

Title: Wednesday, March 16, 2005 Public Accounts Committee

Date: 05/03/16

Time: 8:30 a.m.

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this meeting to order, please. This is the Standing Committee on Public Accounts. Certainly, on behalf of all members of the committee I would like to welcome, again, Mr. Dunn and his staff. We will certainly get to his report in a few minutes.

I would like to note that the agenda packages were sent out on Monday, March 14, including a number of responses from the Auditor General. I would also like to advise members that they should have received from the Minister of Finance the government of Alberta's responses to the numbered recommendations contained in the Auditor General's 2003-2004 annual report, and the clerk, Karen Sawchuk, this morning has extra copies if any one requires the document. Karen has agreed to work as committee clerk with us this morning because Corinne Dacyshyn is working with another committee who is meeting at the same time.

Now, if I could perhaps start with the vice-chair, and we'll quickly go around the table and introduce ourselves.

[The following members introduced themselves: Ms Blakeman, Mr. Bonko, Mr. Chase, Mr. Eggen, Mr. Griffiths, Mr. Johnston, Mr. Lindsay, Mr. MacDonald, Dr. Morton, Mr. Oberle, Mr. Prins, Mr. Rogers, Mr. VanderBurg, and Mr. Webber]

[The following staff of the Auditor General's office introduced themselves: Mr. Dunn, Mr. Hoffman, Mr. Hug, Ms White, and Mr. Wylie]

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: May I have approval of the agenda that was circulated, please. Thank you, Mr. Lindsay. Moved by Mr. Lindsay that the agenda for the March 16, 2005, meeting be approved as distributed. All in favour?

Hon. Members: Aye.

The Chair: Opposed? Seeing none. Thank you.

Now, we're going to formally welcome Mr. Dunn. Before we hear from Mr. Dunn, I would remind members that we are building a list of members who would like to ask questions. You have the opportunity to ask two questions. We usually start – it has been a tradition – with the opposition, then it rotates to a government member, back to an opposition member. Those who wish to ask a question, please let the chair know. Thank you.

Mr. Dunn.

Mr. Dunn: Thank you. At the last meeting the chair mentioned that you should bring your public accounts with you. Hopefully everybody has had a chance to bring their public accounts with them. I'm noticing one grimace here.

I thought I would briefly, within five minutes, just quickly highlight the public accounts, and then I'll move right over into our annual report. As mentioned at the last meeting, the public accounts can be tabled before this committee, but in the past they have rarely, if ever, been discussed at this committee. What I thought I would do, if you do have them in front of you, is just quickly orient you to the public accounts and then relate a couple of accounting changes that were done last year.

We have some spare ones here if people need another copy to

share. Okay. If everybody has a copy or if they could share a copy with others.

This is the consolidated financial statements for the province of Alberta, which is comprised of three sections. The first section, known in corporate language as a management discussion analysis, known in public sector terminology as a financial statement discussion analysis, highlights the issues that were important to Alberta and the results that were achieved in the last year. It goes through in a summary form the various components of revenues, expenses, capital expenditure, with some commentary around performance measures that were important at that time to be measured and reported on. That section provides a quick overview for anybody who wanted to read what you'd call the executive summary for the province of Alberta.

The final schedule in that section gives you a 19-year history of the statement of revenue and expenses and where the province has come from and where the province is now in its annual expenditures. That's probably the fastest way for you to get up to speed as to issues that are important in a number of the ministries and departments in the province of Alberta.

The next section is the audited financial statements. I'm only going to spend a brief moment on the audited financial statements and mention a couple of changes that took place last year. If you look at page 20 of your public accounts, you've got your consolidated revenues and expenses by function and by category there for the revenue. That's a traditional display of how it's always been presented. It's with a comparison to the prior year, which is restated because of a change in accounting policies that were adopted last year, so the prior year, 2003, compared with the actual 2004, the budget of 2004.

The balance sheet, which is page 21, has the biggest change on it. If you're at page 21, you'll note that this balance sheet is broken down between financial assets, all those that are liquid assets that can be exchanged to make payments, and you'll see all the financial assets less the liabilities coming to a subcategory, net financial assets. This follows a reporting model that was accepted in Canada last year, and all of the public sector are now reporting on the same format. However, Alberta is the only province that has net financial assets. Everybody else has net financial debt. This is known as the financial debt model. So where you see that subheading of \$10,548,000, Alberta is different than every other province, which would normally have a significant number there showing the net financial debt in excess of its financial assets.

