

[Mr. MacDonald in the chair]

THE CHAIR: Good morning, everyone. I would like to call this meeting to order, please. At this time I would like to welcome the Hon. Patricia Nelson, Minister of Finance, and the Hon. Greg Melchin, Minister of Revenue, and their staff. Before we go any further, could I have approval of the agenda that's been circulated to all members, please?

MR. BRODA: Yes, I'll approve it.

THE CHAIR: Approved by Mr. Broda.

MS BLAKEMAN: Not that I would ever doubt the chair, but do we have quorum?

THE CHAIR: Yes, we do. For your information quorum for this committee is six, and there are now seven members present.

MS BLAKEMAN: Including the chairperson. Oh, thank you very much.

THE CHAIR: You're quite welcome.

Now, at this time if the hon. ministers would like to introduce their staff to the committee and to the staff of the Auditor General, please feel free to do so.

MRS. NELSON: Thank you very much, Chairman. I have with me this morning the controller for the province of Alberta, Mr. Tim Wiles, who's sitting right next to me. I also have the acting group leader for performance measurement, Murray Lyle, who is sitting directly behind me.

MR. MELCHIN: Thank you, Mr. Chairman. I'd like to introduce Robert Bhatia, to my immediate right, who is the new Deputy Minister of Revenue; Glenn Shepherd, my executive assistant; Lucas Huisman, who is the assistant deputy minister of tax and revenue administration; and Bonnie Lovelace is corporate secretary both for Finance and Revenue.

THE CHAIR: Yes, thank you. And to your staff: welcome. Certainly if they want to assist in any answers, they can feel free to go to the podium.

MRS. NELSON: Mr. Chairman, there are two other members of the staff sitting at the back that I didn't see sitting back there. Tim Wade is my EA from the office, and Jerry Bellikka is our communications director.

THE CHAIR: Thank you very much. Mr. Hug, would your staff like to introduce themselves for the convenience of the committee and the ministers this morning?

MR. HUG: Well, thank you, Mr. Chairman. To my immediate right is Ken Hoffman, who is an assistant auditor general. One of his responsibilities is the audit of performance measures and in particular Measuring Up. To his right is Gerry Lain, an audit principal who is involved in the audit of the Ministry of Finance. To my left is Rene Boisson, who is an audit principal involved in the audit of the Ministry of Revenue.

THE CHAIR: Thank you. Perhaps before the hon. ministers proceed with their opening remarks, Ms Blakeman, could we please go around the table and for the convenience of the staff introduce

ourselves quickly?

[Ms Blakeman, Mr. Broda, Mr. Cao, Mrs. Dacyshyn, Ms DeLong, Mr. Hutton, Mr. MacDonald, Mr. Mason, Mr. Shariff, and Dr. Taft introduced themselves]

THE CHAIR: Thank you. Hon. Minister Nelson, would you like to proceed, please?

MRS. NELSON: Thank you very much, Chairman, and members of the committee. It's particularly interesting for Greg and I to sit here once again and appear before this committee. As you know, this will be the last time that we will be here together reviewing what was called Treasury. Next year it will be two different sets of programs.

It's difficult to try and remember back more than a year ago, long before the current budget, particularly with the events of September 11, and before the global economic slowdown had hit Alberta. As you know, the world and Alberta are different today as a result of all of these events. Our task is to look back at 2000-2001 government and Treasury annual reports as well as the Auditor General's report for that particular year, so we will focus on 2000-2001. Taking the time to look at the results from the fiscal year to actuals to see what happened is the one final and important step in the accountability cycle. With the help of our Finance and Revenue staff we will do our best to answer the questions you might have.

But before I begin, I think it's also important to note the role of the Auditor General in the accountability cycle. Their efforts are significant by challenging the government to continually improve its accountability and by adding credibility to our reporting processes. We value their import, and we value their advice.

In fiscal 2000, within the framework of sound fiscal management and debt repayment, we set out to strengthen Alberta's tax advantage and improve the quality and accessibility of key areas for Albertans. Looking back at 2000-2001, the government's fiscal situation and performance results show it was a very good year for Albertans. Because of an extraordinary revenue picture we showed a record surplus of \$6.4 billion in our actual results. In compliance with the Fiscal Responsibility Act we allocated \$5.4 billion of a record economic cushion toward the debt and \$1 billion toward the improvement of our financial assets.

At March 31, 2001, our accumulated debt stood at \$8.195 billion after including the \$2.1 billion specifically set aside for future debt repayment. As a result of the record surplus and debt payment the province has net assets of \$4.3 billion including pension liabilities at the end of the fiscal year. This is the first time we've had a net asset position since 1986-87. Total provincial revenue reached a record \$25.6 billion in 2000-2001. This was \$5.4 billion, or 26.9 percent, higher than in 1999-2000. The increase was due mainly to nonrenewable resource revenue that reached a record \$10.6 billion. Natural gas prices averaged \$6.08 Canadian per MCF, more than double the previous year's average of \$2.66. Oil prices also rose from an average of \$23.16 U.S. per barrel in 1999-2000 to \$30.19 U.S. in 2000-2001.

There was also a strong recovery in corporate income tax revenue and continued growth in other tax revenues. After declining by 32 percent over the previous years, corporate income tax revenue rebounded, increasing by 61 percent, or \$768 million, in 2000-2001. Total spending excluding the change in the unfunded pension obligations increased by 9.5 percent, or \$1.6 billion, from the previous year. The increase primarily reflected higher health care and education spending and onetime initiatives to address high energy costs and to accelerate infrastructure funding. In total \$19

billion was spent in 2000-2001 for programs and services and paying interest on debt. Health and education accounted for 58 percent of the total spending.

Some major changes in spending from 1999-2000 on a fundamental basis were in health. Spending increased by \$614 million, or 11.6 percent, over the previous year to \$5.9 billion. This additional spending supported the increased costs of drugs and health services, wage settlements, and initiatives to improve access to health care including improvements in health care facilities and equipment.

Education spending increased by \$291 million, or 6.1 percent, over last year from the previous year, from \$5 billion. Operating grants were increased for both basic and postsecondary education to cover rising costs and enrollment. Construction and modernization of schools and postsecondary facilities was accelerated.

Social service spending increased by \$71 million, or 4.1 percent, over the previous year to \$1.8 billion. Major increases for Children's Services, persons with developmental disabilities, and seniors' programs were partly offset by lower increases and reductions in other areas.

Transportation and utilities spending was increased by \$532 million, or 47.7 percent, over the previous year to \$1.6 billion. The increase reflects the costs of the energy assistance programs partly offset by a delay of some of the transportation initiatives.

Agriculture and Economic Development spending increased by \$31 million, or 2.9 percent, over the previous year up to \$1.1 billion. This spending reflected the special agriculture assistance programs provided over the last two previous years.

8:40

Other program spending increased by \$80 million, or 3.3 percent, to \$2.5 billion. Higher spending for Justice programs and funding for the Alberta centennial projects was partly offset by lower forest fire fighting costs.

Debt servicing costs increased by \$24 million, or 2.5 percent, to \$980 million. Interest cost savings due to repayment of debt were offset by increased foreign exchange provisions on debt held in the U.S.

