

Value for Money of Over-Budget Spending

Department of Finance and Treasury Board/ Province-wide

Key Messages

- Over-budget spending does not adequately consider value for money or safeguard public funds.
- In 100% of transactions tested, the Province prematurely spent \$432.7 million, forgoing millions in interest revenue.
- The over-budget spending process is not accountable or transparent through the legislature and follows an expedited approval process.
- The Auditor General is recommending changes to the *Finance Act* to provide accountability and transparency over the spending of all public funds.

Why We Did This Audit

- In fiscal years 2021-22 and 2022-23, Government approved \$2.6 billion in over-budget spending.
- The Minister of Finance and Treasury Board refused to implement an Auditor General recommendation addressing over-budget spending from our December 2023 Financial Report.
- Recent increases in over-budget spending coincide with higher-than-expected revenue.

Over-Budget Spending

- The Cabinet approved spending which is over and above the original budget, which results in an additional appropriation.
- Annual budgets introduced by the Government must be debated and voted on by the legislature. But over-budget spending is approved by Cabinet alone.
- Although Nova Scotia is following the *Finance Act*, the Act is not in line with the other provinces and federal government as it does not require the legislature to review, vote on, or approve over-budget spending.
- Over-budget spending was a record high in 2022-23 of \$1.7 billion.

Eleven grant and subsidy expenditures selected for detailed testing

- Eleven grant and subsidy expenditures approved by Executive Council as additional appropriations in fiscal 2021-22 and 2022-23 totaling \$432.7 million selected for testing
- Public funds examined include:
 - \$140 million to EfficiencyOne for off-oil efficiency programs
 - \$65 million in deferred maintenance funding to four rural universities
 - \$58.9 million to Cape Breton University for a medical school campus
 - \$50 million to EfficiencyOne to address energy poverty and equity
 - \$37.4 million to St. Francis Xavier University for health infrastructure
 - \$25 million to Saint Mary's University for health programs
 - \$15 million to Screen Nova Scotia for the Content Creator Fund
 - \$15 million to Horticulture Nova Scotia for recovery from the polar vortex
 - \$13 million to the Halifax International Airport Authority for the Air Access Fund
 - \$7 million to Oxford Community Centre Association for a community centre
 - \$6.4 million to Municipality of the County of Inverness for a coastal hiking trail

In all items tested, the Province prematurely spent a total of \$432.7 million

- Inadequate justification for the timing of disbursement of funds to recipients
- No immediate spending need for any of the \$432.7 million tested
- \$109.7 million for infrastructure projects funded upfront
- Fiscal capacity alone is poor rationale to distribute public funds in advance of need
- \$233 million front-end funded multi-year agreements
- \$371.6 million (86%) of \$432.7 million in over-budget spending remains unspent by recipients
- Funding recipients benefit from millions of dollars in interest revenue

Spending proposals missing key elements to ensure public funds spent as intended

- All \$432.7 million in over-budget spending followed a process for approval
- Value for money considerations not evident in any of the decision documents
- All \$432.7 million in spending proposals went through expedited approval process
 - Staff assessments not completed
- Funding purpose unclear in proposals totaling \$55 million
- \$280.4 million in spending proposals not supported by detailed cost estimates
 - Province provided \$140 million to EfficiencyOne despite the Corporation having \$102 million in unspent provincial funding
 - \$62.4 million in healthcare grants for universities approved without cost estimates
 - \$15 million polar vortex funding approved before extent of damage was known
 - \$13 million top up funding to Airport Authority despite \$17.6 million in unused funds

Agreements do not adequately protect public funds

- Signed agreements or funding letters for all grant and subsidy expenditures tested, however weaknesses found
- Key terms and conditions missing in most agreements, including conflict of interest declarations, interest revenue beneficiaries, direction for unused funds, and audit clauses
 - Terms and conditions do not specify how interest earned on contributions should be spent
 - Unused spending may never return to the Province
- Agreements worth \$170.4 million do not contain measurable performance targets
- Agreements allow grant administrators to claim administrative costs without limits