Backgrounder: Highlights From the *Annual Financial Report* for 2013–14

The financial results in the *Annual Financial Report* are based on the audited consolidated financial statements of the Government of Canada for the fiscal year ended March 31, 2014, the condensed form of which is included in the report. For the 16th consecutive year, the Government has received an unmodified audit opinion from the Auditor General of Canada on the consolidated financial statements. The complete consolidated financial statements will be set out in the *Public Accounts of Canada 2014* when tabled in Parliament.

Report Highlights

- The Government posted a budgetary deficit of $5.2 billion for the fiscal year ended March 31, 2014, down from a deficit of $18.4 billion in 2012–13.
- Revenues increased by $15.0 billion, or 5.9 per cent, from 2012–13, reflecting increases across all revenue streams. Program expenses increased by $2.4 billion, or 1.0 per cent, as increases in major transfers to persons and other levels of government were offset in part by a decrease in direct program expenses. Public debt charges were down $0.7 billion, or 2.3 per cent.
- Direct program expenses, which include other transfer payments, the operating expenses of government departments and agencies, and the expenses of consolidated Crown corporations, have now decreased for four years in a row. This is the first time this has occurred since 1961–62, the earliest year for which records are available. This decline reflects effective control of government spending.
- The federal debt (the difference between total liabilities and assets) stood at $611.9 billion at March 31, 2014. The federal debt-to-GDP (gross domestic product) ratio was 32.5 per cent, down from 33.5 per cent a year earlier.
- As reported by the Organisation for Economic Co-operation and Development (OECD), Canada’s total government net debt-to-GDP ratio, which includes the net debt of the federal, provincial/territorial and local governments, as well as the net assets held in the Canada Pension Plan and Québec Pension Plan, stood at 40.4 per cent in 2013. This is the lowest level among Group of Seven (G-7) countries, which the OECD expects will record an average net debt of 84.3 per cent of GDP for the same year.

Restatement of Budget 2014 Forecast of the 2013–14 Deficit

To enhance the comparability of the forecasted and actual results, the *Annual Financial Report* restates the Budget 2014 forecast of the 2013–14 budgetary deficit, from $16.6 billion to $15.9 billion. The restatement was made to reflect the accounting change in 2013–14 relating to bond buybacks, which has resulted in a roughly $700-million decrease in budgeted public debt charges. Restating Budget forecasts on a retroactive basis to reflect these types of accounting changes is consistent with generally accepted accounting practice.

Variance in Forecasted and Actual Results for 2013–14

Final results for fiscal year 2013–14 show a budgetary deficit of $5.2 billion, which is a $10.7-billion improvement over the Budget 2014 forecast of $15.9 billion, restated from $16.6 billion, as discussed above.

The improvement over projections for major Budget components is as follows:

Revenues were $7.7 billion higher than expected, reflecting gains in all major revenue streams. This improvement was due, in part, to a number of specific one-time factors which raised 2013–14 revenues. These one-time factors included large income tax assessments and foreign exchange gains which were not foreseen at the time of Budget 2014, as well as the fact that the $1.5-billion adjustment for risk included in the Budget 2014 projection was not required.

Program expenses were $2.6 billion lower than forecast, largely reflecting lower-than-expected direct program expenses. In particular, the estimated federal liability under the Disaster Financial Assistance Arrangements for assistance related to the 2013 flood in Alberta was $1.2 billion lower than expected, reflecting updated information from the province. The remaining difference is due to lower-than-expected spending by departments.
Public debt charges were $0.4 billion lower than forecast, reflecting a lower-than-expected average effective interest rate on the stock of interest-bearing debt.

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