Included in the government's annual report is Measuring Up. As you know, good financial results are only part of the picture. Albertans need to know more than what we are doing with our dollars. They also want to see the results directly related to their lifestyle, the environment, and other important issues. Measuring Up tracks our progress in these areas and is a balanced report indicating the areas where we are accomplishing our goals and achieving our targets and areas where we would like to improve.

Here are some of the highlights from 2000-2001 under the categories of people, prosperity, and preservation. Under people: Alberta continued to rank among the top countries in the world for life expectancy. Alberta ranked third among the provinces in terms of high school completion for Albertans aged 25 to 34. However, Alberta ranked fifth in terms of postsecondary education completion. Alberta students continued to perform well on cross-Canada international achievement tests.

Prosperity. Alberta's economy was strong. The province's long-term average growth rate surged due to the sharp increase in 2000's gross domestic product. Job creation proceeded at a robust pace. The majority of Alberta employers surveyed were satisfied with the skill level of recent degree and diploma graduates. Alberta's labour productivity rose and remained the highest among the provinces. Alberta's infrastructure was expanded and improved to accommodate the increased demand of strong economic growth. Most of the rural sections of the national highway system provided

good traffic flow, and gas pipelines were able to accommodate throughput demand. The Alberta government continued to maintain a strong financial position. Alberta was the only province to have a triple A credit rating, the highest possible rating given. The overall tax burden on persons was the lowest among the provinces.

Preservation. Although Alberta's crime rates dropped, they remain above national averages. The gap between Alberta's violent crime rate and the national average narrowed last year, while the gap between Alberta's property crime rate and the national rate widened. Alberta had the lowest crime rates among the western provinces last year, and its youth crime rates continued to climb.

Alberta's forest resources continued to be managed on a sustainable basis, but land productivity had fallen owing to dry conditions in much of the southern and central part of the province.

So, Mr. Chairman, to sum up, I am pleased that this government is open and accountable to Albertans and that this committee is part of that commitment. As I mentioned, fiscal 2000-2001 was a good year for the government treasury and indeed for Albertans as it continued to enhance the fiscal foundation that we continue to build on today. Those will be my closing remarks. I'll turn the mike over to my colleague Greg, and then we'd be delighted to take any questions the committee may have.

MR. MELCHIN: Thank you, Pat. It's a pleasure to be able to be here at Public Accounts this morning, this bright almost sunny morning – almost spring, yes – and be able to answer or respond to any of the questions you might have regarding the Ministry of Treasury. As Minister Nelson said, this will be the last opportunity we'll have to jointly present the Ministry of Treasury, at least this year as opposed to last year. There were 13 days of this period that I was actually a partial minister of this ministry, so there's a 13-day period where I've had some aspect of it. It was a lucky number, obviously. We're looking forward this morning to being able to discuss the many aspects of this Department of Treasury.

We are fortunate, and it's been my experience over just a few years to have just outstanding people that serve in the government throughout the departments, and the Department of Treasury is no exception. From having worked with those in Revenue and certainly working very closely with Finance continually, we have some tremendous expertise, great background and experience, and a real depth of experience in this department. So we're fortunate that we have people able to oversee the financial aspects of the government in a very competent manner as well as the oversight, a tremendously important aspect of the Auditor General's office, to be able to help bring discipline and an outside or independent look at the operations of the government.

I'll start off today with just a few brief remarks. The year 2000-2001, as you know, experienced a really high period of revenues, a record year with total revenues of \$25.6 billion for the province, unparalleled in any other recent time, an increase of \$5.4 billion over the year before, and as the main record, as Minister Nelson had mentioned, record oil and gas revenues of \$10.6 billion. To put that in perspective, the previous high was about \$5.5 billion. Typically it's about \$4 billion, and then all of a sudden you have a year that brings in about \$11 billion from the energy sector alone.

At the same time, personal income tax fell in this year by 23 percent, or about \$1.2 billion. There are two or three significant issues with regards to that. There were the personal income tax changes, the cuts to personal income tax. There was a \$345 million energy tax refund, and there were actually some prior period adjustments that effected a reduction in this year that should have applied to prior years.

Corporate income taxes increased by \$768 million, a 61 percent

increase over the previous year, a very substantial increase in corporate taxes paid.

There's no question that higher world prices, which were up 57 percent, contributed significantly to this. Natural gas prices were up 82 percent. They significantly boosted corporate profits and as a result corporate income taxes.

In the fiscal year investment income decreased \$578 million. That was the start certainly of the downturn in the equity markets in the second half of that year. We know that in the following year we saw even a greater decline in the equity markets around the world, and they contributed to the lower investment income.

The Alberta heritage savings trust fund is the largest asset of the province. It earned \$706 million in net investment income and had a fair value of approximately \$12 billion. This represents \$4,000 for every man, woman, and child in Alberta. In that year the Alberta heritage science and engineering research fund was created. That's a \$500 million endowment that was paid from the general revenue fund to assist in research and development in the areas of engineering and science.

Also, the investment management division and securities administration systems division administered over \$37 billion in investment assets. This breaks down into just under \$17 billion in pension funds, \$13.8 billion in heritage and endowment funds, and \$6.3 billion in specialty funds such as provincial agencies and funds, government long-term disability plans, and funds managed on behalf of the Workers' Compensation Board, a very significant operation with the administration of \$37 billion of various funds.

That will conclude my remarks. I'll be happy to entertain any questions that the committee might have.

THE CHAIR: Thank you very much.

Ms Blakeman, could you start, please, followed by Mr. Broda.

MS BLAKEMAN: Thanks very much, and welcome again to the Auditor General and staff, and welcome back to Minister Nelson. It's been many years since we've seen her here. Nice to see her back. I think Economic Development was the last time.

AN HON. MEMBER: She was here last year.

MRS. NELSON: I was.

MS BLAKEMAN: Oh, I'm sorry. I must have been so dazzled by your presence.

MRS. NELSON: Maybe you were just absent that day.

AN HON. MEMBER: It's because you quit smoking, Laurie.

MS BLAKEMAN: Yeah. That's a tough one.

MRS. NELSON: Did you quit smoking?

MS BLAKEMAN: Yeah, yeah, in November. Don't push it.

AN HON. MEMBER: She's wearing six patches right now.

MS BLAKEMAN: Yeah. Don't push it.

MRS. NELSON: Me too. I had pneumonia and I haven't had a cigarette, so we're both in the same boat.

MS BLAKEMAN: Well, there you go.

Welcome to you as well, Minister Melchin, and to all of the staff. Do we have any fun seekers?

8:50

AN HON. MEMBER: Fun seekers?

MS BLAKEMAN: Yes.

AN HON. MEMBER: We're all fun seekers.

MS BLAKEMAN: Tourists. People that come just to enjoy the proceedings. Yes, we do. Kirk from the Liberal office has come down to see what we do here.

AN HON. MEMBER: He's here for fun?

MS BLAKEMAN: Yeah. Public Accounts? Absolutely.

