the financial accounts of different levels of governments (federal, provincial, territorial, or local) 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. There are two basic dimensions of consolidation. One is the choice of entities to be included in any given consolidation (i.e., coverage). The other dimension is the accounting rules used to actually perform the consolidation, which is the elimination of the transactions between the units that are being consolidated in order to avoid double counting.

Application of consolidation to different levels of government

Consolidation serves to eliminate the duplication that would otherwise arise from intergovernmental transactions. Specifically, consolidation eliminates the double counting of expenditures that would result if, as an example, the federal government transfers to the provinces and local governments (which constitute federal expenditures) were to be added to the expenditures of the provinces and local governments (where the federal expenditures are shown as revenues) to arrive at total government expenditures. (Similar reasoning applies to the provincial transfers to local government.) In other words, consolidation yields statistics that portray two levels of government as though they were one, or that portray Government in Canada *in its entirety* as though it were one government. It is also a necessary process for the provision of suitable Public Sector statistics to the CSNA where the consequences of the misrepresentation of double counting are, perhaps, obvious. The elimination of double counting is not simply a matter of dealing with intergovernmental transfers such as equalization or the Canada Health and Social Transfer. Policing provides an example of how complicated the process of eliminating double counting is. Only Ontario and Quebec maintain provincial police forces. In the other provinces, these services are provided by the Royal Canadian Mounted Police (RCMP) and are purchased by each provincial government. These services show up as expenditures of the provincial government, and as both expenditures (purchase of good and services such as RCMP officers' salaries) and revenues (the monies received from the provinces) for the federal government. Un-duplication is also required, for example, when Ontario localities purchase local police services from the Ontario Provincial Police.

Let's look at the example of creating financial statistics for the general government component of the federal government. To create financial statistics for federal general government, a large number and wide range of entities need to be combined. The FMS prescribes the rules that dictate, which entities are to be included in a given consolidation and, which ones are to be excluded. The application of the FMS rules (coverage) results in all the ministries and departments being included. Also included are autonomous organizations/funds (e.g. Canadian Broadcasting Corporation and Canadian Foundation for Innovation) that have separate books of account, but whose roles are viewed by the FMS as extensions of general government.

The Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP) are combined to create a separate component of government. Similarly, there are a number of federal entities labelled by the FMS as government business enterprises (GBEs) that are also excluded from the general government consolidation but included in the government business enterprise component of the Public Sector (e.g., The Business Development Bank of Canada, Canada Post Corporation, Via Rail).

The federal non-autonomous pension plans are consolidated with the federal general government data to arrive at financial statistics of the federal government.

Choice of entities to be consolidated

The practice of consolidation is not unique to the FMS. It is found elsewhere in both the public and the private sectors. For example, in preparing the public accounts/financial statements, each government decides on which entities are to be included, or excluded, to arrive at such figures as the size of the deficit or surplus. In the private sector, corporations that are composed of many distinct companies decide on which companies are to be included in the consolidated financial statement of the "parent" company.

In the case of the FMS, the tendency is to be inclusive when creating aggregate categories such as general government. For example, the FMS creates an aggregate category called provincial and territorial general government that represents a set of accounts for all of the provinces and territories combined. In order to accomplish this, the accounts of each of the provincial and territorial governments must be put on the same basis, that is, the general government for each province and territory must have been consolidated using the same rules. As noted in the Introduction above, provincial and territorial governments also use a variety of entity types to carry out the functions of government (departments, agencies, commissions, etc.). One government may discharge a responsibility through a department while another government may choose to establish an agency to discharge its responsibility. In order to have general government data that are as consistent as possible from one jurisdiction to another, and can, therefore, be added together, it is necessary to include a wide range of entities. As a result, FMS based statistics tend to be more inclusive than those of government public accounts are.

To arrive at provincial and territorial government statistics for each province and territory the subcomponents, provincial and territorial general government, health and social services institutions, universities and colleges, and non-autonomous pension plans must be consolidated.

Data for local government is the result of the consolidation of local general government and school boards.

Benefits of consolidation
Inter-government comparability

As noted, each government maintains its own accounts in a way that best serves its own purposes. The result is that the public accounts published by all governments can neither be combined nor compared. The size of the surplus/ deficit in one province cannot be meaningfully compared to the size of the surplus/deficit in another.

