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## Key Indicators of the State of Government's Finances

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**4.1 Introduction** An important role of my Office is to provide the Members of the House of Assembly with information on the state of Government's finances. This information is necessary in order to have an informed debate about the issues that Government has to address. Issues include the ability of Government to fund programs and services, where the revenues will come from and the impact of deficits and debt.

This report provides financial and economic information to help readers understand Government's finances. The information in this report is taken from Government's Consolidated Summary Financial Statements contained in Volume I of the Public Accounts.

### 4.2 Key Indicators of the State of a Government's Finances

The Canadian Institute of Chartered Accountants is the professional body that recommends standards for financial reporting, accounting and auditing in the public sector. It also initiates research studies on public sector accounting and auditing matters.

The Canadian Institute of Chartered Accountants issued a Research Report in 1997 entitled Indicators of Government Financial Condition. That report identified financial indicators which it felt best describes the financial condition of a government. These indicators were categorized in terms of three elements of financial condition - sustainability, flexibility, and vulnerability.

In this report, we discuss these indicators in the Newfoundland and Labrador context. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time.

**4.3 Sustainability** Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. A government's annual surplus or deficit, its net debt and a province's gross domestic product (GDP) are important indicators of the state of a government's finances. Each of these indicators provides useful insight into the sustainability of a government's revenue raising and spending practices.

The annual surplus or deficit shows the extent to which a government spends less or more than it raises in revenues in one fiscal year. For the year ended 31 March 2005, the annual deficit reflected in the Province's Consolidated Summary Financial Statements was \$488.8 million. Figure 1 provides details as to the annual deficit each year since 1996.