I'll direct the ministers to pages 254 and 255 in the Auditor General's report. I'd like to talk about revenue forecasting and forgone revenue. Now, the Auditor General is again recommending that the Department of Finance identify the "expected and actual results from the social and economic development programs within the tax . . . system"; in other words, expected results from forgone revenue. This is a repeat recommendation. In the past the department has said no because there isn't a standard that can be followed. Nonetheless, I have to ask the question: without being able to understand the benefits that all Albertans are receiving as a result of forgone revenue, would the minister not agree that we're not getting a full picture of our economic situation without looking at the disclosure and accountability of forgone revenue? I don't know which one this question goes to.

MR. MELCHIN: We probably both might have some comments with regard to this.

I know that in previous reports there have been some challenges, I guess, faced by the departments to have to go to the extent of reporting on all the forgone revenue as stated here. However, there has been I would say quite a bit of review among our departments as to what could be done in this regard, and I think the Auditor General's comments and suggestions are being very helpful in that light. There are many programs. One in particular that we've been working on in this past year is the TEFU, the tax exempt fuel use program. As an example of that, it's \$131 million of forgone revenue that doesn't show up anywhere. Treatment of various exempt purposes for not paying any fuel taxes for off-road is primarily the purpose. There are others, like farm fuel, that could certainly be attached to that.

There are a variety of programs that allow exemptions from paying taxes. Our tax acts are I guess filled with some of those exemptions, so the challenge in some respects is: how far do you go? Every deduction from an income tax purpose or various tax perspective in some respects is an exemption, or forgone revenue. But I would say that we're endeavouring to make some progress in this regard to help measure the benefit of those programs. If we're forgoing, for example – the one I used was TEFU – \$131 million annually in fuel tax, do the benefits offset it? Is it a program that's meeting its objectives? In that respect I think we'll continue to work as to how we could report and better inform the public of the merits of some of these programs.

MRS. NELSON: I think Greg's got a good summary there. In our financial statements if you go to page 30, we do have some disclosure on some of the forgone revenue programs. Whether you

go through and get into an itemized detail on each line by ministry, I don't know. Each program of course is announced publicly, so there's no secret that the programs exist. I guess the debate goes on as to how far you go in the financial statements in listing every item that is there. I think we've had dialogue back and forth. I'm looking forward to some of the new directions we may take. We fully disclose them, and I think Greg covered a lot of it.

I suppose you could go into the family employment tax credit type of program, which is another one that would have to be listed separately. But I don't know what the real benefit is quite frankly as long as there's a disclosure and people know they exist and that they're within the overall fiscal package.

So the dialogue goes on, and it's a good healthy one to have. We encourage it, but we haven't jumped right into that fray as yet.

MS BLAKEMAN: Well, I'll encourage you.

As a supplementary then. The Minister of Revenue talked about an unparalleled revenue growth in this fiscal year that we're examining. I'm wondering how often the forecasting models were updated and how they were set up to deal with the new information. It's seemed to me as a sideline observer that things sort of got out of control, and I'm just wondering how much you were able to monitor and know and update and how you were processing this information as you went along through this year.

MRS. NELSON: I'll take the question on that because I was a member of the Treasury Board through that year. I wasn't in this position, but I did watch as we had the most unprecedented revenue base in resource revenues that we've ever had in the history of this province. To have resource revenues come in at over \$10 billion was unthinkable and caused some difficulties as far as forecasting as you can well imagine but also caused some difficulties as far as expectations. As this was an unprecedented boost in particularly natural gas, it was great to have the revenue base go up, but it had some problems on the other side, if you can remember correctly, for the consumer, where their costs were up. So there was a real adjustment.

Forecasting revenues in oil and gas is particularly difficult at the best of times, and I'm sure that when the Minister of Energy appears before this committee, he'll go into lengthy detail on it. But I can tell you, because I was a Minister of Energy for five years, that they monitor the market every day almost hourly and look at the strips to see where the numbers are going. Then you all of a sudden have the surprises come through the door, and you don't know if they're a two-day swing or a two-week swing. Is it a full month, or is it three months? No one can tell you. The professional forecasters have no idea as to what those numbers will be. What we can tell you is that it sends chaos through the whole system. Then when the market does correct itself, which actually does happen, there's a shock as to why nobody knew that was going to occur.

I'm going to give you just a prime current example you may be able to relate to. On February 27 I filed a third-quarter report for this last year. The price of oil was \$21.36 on that date, and we've seen it climb up. On Monday it dropped down to \$22; it's back up to \$25. The swings are just phenomenal, and that's a result right now of the difficulties that are occurring in the Mid East, a good part of that. The result of a coup in Venezuela is causing some swings, which of course nobody here in Canada or North America has absolutely any control or influence on, so we become extremely vulnerable to it.

So it's a difficult question when we're asked to forecast and pinpoint it. You're far better to try and have some realistic approaches to it and say: what would the fundamentalists say? There are fundamentalists that work in this marketplace. Instead of

what the play is, what would the fundamentalists tell you the number should be? Hopefully you end up in that ballpark on an average over the year. Let's look at the fundamentals of what the basics in the economics are for North America as far as gas and the world economics insofar as our oil goes and see if we can build on the fundamentals a trend line that will see us through the peaks and the valleys and the highs and the lows throughout the fiscal year. That's always the dilemma that anyone in the Energy department has when they're bringing forward their revenue forecast.

THE CHAIR: Mr. Broda has graciously exchanged his position on the questioning list with Mr. Shariff. Mr. Shariff, followed by Dr. Taft.

MR. SHARIFF: Thank you, Mr. Chairman. My questions stem from the Auditor's report on page 248, and they stem from a remark made that

certain expenses reflected in the financial statements were either not in compliance with the applicable governing legislation, or legislative authority was not in place.

Then the Auditor goes on further to make reference to the Michener Centre Facility Board and refers to \$1 million not being reported in the financial statements and that

funds were established either without any statutory authority or in contravention of Treasury Board Directives under the Financial Administration Act.

So my questions go to that last paragraph therein where the Auditor states:

There may well be other similar unauthorized funds being administered by other ministries. There is a need for the Department of Finance to coordinate, in conjunction with other ministries, a review to identify funds that have not been legally established or that are administered in contravention of any Treasury Board Directives under the Financial Administration Act.

My first question is: has that audit happened? Can you shed more light on this field?

9:00

MRS. NELSON: Well, what we can tell you is that on the recommendation insofar as the Michener Centre, that has been rectified. We've made those corrections in this fiscal year in co-operation with the Auditor General's office. Insofar as the balance, that's in our process now to make sure that we don't have that kind of a conflict again. I think we've taken a proactive approach on it to make sure that we work with the Auditor General's office ahead of time to make sure that we're not missing something.

MR. SHARIFF: That's good to hear.

Then my second supplementary goes further. If you look at that last paragraph under other matters, the Auditor talks about:

There is a further issue that needs to be addressed by the Ministry of Finance, namely, accounting for government grants. [The issue is that] the Public Sector Accounting Board . . . has an accounting standard; [however] there was inconsistency by ministries in the application of the accounting standard.

So the question is: has the Ministry of Finance ensured that auditing for grants is in accordance with the Public Sector Accounting Board? Can you shed some more light on this particular issue?

MRS. NELSON: I'm going to ask our provincial controller to comment on that for us.