The other big change that took place was the inclusion of capital assets, which are your nonfinancial assets, tangible capital assets and inventories. Those aggregate also \$10 and a half billion. So if you're trying to equate to a corporate model and you're looking for owners' equity or net retained earnings, you'd look at net assets, and at that time, at the end of March 2004, it was \$21 billion. Including the capital assets on the balance sheet resulted in including depreciation in the expenses by function, so we have both the expenditure of the capital assets, which you'll be seeing on page 23, the statement of cash flows, which show the amount of the acquisition of capital assets, but you also will have the depreciation of those capital assets as a noncash item.

Supporting the financial statements are the notes and schedules to the accounts, which give you further detail on the various components. I'm not sure if you've had a chance in your time to have read these financial statements, but if you have any questions on these financial statements, I'd be willing to take them at this point before I go on to this second section in this report called Measuring Up. Are there any questions around the composition of the financial statements?

The Chair: Mr. Chase.

Mr. Chase: Yes. When you take into account depreciation of assets, do you include, for example, the aging of the four planes that the government owns?

Mr. Dunn: All tangible capital assets are depreciated over their economic life.

Mr. Chase: Thank you.

Mr. Dunn: Any other questions?

The Chair: There are no other questions at this time. Please proceed, Mr. Dunn.

Mr. Dunn: Okay.

If you turn to the last section, it's called Measuring Up. This contains a lot of interprovincial comparisons, nonfinancial indicators, performances, measures against targets that are set. It's made up of three components in Measuring Up. The first component talks about the 12 goals that the province of Alberta had in its '03-06 business plan. Each of those goals is highlighted in the upper left-hand corner. Then you'll have criteria by which the accomplishment towards the goals are reported, graphically or in tables, as to the achievement against those goals. Those are the goals that are laid out in the business plan. So Alberta prepares a three-year business plan. It has goals within that business plan. It then identifies targets to the achievement of those goals and then measures to show the achievement towards the target.

8:40

Again, Alberta is quite far ahead in public reporting. As it says in the introduction to this section, this is the 10th year that this has been reported on.

After the first 12 goals – you'll see on page 93 for those of you who have the report – page 93 is an attempt in this schedule to match the resources that are consumed by the public sector against each of the 12 goals. It is a difficult task to do for any reporting entity and especially public sectors to try to relate the amount of public resources consumed towards the achievement of its goals. In this case it is laid out by the various ministries as to how they have spent their resources against each of the 12 goals.

In addition to the 12 goals, on unnumbered page 95 there's something called cross-ministry initiatives, and something that you'll hear as MLAs as you'll debate this are various initiatives that will spring across a multitude of various ministries. The first one is the aboriginal policy initiative, and then there are other initiatives that are contained in here: the health sustainability initiative, the economic development strategy. So in addition to the business plan 12 goals that are reported against, the cross-ministry initiatives are also reported.

The final section of this report, starting at about page 115. For those of you who took economics and statistics, this gives you the methodology which has been used in order to compile the information to provide the evidence towards the achievement of those goals.

The Chair: Ms Blakeman.

Ms Blakeman: Thank you. If I can just back up to the Measuring Up section. I'm looking for the Auditor General to comment on whether there has been improvement or movement in this area. One of my long-standing concerns has been that the performance

measurements are changed so often, altered, dropped – they're basically an opinion poll of satisfaction – that over the 10-year span I'm not sure that we've continued to move this ahead. So what's your take on this? Do you think we've continued to target specifically, or is there still work to be done here?

Mr. Dunn: As I've mentioned, Ms Blakeman, this is a very complicated area, to find the right measure that you can report against the target towards achievement of goals. First and foremost, the three-year business plan is changed, and within the three-year business plan will come new goals, which will result in new measures and new targets. You're also correct. Each of the ministries that support this, the infrastructure that builds up this information, also develops new targets and goals each year. We have in the past through our annual report commented on occasion when we felt the ministries had not remained as stable as we felt that they could have on the selection of their goals.

What we challenge them on is to spend a lot of time up front. When you have a new target or measure, make sure you do your homework that you can gather the appropriate evidence to report against that measure on a recurring and regular basis.