The FMS-based consolidated accounts, by applying the same rules and procedures to the financial data of all governments, yield numbers that are comparable. With FMS consolidated statistics, it is possible to compare the state of one province's finances with those 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.

Consolidation of provincial, territorial, and local governments

By consolidating levels of government, FMS consolidated statistics can even further enhance comparability across provinces and territories. This is because the allocation of responsibilities between the provincial and local authorities varies among provinces and territories for certain areas of activity. What is a provincial responsibility in one province may be a local government responsibility in another province. Complete inter-provincial comparability can only be achieved when provincial and territorial government operations are consolidated with those of local government. Some examples of the differences in the allocation of responsibilities are as follows:

- In Newfoundland and Labrador, the cost of police protection is borne almost entirely by the province whereas in other provinces and territories there are significant expenditures by both levels of government.
- In many provinces and territories, the school tax revenue, to be used for primary and secondary education, is raised by local governments, and local governments pay the expenditures. In New Brunswick, elementary and secondary schools are part of the provincial government structure. In the Yukon and Nunavut, the territorial government operates the schools. In the Northwest Territories, the territorial government also operates the schools with the exception of two school districts in Yellowknife.
- In Ontario, there are many locally owned residential care facilities that are part of the local government structure, while in other provinces and territories, most of the residential care facilities are at the provincial level.
- The allocation of responsibilities between the provincial and local authorities within a province can vary over time as well.

To create statistics that reflect the combination of provincial and local governments, it is necessary to first consolidate a host of provincial entities as mentioned earlier and a host of local government entities, and then combine the data for the two levels of government and eliminate the transactions between them. Sales of goods and services, transactions related to borrowing (interest) between governments, and transfers are transactions that occur between the two levels of government.

Finally, the financial impact of government on the social and economic life of the country can only be measured when data for all three levels of government – federal, provincial/territorial and local - are consolidated.

Consolidated government

The total cost of all government services to the country and the revenue raised to finance them can only be measured if the data of the federal government are consolidated with those of the provincial and territorial governments, local governments, and the Canada and Quebec Pension Plans. Consolidated government statistics are useful in assessing the total financial impact of government on the total economy.

Accounting rules for consolidation

Consolidation is also a set of rules that dictate how the accounts of the consolidated entities are to be combined.

Flows between units or governments

The combination of accounts also has to contend with flows among the entities being aggregated. This can be illustrated by looking at the consolidation of governments at different levels such as provincial and local government. Provinces transfer money to local governments for a variety of purposes. These transfers come from revenues collected by the provincial government. They also constitute revenue for the local governments receiving the transfers. Without the practices associated with consolidation, just aggregating the revenue data for the province and its local governments would result in double counting.

Consistent statistics through time

As previously mentioned, the allocation of responsibilities between provincial and local governments can change over time. In a similar fashion, the structure used by a government to provide services may change over time. A government may use a ministry or department to provide a particular service for a number of years and then establishes an agency, with its own set of accounts, to provide the same service. In this example, in order to have comparative data over time it is necessary to consolidate the accounts of the agency with that of the department.

Derivation of consolidated government expenditures

Data for different components of government

Aggregated government expenditures *Equals* Federal government expenditures *Plus* Provinical and territorial government expenditures *Plus* Local government expenditures *Plus* CPP/QPP expenditures

Less

Intergovernment transfer payments

- Payments from federal government to provincial and territorial governments
- Payments from federal government to local governments
- Payments from provincial and territorial governments to federal government
- Payments from provincial and territorial governments to local governments
- Payments from local governments to federal government
- Payments from local governments to provincial and territorial governments

Less

Intergovernment purchases of goods and services

- Purchases by federal government from provincial and territorial governments
- Purchases by federal government from local governments
- Purchases by provincial and territorial governments from federal government
- Purchases by provincial and territorial governments from local governments
- Purchases by local governments from federal government
- Purchases by local governments from provincial and territorial governments
- Purchases by CPP/QPP from federal, provincial and territorial governments

Less

Intergovernment interest payments

- Payments from federal government to provincial and territorial governments
- Payments from federal government to local governments
- Payments from provincial and territorial governments to federal government
- Payments from provincial and territorial governments to local governments
- Payments from local governments to federal government
- Payments from local governments to provincial and territorial governments
- Payments from federal, provincial and territorial governments to CPP/QPP

Equals

Consolidated

All Canada government expenditures