MR. WILES: Thank you. The issue of grant recognition is one that's a subject of debate across the country, actually. The Public Sector Accounting Board of the Canadian Institute of Chartered

Accountants has struck a task force to look at this particular question. I'm on that; I actually chair that committee. As far as the current standards go, we have issued some guidance previously to our ministries as the basis to recognize grants based on the current standards. We also have had several discussions with ministries in the office of the Auditor General on specific issues that arise on a case-by-case basis to make sure that there's agreement amongst the Auditor's office and ours to deal with grants in an appropriate manner. So it's an emerging area. We continue to monitor it, and we'll continue to do it when the new guidance from the Institute of Chartered Accountants is available.

THE CHAIR: Thank you very much.

Dr. Taft, followed by Mr. Hutton.

DR. TAFT: Thanks, Mr. Chairman. There are so many questions. It's hard to know where to begin. We could probably spend days here with you. So I'll begin with one of the fundamentals, which is the ministry's mission statement. Perhaps this is going to change now that there are two ministries. Anyway, the ministry's mission statement, that I'm reading from the Auditor General's report, page 243, is "to provide excellence in financial management, services and advice to achieve a healthy and sustainable financial condition for the Province with the lowest possible taxes for Albertans."

I could address several clauses in that statement, but let's deal with "the lowest possible taxes." The lowest possible taxes are zero, none. Is that your objective? How do you proceed with a mission statement like that, that calls for the lowest possible taxes? What are the lowest possible taxes in your view? Logically, it's zero.

MRS. NELSON: Well, logically, it's not zero, because governments are charged with providing certain services through the Constitution of this country, and those are services that are in health, education, manpower training, social services, and natural resource development. Obviously, governments have to have some source of revenue, which comes forward in the form of fees and taxes. So, logically, it isn't zero. Ideally, though, you want to have a government that is accountable on how they spend those taxes to provide those fundamental services, or core programs, as we refer to them, and don't overburden the taxpayer by adding things that they shouldn't be involved in. So our goal has been to make sure that we focus on core programs, identify those priorities of Albertans, and put a tax regime in place that supports that but doesn't go beyond.

In this fiscal year, as you know, we proceeded with the lowering of personal income taxes so that we could in fact have dollars left in the pockets of, as we refer to them, the people or the shareholders of this province and let them make their decisions as to where to spend their money rather than adding it to the government coffers, where we could think of programs to spend it on. Those are always tough decisions, but our goal is to make sure that we have the most competitive tax advantage not only in Canada but where our competition also comes from, which is south of the border, the United States. So having a lower personal tax take for the government is advantageous for the taxpayer and the government, because it keeps us focused on priorities. Also, having a little tax regime for our corporations entices people to come and develop in this province but also gives them the assurances that the government isn't going to take money and spend it just because it's available.

So we have a commitment to low taxation but also a commitment to providing core programs, and striking that balance and making sure that we provide the core programs is critically important to us, but that does require money, so zero taxation is not in the books.

Greg wants to supplement, please.

MR. MELCHIN: I'd like to supplement just a couple of things on that. One of the follow-up things that we have been working on in Revenue over this past year, one of the key initiatives, is what we refer to as a revenue framework, and we're trying to address a couple of questions on that. One is the size, the amount, quantity of revenue that ought to be available for the province and, secondly, the mix, types of taxes, and the various weighting of importance of the various taxes.

When you look at "lowest possible," one of the questions with regards to how much tax or the levels of tax, you have to also look at the thresholds. We've experienced this, I would say, in Canada over the past some decades of having gone through higher taxes at all levels – federal, provincial, and municipal – and the burden and the drain that that places upon the creation of wealth. You can raise taxes to levels where it becomes an impediment and slows down the creation of wealth. So there is a balance. To raise taxes to extents, you will have less available to do all the things you would like versus even more.

Our point is: how do we ensure that there are the greatest opportunities for people to provide for their own needs, to have the opportunities to invest and attract the capital that would be the right climate for the creation of the wealth so that those opportunities and jobs would be available? In doing that, you've got to ensure that the money and the governments have thresholds that they can't pass either, or else it becomes very destructive to those very goals that you seek. So if you want to see the people have means and abilities to invest and prosper themselves, then governments have to ensure that they don't take all of the resources from them.

That said, we can't go to zero – and I'll emphasize that – because there are some core responsibilities of government that government is charged with providing. Even in those areas you have to ensure that the levels of tax are not too onerous to defeat the primary objectives of allowing people to provide for themselves.

DR. TAFT: Okay. My supplemental. I would suggest, then, that your mission doesn't reflect what you've said. It should probably say: the lowest feasible taxes or something. "Lowest possible" does not suggest to me the answer you've given, which is a need for balance. You can certainly raise taxes beyond a threshold at which wealth creation is reduced, but you can drop taxes and government services below a threshold, which then becomes a problem as well, and I don't think you'd actually disagree with me on that. We can go on indefinitely here, but I would like to know: how are you defining taxes here?

9:10

MR. MELCHIN: Well, the department of Treasury specifically is charged with taxes: corporate income tax, personal income tax, fuel taxes, commodity taxes like the hotel room tax. So we could specifically list insurance, financial institutions tax, the GST administration, and so forth. There is a broader role and scope, though. Finance has a very significant budget administration of the overall revenues and expenditures of the province, and Revenue has some very specific things to look at, the overall revenue framework, but when we look at taxes, we do specifically speak of the taxes that I mentioned.

There are other royalties, which I would not include in the term "tax." That's an ownership of resources that you and I and all Albertans own; it's not a tax per se. We're taking our value and our share to help maximize the development of those resources. So, no, I wouldn't include those in the term "tax." I would say that taxation is literally defined as those that we've described.

DR. TAFT: Not fees.

MR. MELCHIN: Not fees, no.

THE CHAIR: Thank you.

Mr. Hutton, followed by Mr. Mason.

MR. HUTTON: Thank you, Mr. Chairman. I'd like to make a comment before my question if I may. I think it's important to a number of constituents in Edmonton-Glenora – these proceedings are a matter of public record – and in particular to the Wiles family, Tim's wife and children and his brother David and his family, that it's noted that he did wear a tie today and a white shirt.

Mr. Minister, I have two questions on the financial statements of the Alberta Securities Commission. First, in 2000-2001 the commission's net income increased significantly from that shown in the 1999-2000 fiscal year. Is it anticipated that the commission's net income will continue to increase?

MR. MELCHIN: Do you have a page number that you're specifically referring to?

MR. HUTTON: Sorry. Page 234 of the Treasury annual report.

MR. MELCHIN: The Alberta Securities Commission revenues did go up over the past year, as you've noticed. There's been an expansion of the activity in the marketplace because of the buoyancy of the economy, so partially it's related to the volume of work that they're doing, but it's also an expansion of some of the work that they're doing for industry. There are a number of significant projects like harmonization of securities laws across all the provinces. There's some work being done in that regard. Do we need kind of a common securities regulatory for the national commission or not? So there's been some expansion of work to help facilitate industry, and as such the fees are regarded in that light.

However, going forward, no, I don't view that there's going to be a significant increase. In fact, they've said that they're holding their fees so that they don't get increased. In that regard, they have, as you see on that same page, retained earnings of \$19 million. Their business plan has said that that balance of surplus is something that they want to draw down rather than increasing fees over the next couple of years.

THE CHAIR: Mr. Hutton.