A one-off report against one goal isn't as useful as a trend analysis, and that's why we support, I think, what you are indicating. It's better to have more consistency in the measures and the targets so you can determine the trends. With that said, the departments do work very hard at trying to come up with good measures and good evidence, and they can sometimes find better sources of evidence as they go along, and not all of it is just surveys. A lot of it will come from other publicly available data sources, Statistics Canada, this type of thing. Clearly, those things are updated on a periodic basis.

Maybe I'll turn briefly to Ken Hoffman. Ken has spent a fair amount of time in the whole area of performance reporting. You were part of the task force that developed performance reporting standards in Canada. Maybe you can give a bit of an ever-so-brief comment around how this has progressed over the past decade.

Mr. Hoffman: Yeah. I have been involved with it since its inception. One significant change that occurred this year, which I thought was an important step forward, is where they're now starting to include the dollars spent in an area under the goals. So now you're starting to bring the dollars and the results together, and I think that's a major step forward. That's, in a way, the one big challenge that remains in this whole topic area.

With respect to the changes that went into Measuring Up this year, the government had the Financial Management Commission report a couple of years ago, and it recommended going to more strategic planning and a number of changes, so the business plan that came out last year that was reported on – am I getting this right? I might be getting my years around. There are certain changes that flowed from that, so they're trying to update it to reflect the recommendations of that committee. So there are some significant changes starting, I think, with this Measuring Up and certainly in the one they're going to develop for the last year's business plan. So you're going to see a lot of change happening right away, but that's in response to that Financial Management Commission. The idea of a 20-year strategic plan and those of kinds of things that were published last year are probably quite good.

There is a lack of stability in the measures. Surveys have purposes, and some places probably put too much emphasis on the surveys, but it's not like a survey is something you shouldn't do, yet there might be better measures as well. It's a real challenge to get the proper measurement in. So it's still a work in progress after 10 years, and it's a work in progress everywhere else where it's been around for 10 years as well. That's not unusual.

Mr. Dunn: Anyway, the purpose of this was to briefly overview the consolidated financial statements, the type of reporting that is provided to the public at large, and I've been quoted in the media as congratulating the province of Alberta as being progressive in this area on its adoption of generally accepted accounting principles, its adherence to those principles as well as its nonfinancial performance reporting.

Underneath the province of Alberta comes each of the ministry financial statements and annual reports, and that's what will come forward to you at each of these meetings. In there you'll see that ministry's performance report, that ministry's financial statements, and any of its affiliated or subsidiary agencies, boards, commissions are also reported within its annual report. That then becomes the topic of each of these meetings.

If there are no further questions, I'll then move to our annual report.

The Chair: Mr. VanderBurg has one question.

Mr. VanderBurg: Mr. Dunn, you talked about the public at large. How many public at large would call you during any year and ask you questions about this?

Mr. Dunn: Okay. In the back of this report is also a survey which talks about: how did you find the details? So on the very back page you'll see a readership survey. I think that question is probably better directed to the Ministry of Finance when they appear here, and they'll tell you how many readership questions come in and the hits that they have. We get the occasional comment, but we're not the primary source as being the auditors. It will be the department that prepares this. The Department of Finance that prepares it and issues it is the primary recipient of any of those calls.

The Chair: Thank you.

Mr. Eggen, do you have a question?

Mr. Eggen: Yes, I have a question for the chair. You had mentioned that during the course of the meeting we have two questions we can ask. Is that during the entire length of the time of the meeting?

The Chair: Oh, no. You will have a question and then a supplementary question, and then it will go on to the next member, and then it rotates between government members, opposition members. Hopefully, you will have an opportunity, each member, to ask two, perhaps three questions depending upon the attendance at the meeting and how brief the preambles are.

Mr. Eggen: Okay. So it's a question of rotation rather than just an absolute limit of two questions.

The Chair: Absolutely. I apologize if you misunderstood me.

Mr. Eggen: It's okay.

The Chair: We should keep our preambles very brief so that each member who is interested gets as much opportunity as possible to ask questions.

Please proceed, Mr. Dunn, with your annual report.

Mr. Dunn: I'm going now to the large annual report, and you may have it in a binder that was provided to you. This is the annual report that relates to the fiscal year ended March 31, 2004. As the

chair had mentioned to you, under the date of March 8, 2005, the Deputy Premier and Minister of Finance reported to the chair and this committee the government's official response to our numbered recommendations. In the construction of our report we provide an introduction overview of what is contained in the report. We then provide a summary of all the recommendations we make. Starting on page 17 we have a tabular listing, and a summary of all the recommendations we have made.

8:50

We have now three categories of recommendations. Ones that we have highlighted in yellow, which we have called key recommendations – and those are the recommendations I focused on in my media meeting, and you've received copies of the slides and the commentary I provided to the media on the release of this report – we feel are the most critical that the government must pay attention to and must react to, and we would expect that this committee will also inquire of during the course of those ministries that come to this meeting.

We also then number a number of recommendations. It's those key recommendations and numbered recommendations that the government officially responds to. The government has done this for a number of years, and then they actually publish their response to the Auditor General's report in the annual budget, which is tabled in the House normally in the early part of the springtime. So the last section in the annual budget, when you get it, will have that official response written to you as the government's response to our critical recommendations.

We also have a number of unnumbered recommendations. We believe that they're all important, and we follow up each and every one and report on their status back in our succeeding annual reports, which are tabled with you.

In this year there was one additional recommendation the government chose to respond to which it did not officially have to – and it's on the last part of the recommendations; they have called it the accountability recommendation – called contracting for consulting services. They chose to make an official response public through to your committee, although we had not numbered that recommendation, but it is contained in here in the Health ministry.

Following the listing of our recommendations, we start out, and the first section is Cross-Ministry, and following the cross-ministry, we have one called the Government of Alberta Annual Report. All I'm going to do is touch ever so briefly on that part – that's page 43 – because that relates to the financial statements that we just quickly highlight.

This is a summary of all the findings and the reports that we've given on the various ministries, departments, boards, agencies, commissions. As I mentioned, our office audits every aspect of the Crown public sector. We probably have somewhere in the neighbourhood of 220, 250 organizations that we are responsible for auditing. We report in this section that there is one outstanding accounting principle that has to be adopted by the province of Alberta, and we were expecting that it will be adopted in the year 2006-07. That is on the consolidation of what's called the SUCH sector. School boards, universities, colleges, and hospitals are also now to be included in the province of Alberta's annual financial statements. The financial statements I just reviewed with you have all the ministries, departments, boards, Crown corps, but they do not include the universities, colleges, hospitals, and school boards.

The province of British Columbia has leapt forward and has consolidated them this current year, and their consolidated financial statements are really seen as the premier set of statements now in Canada. Alberta's response to our recommendation is that they will adopt that requirement in their budget year '06-07, being the fiscal

year ending March 31, 2007. However, each of those underlying organizations are audited. As a question was raised by Reverend Abbott last time, we do not audit the school boards, but each of the school boards is audited, and we report on the results of those audits within this report. However, we do audit six of the nine of the RHAs. All of the colleges and all of the universities are audited. So the data will be available when the government decides to do the consolidation.

That is really the highlight of the audit and accounting recommendations. I'll stop again to see if there are any questions on that one section there, which is the government of Alberta's annual report.

The Chair: Mr. Rogers.

Mr. Rogers: Thank you, Mr. Chairman. A question through to Mr. Dunn. Mr. Dunn, when you explain that you audit, for example, six of the nine RHAs, are you reviewing their audited statements, or are you performing some tests within their system or a combination of both?

Mr. Dunn: We do the full-scope audit. So we do the audit all the way through: all the testing, review of their internal controls, and the integrity of their financial reporting. It's a full-scope, unlimited audit.

At our own decision we complete systems auditing within those organizations also, and any of those results are always reported through this report through to you.

Mr. Rogers: Thank you. That's comforting.

Mr. Dunn: No further questions?

Then I'll start in the first section on cross-ministry and our first numbered recommendation. I'm going to turn that over very quickly to you, Ronda. This was an area that we felt was important because the government had highlighted succession management as a critical issue in the performance of the public sector. We report in here that a substantial majority of the public sector will reach retirement age by the year 2008, and our challenge in this recommendation was for, well, first of all, the PAO, personnel administration office, and the departments to be able to demonstrate that they have a succession management system in place to replace the senior officers within the public sector.

Ronda, maybe you can give a bit of a summary of this.