MR. HUTTON: He answered it, besides my supplemental. So thank you.

THE CHAIR: Thank you.

Mr. Mason, followed by Ms DeLong.

MR. MASON: Thanks very much, Mr. Chairman. Madam Minister, I'm looking at the fiscal summary of your department, page 2 of the executive summary, the 2000-2001 annual report.

MRS. NELSON: I'm sorry; which report are you looking at?

MR. MASON: I've got it folded around so many times, I can't find the front.

THE CHAIR: Oh, I know what he's in. I believe Mr. Mason is looking at the government of Alberta annual report.

MR. MASON: That's correct.

MRS. NELSON: Page 2?

MR. MASON: It's the 2000-2001 annual report of the government of Alberta, report to Albertans on Budget 2000. In the executive summary on page 2 there's a table called fiscal summary. It indicates that the total expense of the government was budgeted at \$17.732 billion and the actual was \$19 billion, which is \$1.3 billion more than was budgeted, and then the net revenue figure is \$1.34 billion, and the actual is \$6.559 billion. So if you add the differences in the increase in spending over budget and the increase in net revenue over budget, it comes to \$6.5 billion more gross revenue than was budgeted. I guess I would like to know why the government underestimated the revenues of the province for the year 2000-2001 in such a gross manner.

MRS. NELSON: Well, I think I already addressed that. We had such a tremendous spike in natural gas, that no one anticipated could possibly ever happen, and the same in our oil prices. The swings were terrifically unexpected, and as a result we ended up with additional revenues. I think I made that comment in my opening comments when we started the whole process.

The difficulty is in trying to budget for these unanticipated swings. Let's look at the swing that's occurred since then. If you take last year's actual and compare it to the previous year's, we had over a 40 percent decrease in revenues. Again this year we're expecting to have an additional 30 percent decrease over this last year. That's what we're forecasting. So we're expecting a downward trend.

The peaks and valleys are very difficult. That's why trying to play on the balance of the fundamentals in revenue becomes critically important. That's why we put in place a cushion to try and protect us from the upward swings and the downward swings that occur in the marketplace, that we have very little control over.

The benefit of the unprecedented increase in revenue was that we were able to accommodate a larger pay-down of our debt, which was very beneficial to Albertans, but also deal with some of the pressure points on the spending that had been created insofar as the infrastructure programs and the energy rebate program.

MR. MELCHIN: I'd like to just supplement one thing on that. Go to page 16 of that same report you asked about. Hon. Minister Nelson has said this a couple of times, and it's very true. You mentioned a \$6.5 billion increase in revenue. Page 16 has some of the details. There's a \$6.5 billion increase in nonrenewable resource revenue, actual versus budget.

Now, I don't know about your budgeting and how you feel that we ought to budget, but our historical trends in nonrenewable resources have been around the \$4 billion range. We've never had anything over 5 and a half billion dollars. One year we had close to, as you see, \$10.5 billion from one source. This past year you see how fast that came right back down. I don't know how you would forecast with any degree of prudence, taking that kind of risk, even estimate something – there was no one at the beginning of that year anticipating gas prices to go where they went. I mean, gas prices and oil prices were at historically astronomical levels, and the market fundamentals, as Minister Nelson said, have not supported that level, and they've come right back down.

So market conditions will go up and down. Commodity prices are very volatile. We have said that when you budget, you've got to have some prudence and, in some respects, be conservative in how you estimate so that you're not risking the delivery of your programs upon a hope.

9:20

MRS. NELSON: I'd like to supplement further on that. Right now there's a debate, Mr. Chairman, on where some of these prices will go. The difficulty we have is that when we're responsible for putting out programs that depend upon a full year's forecast in health and in education and in our social programs, to be flippant and play to the daily market trends I think would be irresponsible. So we try very hard to look at the fundamentals. Right now some of the uncertainty is caused by: how fast will the U.S. economy recover? Is there going to be a take-up again on natural gas to go back into the manufacturing side States-side? Is there going to be a heavier demand? There's still a lot of bent-up storage on gas in the States, so there's not a draw on that as quickly as possible. Then, also, on the oil side there's the difficulty of what's happening, as I said earlier, in Venezuela. We've had changes in the governments there, two changes in the last two weeks in Venezuela, which is a huge player in the OPEC cartel, that has a massive impact on whether oil prices go up or down. Plus then the aggression with the Saudis coming in and the Kuwaitis coming in and the Iraqis has a play on the oil.

We have to be careful that we don't overstate our number and get to a point in the year where we can't deliver those core services, because once we put out a number, that number very clearly is distributed through those core services. Last year we had expected a downward trend to occur in our revenue base. What we didn't expect was the slide in the U.S. so quickly. You saw the adjustment. We were lucky that we were able to adjust as quickly as we did from the previous year.

THE CHAIR: Hon. minister, I think we should move on. There are four hon. members of this committee who have yet to ask a question, and it's close to 9:30.

Mr. Mason, please.

MR. MASON: Thank you very much, Mr. Chairman. I appreciate the minister's striving to answer the question completely.

I guess I'd like to ask about a couple of things in relation to the response I've received. The first is Minister Melchin's comment that there was a historical high in oil and gas prices, and I accept that, but I have here the figures that we've taken from the various financial reports going back to 1993-94, and the government has consistently underestimated primarily resource revenues by figures ranging from \$1 billion to 6 and a half billion dollars each year, for a total over the period of eight years of \$21 billion of underestimation of revenue.

Now, Mr. Chairman, this has an impact. It's not simply a matter of prudence, because that creates a so-called unanticipated surplus, and under the legislation the government is required to put three-quarters of that amount against the debt. So we have a situation where programs are cut at the beginning of the year because the revenues are severely underestimated, and then at the end of the year there's this huge unanticipated surplus, which in my view is not unanticipated at all, and then three-quarters of it has to go against the debt instead of being used for programs to benefit the people of Alberta. We've seen reports now that the unanticipated surplus for this year may be half a billion dollars or more, and if you look at the estimates for oil and gas prices contained in this budget, you'll see that they're extremely low, far lower than the historical prices.

So I guess I would ask the ministers, Mr. Chairman, why we are consistently and in my view deliberately underestimating resource revenues and whether or not that's the kind of accurate budgeting that the people of Alberta deserve.

MRS. NELSON: Well, you mentioned '93. I used to do the resource revenue forecast at that point, for five years in there. Back in those days what we did was what we called a five-year average. We took the previous five years and averaged out the price. We thought that if we took that five-year average, then we would get rid of the peaks and the valleys between, because you can have a huge shift in price, and that would give us a level number. Then, quite frankly, I used to be a little cautious on it, because I was worried that if I put that number out – remember that we were running a deficit – we could be sliding further in the hole. We then shifted under the Fiscal Responsibility Act to putting a cushion in place; 3.5 percent of revenue goes into the cushion, which basically should accommodate the same as the five-year average, the potential of the up and down swings.

Let me just give you a little clue on something, though. Remember last year we were damned when we brought the budget out because we were cautious on the oil prices, but by the fall we had lost or had gone down from the budget forecast I think it was \$1.6 billion in resource revenues alone. We had to make a huge \$1.26 billion downward adjustment in October.

MR. MASON: Totally unnecessary by the looks of it now.

MRS. NELSON: A \$1.26 billion adjustment down and you say that that wasn't necessary. Well, I think it was very necessary, sir, because the economy was trending down. We were fortunate in this province that we were able to make the adjustment. If you want to leave the capability of financing health and education based on a whim, I'm sorry, but I think that's irresponsible. I think you have to be cautious on what you do.

Now, we were able to, as you know, pull back most of that from capital projects that were deferred or delayed, but we made the promise that if in fact the trend swings backwards, we would go back to funding those projects. By and large, most of that savings or pullback came from those two areas. You don't always have that flexibility.

This year we're already anticipating from the fundamentals – and remember, we're only 17 days into this fiscal year – that we're going to experience a decrease in our revenue base. I'd be delighted if we didn't, but I can't tell you that, and I'm sure not going to base the funding of health care and education on somebody's wish and a prayer from a newspaper article. I'm not going to do that. I have to look at the fundamentals. Every quarter we're able to update where we are based on more current information, but there isn't a person in North America that can tell you exactly where to peg that oil price or where to peg that gas price. If there were, they'd have made themselves hundreds of billions of dollars over the years. There isn't one. You can go back 10 years prior to that, and not one of them has ever hit it right yet.

THE CHAIR: Thank you.

Ms DeLong, followed by Ms Blakeman.

MS DeLONG: Thank you. In the Treasury annual report, page 41, it's reported that "Alberta Treasury commenced working with industry and other governments across Canada to set standards and to seek uniform practices" with respect to the taxation of tobacco and fuel. What are the benefits to Alberta from participating in the fuel tax and tobacco tax uniformity projects, and does Alberta retain its sovereignty over fuel and tobacco taxes?

MR. MELCHIN: The uniformity project helps us in a number of aspects. If our rules are harmonized and/or work with the other

provinces' – tobacco smuggling is one of the biggest problems we do have. So in trying to look at the methodologies of calculation and the rates of tax and so forth, that is part of that project to help us facilitate and manage so that retailers, everybody, has consistency, maybe simplicity of application. More importantly, then how do we address the smuggling kinds of concerns?

MS DeLONG: How does the tobacco tax uniformity project tie into the international discussions on the framework convention on tobacco control?

9:30

MR. MELCHIN: The same thing related to that, we are looking at control of uniformity of standards and of consistency with regard to the smuggling. Therefore, that's really our objective, be it international or provincial or other jurisdictions, so that we make sure we have that consistency of looking at the treatment.

MS DeLONG: Thank you.

THE CHAIR: Thank you.

Ms Blakeman, followed by Mr. Broda.

MS BLAKEMAN: Thanks. I'm going to build on some previous questions around budget practices, but for reference, if we need one, the Treasury annual report, page 27, where it starts talking about business planning, economic and fiscal policies, and forecasting is sort of the jumping-off point for the question. We've talked already about unexpected revenue. The Liberals have spoken for a long time about a stability fund. When we have a year like this where we had so much unexpected revenue, I'd like to know why the government didn't consider using this unexpected revenue for a stability fund.

MRS. NELSON: Well, our focus has been, through the Fiscal Responsibility Act, to balance our budget, pay off our debt, and then move into a different arena. By paying off the debt faster, we free up the cost of the interest expense on the debt. Up through this fiscal year over a billion dollars of interest expense has been removed from the books forever. That's freed up to go into core programs for the long term. That's been a priority of ours, and quite frankly – I have to be honest with you – just from the reports on the federal government that have come out of the federal Auditor General's office this last week, we need to be doing that in Canada. We need to be focusing on a fiscal plan that deals with the fiscal realities of our country. I believe that there's no point in shooting barbs across the bow on this, but as Canadians we need to co-operate to make sure that in fact we stay on that path. We're now in a situation in Canada where there are only two have provinces. When we started this process, there were seven. There are now only two have provinces in this country, and to not focus on that path I think would be wrong, Laurie.

Now, once the debt is gone, Greg has been working through the Future Summit process as to what the province – that's the next stage out. He's looking at, as he alluded to earlier, what an investment framework and a revenue framework will look like for the longer term so that we can look at different instruments and vehicles to provide for us a more level basis so that we can have better forecasting as to where we're going to be.

I've looked at stability funds over the years. I know some of the players quite well. I think you have to be careful how you frame it. Greg's working on a structure right now that combines a lot of elements, and I think we should let that evolve. He'll come back to us with that framework when he brings some of his

recommendations from the Future Summit, but also we're going to see what comes out of the Financial Management Commission and carry it forward. We're not going to jump at something just because somebody else did it and the name is out there. That's not the reason to do it. Let's focus on the path we're on, stay the course, and then move to the next arena.

Greg, you might want to comment on what the future looks like.

MR. MELCHIN: As Minister Nelson mentioned, we are actively working on that kind of an issue with regard to an investment framework for the province, but the best stability that we can bring – and it has been not just the government's but Albertans' priorities, when overwhelmingly you get that answer back – is to pay off the debt. That will bring greater stability to the financial situation of the province than anything else we could do. It is the longest and greatest annual savings of lost interest, and we're not beholden, then, to the bondholders and so forth. So as a financial position debt free is a tremendous stability for the province.

MS BLAKEMAN: My supplemental. I question whether the budget practices have created stability for the government. It most definitely has created havoc for anyone that is receiving government. I'm not debating against choices that were made in this fiscal year to use some of this unexpected revenue to pay down the debt, but, you know, you've legislated yourself into 25 percent that's left to do other things with it. What we have now is a second set of budgets, a repeated onetime only funding situation, which has now become an expectation from those groups, yet it's not a useful way to run something. If I can't get enough money to run my nonprofit or my department in the first place and then I get money dumped in at the end, after a while I start to expect the money to be dumped in at the end. So we have a budgeting practice that creates havoc, I think, rather than stability.

There's a question in here somewhere too. I guess I'm building on the questions that were raised by the Member for Edmonton-Highlands. Why is there such a consistent and large variation that is creating these huge surpluses at the end of the year, when we then get into this appropriation and supplementary supply and repeated onetime funding injections? It's not stable. It's havoc.

MRS. NELSON: Well, Laurie, I don't like to use the word "surplus," because I don't believe you can have surplus when you have debt. You can have additional operating cash flow in a given year, and you can decide what to do with that. Under our Fiscal Responsibility Act we're quite clear: 75 percent of that additional operating cash flow goes to clear off debt. I think that's the commitment that is very important for government, to keep our feet to the fire to focus on that commitment.

Insofar as onetime funding, you're right. Expectations get raised, and of course in the years when there's unprecedented revenue, expectations get raised really high, and then the comedown is very difficult.

You know, when people compare budgeting, last year and this year should be easier than '93. Well, it's much tougher because you're coming from an all-time record high of revenues and bringing people down to a more normal level. What we're experiencing right now is still higher than normal revenue bases for our resource industry, yet we're feeling the ouch. About \$20 billion of revenue coming to a province of 3 million people is an awful lot of money. It flows through, and surely we can operate with \$20 billion of revenue coming through for 3 million people. Surely to goodness we can do that. Now, we may not get everything we want, but when in life do you?



So setting priorities and balancing become fundamentally important. That's the process of the budgeting process through the priority setting and the core programs. I read off in my comments, "People, prosperity, and preservation." Those are the three Ps of a government setting core programs. You have to state that.

In the Finance ministry and in the Revenue ministry we get beat up all the time as to why can't there be more, more, more. Well, the gimme, gimme, gimme isn't there. Priority setting becomes key, so we have to stay focused. It's easy to criticize that there isn't enough for this or that or the other thing. I wish there was, but there isn't.

It's a long answer, but I think it's important, Mr. Chairman.

THE CHAIR: Thank you.

Mr. Broda, followed by Dr. Taft.

MR. BRODA: Thank you, Chair. Looking at the Auditor's annual report, on page 236 I'm looking at the lack of communication. There seems to be three types of problems in that there is "the timing of draft submissions," also "communication and timing . . . within the Board itself," and lastly, communication and timing problems between individual entities and audit staff. What have we done with this particular end of it? Is communication an ongoing issue, or are we not addressing it the right way?

9:40

MRS. NELSON: You're looking at page 236?

MR. BRODA: Yeah, 236. Is that the wrong department? Sorry; I'm looking at the wrong one. It's Resource Development. I thought it would apply to accounting, though, because it does have accountability. Who should be accountable for all these entities?

MRS. NELSON: Well, there is a co-ordination between the staff in all the ministries and through our two ministries. They all have direct links, quite frankly, with the Auditor General's staff and work with them. There is a lag, and this is Resource Development.

MR. BRODA: Yeah. I'm sorry. It is. I worked ahead.

MRS. NELSON: You know, there is a direct communication. I can tell you that we certainly encourage that to be one that is very close. It helps everyone, especially Resource Development.

MR. BRODA: Okay. Sorry about that.

MRS. NELSON: That's okay.

MR. BRODA: I thought that if the accounting is not coming in properly, then there may be an issue within your department.

MRS. NELSON: Oh, there's a big issue if it isn't coming in properly. I can tell you this guy goes nuts.

MR. BRODA: All righty. Thanks. No supplemental.

THE CHAIR: Okay. Thank you, Mr. Broda.

Dr. Taft, followed by Mr. Cao, please.

DR. TAFT: Thanks, Mr. Chairman. I am going to go in a related but a slightly different direction from the questions that have come out on concerns of the big swings in revenue and budget and spending and so on, and that has to do with the whole budgeting process. Just reflecting back, there was a time years ago when the annual budget

was a major event. There was very careful secrecy around it. There were, where it was possible, some real controls on the annual expenditure plans. I remember a time in the government where if you were more than 2 percent out at the end of the year, you were looking at a career move.

We're now in a situation where every three months the budget is opened for adjustments. We're in a situation where there are a series of leaks and enormous signals leading up to the budget being released, the kinds of leaks that at some earlier day might have caused a person to lose their job. We're also in a situation where for committees like this one it becomes very difficult to follow really what the budget is. By the third quarter, when there may have been two or three adjustments to expenditures, it's tough to follow. So I have profound concerns that your government's budgeting process is inadequate. It's deeply flawed. I'm wondering what your responses are and how comfortable you are with the current process.

MRS. NELSON: I can appreciate, Kevin, why you would have that concern. Your background and my background are totally different. When we made the decision to change how government reported back to Albertans on the budget process and the budgeting, we said: why would we deal in a world that says that a budget is struck in February or March or even April and that's it come hell or high water until the next year? So, in essence, you have departments and ministries living to the budget instead of reality. So we said: why don't we look and see what happens in the real world? You put your budget forward and that's all it is: the best assessment and assumption that you have at the time. Then you update Albertans on a quarterly basis and say: we believe that there are new fundamentals that have entered into this, new assumptions, some reality out there that has said that this has changed dramatically here, here, and here. We actually try to live to a more real situation of where we can show adjustments through the year.

I think that in the past – and this isn't a slam – governments and departments lived and when you got close to the end of March, if you had so many dollars in your budget, you ran off and spent it because you might not get it next year if you didn't spend it all. We encourage people to lapse dollars and receive performance measures and to work with us on seeking goals within our budget. That's why we do three-year plans. That's why we report on a quarterly basis. We think it's a more open and up-front process. I would be very much opposed to going back to the old ways of setting the budget in February and that was it no matter what in the world happened out there. I think the quarterly process is very good. We are the only government in Canada, I believe, that does this, but I think it's a more real process. I would very much oppose any group today or in the future going back to the old way. That just wasn't dealing with a full deck; I've got to be honest with you.

THE CHAIR: Thank you.

Dr. Taft.

DR. TAFT: Thanks. I'll come back to that in a moment. I actually wanted to begin just commenting on an earlier reaction you had to somebody else's question, which was – I think I'm quoting you – that there's no surplus. You don't believe there is any surplus while there is a debt. That's like a corporation saying: well, there's no profit while we're in debt. I don't think it holds up.

I am concerned that the budgeting process is fundamentally sloppy, and you haven't talked me out of that. I am concerned, for example, that we are debating the departments' budgets – and I'll use Health as an example, because I'm the critic. We've approved that budget, but the business plans from the RHAs, which spend

two-thirds of that, aren't even submitted to the department. The RHAs, whose fiscal year began . . .

THE CHAIR: Dr. Taft, excuse me, please. Question, please. There are other hon. members waiting. And direct the question to the fiscal year which we are discussing.

DR. TAFT: The same concerns apply in this fiscal year. Are you saying, then, that you're fully satisfied with the budgeting process?

MRS. NELSON: I think you can always improve and you can always assess where you're going with your budget process. It would be unfair to say that I'm fully satisfied. I'd like to be able to have improvement, and I think we have improved this year. This year we did a tremendous amount of background work on ministries, that we had never done before, and I think it's always good to reassess and go back in and spend the time to detail what's with ministries, what's inside the ministries, what kind of core programs there are, and to look at some analysis of the programs. Are they really doing it? The thing that will be fundamentally important this year is the announcement in the Speech from the Throne and again in the budget speech of the Financial Review Commission to look at the policies that we have in place. Are they appropriate today like they were before, or are they out of sync? Do they need to be changed? A personal question I've asked them to look at in particular is how we report capital. It's always amazed me that governments tend to always assume that they don't build asset bases, and I think that leads into one of the questions that the Auditor General has raised a number of times, so I've asked this commission to look at how we report capital.

I made my comment, but I want to clarify something, Mr. Chairman, if I might, because of your preamble. When I say that we don't have a surplus when we have debt, I think we have to focus on that. My personal feeling is that interest expense for debt servicing is a dead cost. It provides no benefit for anyone. So focusing on getting rid of that debt-servicing cost and using those dollars for core programs is a huge benefit for everybody in the long term.

Now, staying focused on that, Kevin, is I think a really important aspect. A really important aspect. I'd hate to see us divert off that. You know, this year was very difficult for us on debt retirement, and it will likely be the same next year unless there's a huge swing in revenues. We're going to be in debt for a while, and I think we have to focus on it.

9:50

THE CHAIR: Thank you, Madam Minister.

Mr. Cao, followed by Mr. Mason, time permitting.

MR. CAO: Thank you, Mr. Chair. To one of the ministers. In the Auditor General's report, page 256, about the Alberta Treasury Branches, and on page 258, recommendation 49, it says, "Strengthening internal controls." The Auditor General recommended:

We again recommend internal controls be improved and that all internal controls be documented, evaluated and monitored by management to ensure assets are properly protected and that financial information is accurate and complete.

Now, with the ATBs it was very good news that the loans net has increased to \$9.5 billion and the deposits grew to \$10.9 billion. Seeing that need for strengthening internal controls, I would like to have an understanding of what the department has.

MRS. NELSON: Well, as you know, there's been a massive change over the last few years with the management and the internal

reshaping of ATB, and they've been very successful in the reshaping of the structure there and pulling together. In their annual report they do talk about operation risk management. They do talk about risk associated with processes, technology, and the people there. Their senior management this past year has initiated and completed the following to address some of the risk. They've dedicated a risk management area. They've put a controls project committee in place to look at internal controls. A review was done by an independent accounting firm to look at the systems controls to make sure that they were in place, particularly with an outsourced cheque-processing firm. They had a comprehensive review of all issues, procedures, and policies on the internal and external resources. So I think they're addressing this and they're moving forward. They've got a very good management team there, and I think they're addressing the problems that have been raised.

MR. CAO: Thank you. My supplement to the Auditor General's staff is regarding the budgeting process. When I look at the Treasury report here – it's an idea only. Do we have any view on the budgeting process of the government? Does the Auditor General have some comment or a suggestion of improvement or anything on that sort of idea?

MR. HUG: Well, in terms of the year that we're looking at here and specifically the Auditor General's annual report, we did not do any review of the budgetary process in this year; therefore, we have no comments in our annual report. I don't think it would be appropriate just to comment generally on the budgeting process. Obviously, when we look at things, we are concerned about the systems and the processes that management has put in place to manage a particular activity, and we have not looked at those systems, so it would not be appropriate for me to comment.

MR. CAO: Thank you.

THE CHAIR: Mr. Mason, please.

MR. MASON: Thank you very much, Mr. Chairman. I want to come back to the question of volatility from year to year of the resource revenues in particular and the minister's comment that we can't make funding for special programs dependent on ups and downs in the resource revenue. I'd like to ask the minister if it's not already the case that government programs are going up and down because we are overly dependent on resource revenues. I see on page 3 of the same report I cited earlier that there's been a significant reduction in the tax revenue. The total personal income tax since 1998 has been reduced by \$1.5 billion, or 23 percent, and a little further along "the government has introduced a schedule of tax reductions that will save business \$1 billion by 2004-05," including cutting the general corporate income tax rate from 15 and a half to 8 percent. We saw earlier that preventative children's programs were cut because of concern about lower than expected revenues. You've referred to that already, Madam Minister. My question is: have we not become already far too dependent on volatile energy commodity prices for government revenue, and are our social programs not already being destabilized by the situation which has been caused by the government's program of tax reduction?

MRS. NELSON: When you refer to page 3 of the annual report the hon. member is talking about, the \$1.1 billion is a tax reduction to Albertans, leaving \$1.1 billion in their pockets, letting them decide what they wish to do with their money as opposed to the

government. On the business tax side remember that the Business Tax Review Committee recommended that we maintain a healthy tax environment in this province, and clearly we initiated an introduction of business corporate tax reductions last year, and if I might, Mr. Chair, this year we weren't able to proceed with the full tax reduction because of reality. Although it was a difficult decision, we had to make choices, so we weren't able to carry the second stage through at this point. That doesn't mean that it's off the table. It's just deferred until things change or there's a shift.

Revenue volatility. You're right. Since '92-93 in resource revenue we've gone from a total of \$11.8 billion all the way up to \$23.7 billion in 2000-2001. That includes all of our revenue. That's our personal tax and income tax, et cetera. So all of our revenue base has gone from \$11.8 billion in '92-93 to \$23.7 billion in 2000-2001. Now, that does include our federal transfer. So anybody doing the adding and subtracting, don't get excited there. But the base revenue coming directly from the development in the province was more than doubled in that time frame. Then it comes back down. So the volatility is in fact there, and you have to make sure that you deal with core programs in a responsible fashion.

Now, the hon. member made an assertion that we had actually pulled back in that year. You know, our health spending in the particular year we're dealing with increased 11.6 percent. When you look at the growth within the province, it was running roughly at around 4 and a half to 5 percent, maybe a little bit higher than 5 percent, and you have to have a balance somewhere. You can't have that continue to grow.

When you look at health expenditures, as an example – I think I have health here. Let me go back. This year we were forecast to go up to \$5.9 billion from \$4.1 billion and in '94-95, from \$3.9 billion. Well, there has to be something to sustain that cost. Now, we all want that health system in place, but somewhere along the line we have to determine how much we can afford to put into it, and those are tough calls. When you sit on the opposition side, you don't have to make those, but when you sit on the government side, you have to make the call.

So allocating out is very difficult, hon. member, and it's not something that you do lightly. You have to focus on and you have to make sure that the revenue base that you're forecasting will in fact see that those core programs are in fact delivered. The other things, they have to go over on to the other side.

**10:00**

THE CHAIR: Thank you, Madam Minister.

In light of the hour I'm afraid we do not have time for any more questions.

MR. MASON: Mr. Chairman, if I may. Normally we on the opposition side, being a smaller cycle, get at least three or four questions. I realize we've reached the end of the time, but today I've only got one and a half questions. I'd like to move that we invite the ministers back and that we have another meeting, as it is public accounts, with the Finance and Revenue ministers. So I would move that

the chairman arrange a meeting to the satisfaction of the ministers and members of the committee so that we can have a second opportunity to discuss these very interesting points with both ministers.

THE CHAIR: Thank you, Mr. Mason. The chair is at the direction of the committee. Would you like to propose a motion?

MR. MASON: I think I did. It was intended as a motion.

THE CHAIR: Okay. It was intended as a motion. Mr. Mason has provided us with a motion to invite back both the Minister of Finance and the Minister of Revenue to the Public Accounts Committee . . .

MR. MASON: At a time to be determined by the chair.

THE CHAIR: . . . at a time to be determined by the chair. All those in favour of the motion, please raise your hands. All those opposed to the motion? The motion is defeated. Thank you.

Mr. Mason, it's unusual for Public Accounts to have two ministers before it. I am noting your frustration with the lack questions that were asked, and there was an hon. member here who had his name on the list and did not get a question.

DR. TAFT: Who would that be?

THE CHAIR: Mr. Cenaiko.

DR. TAFT: Why didn't he vote to invite them back? Maybe we should just have opposition questions in this committee.

THE CHAIR: Well, that is to be determined, Dr. Taft.

Now, I would like to thank on behalf of all members of the committee the Minister of Finance and the Minister of Revenue and their staff for their co-operation in arranging the meeting this morning with the clerk. I would like to thank Mr. Hug from the Auditor General's office and his capable staff as well.

I would like to now call for a motion of adjournment, but before doing so, I'd remind you that our next meeting is next Wednesday, April 24, and the Hon. Dr. Lyle Oberg, Minister of Learning, will be present.

HON. MEMBERS: So moved.

THE CHAIR: So moved. Thank you very much.

[The committee adjourned at 10:05 a.m.]