Ms White: Sure. We looked at the succession management systems that PAO has in place as well as the departments. Really, we found they had systems in place, but the departments needed some help from the corporate level in developing strategies to meet their needs in addressing critical or vulnerable roles that they have and also measuring whether they're actually achieving their goals. We also found that they needed some further assistance in providing developmental opportunities for their staff across the government. So those are the two areas we found there could be some help with.

Mr. Dunn: As highlighted, this is one of the key recommendations that we expect the government to react to, and their response has indicated that they have accepted this and that they are going to be providing additional guidance and support to accomplish that recommendation.

Any further questions?

Dr. Morton: Mr. Dunn, when you say that the government has responded that they're going to accept and work on that recommen-

ation, who specifically in the government makes that response, or what agency or what office?

Mr. Dunn: These responses here, although they come under the Minister of Finance, really represent Executive Council. In this case, when we discussed that recommendation, we went through Executive Council, so that was Executive Council's acceptance of that recommendation.

The Chair: Mr. Dunn, Reverend Abbott has a question, please.

Rev. Abbott: Thank you. Yes. I have a question with regard to the succession management. Of all the different recommendations this is the one that I might question, I guess, as far as getting value for money and the necessity of it. Is it something that you feel is absolutely necessary given the fact that, you know, we do promote from within and we do sort of have people at all different levels that can move up? You mentioned this was a corporate strategy, and I'm just wondering what the background to this is and where the idea came from and, like I said, if there's value for money in this.

Mr. Dunn: Indeed. You've hit the nail on the head. We thought that this was very valuable because if you don't have in place the successors who will lead the organization, the organization in a short period of time could suffer from that lack of leadership and lack of guidance and continuity.

So that's why we chose to look at it this year. We saw through the demographics that potentially there is going to be a substantial change within the public sector. Starting before that wave hit is to say: what systems do you have in place to, first of all, identify those who will be retiring and those who potentially could replace them, but more importantly can you provide training and ongoing counselling for those individuals?

So we felt that it was important to get that recommendation out before the problem of the demographics came into play. That's why chose to look at it at this time.

9:00

The Chair: Thank you.

Miss Blakeman, did you have . . .

Ms Blakeman: Yes, on this one. In the report it also points out that in some cases line employees lacked clear direction around this succession planning. I'm wondering if you could elaborate on what you're alluding to here and maybe give us some specific examples or detail some of the frustrations that were being experienced.

Maybe if I can reference a current one. Part of the criticism I've heard is about the ambulance transfer, for example. The miscommunication that happened there was that there were very few people in the Department of Health and Wellness that, in fact, have any background in health and wellness, so how are they supposed to understand that what was being proposed may not be implementable? That's part of succession planning: are you looking for people that are trained in that background and looking to move them into those positions? Am I right?

Mr. Dunn: That's correct. The province of Alberta is no different than any other large corporate entity. Yeah, you've got the potential of the retirement of the baby boom group, and one of the biggest difficulties to overcome is that corporate amnesia, that you lose continuity with the critical issues.

The department of health, the one that you identified there, has undergone a fair amount of change over the last three to five years.

There's been a lot of change at their senior level, and indeed this year there is a new deputy minister. I think that's the third deputy minister. Certainly in the time that I've been here, it's the third deputy minister of health.

Ms Blakeman: And you've been here how long?

Mr. Dunn: Two and a half years.

Ms Blakeman: Ah.

Mr. Dunn: That has changed.

That's why we looked at the importance of that continuity of knowledge, so that you can train people around the critical issues and move ahead. Okay?

The Chair: Thank you, Mr. Dunn.

Perhaps if you could proceed. One more member has indicated that they have a question at this time, but perhaps after this member's question you could proceed with the wrap-up of your opening remarks. Then we could get to direct questions from the members.

Please proceed.

Mr. Prins: Thanks. Mr. Dunn, is this also a problem maybe of competition in the marketplace to get the right people in the jobs? Are we paying enough money to our people to attract the potential candidates for these jobs?

Mr. Dunn: I won't comment on the salary scales, but certainly it is a result of competition in the marketplace, yes. Right now the large organizations are also hiring people, and indeed the public sector of Alberta does train some very good people, and they are being attracted out of my own office. Yes, we lose people to the private sector quite often.

The Chair: Thank you, Mr. Prins.

And, yes, please. You might as well proceed.

Mr. Rodney: Thank you. Just a really quick comment with respect to you mentioning training really good people. I just wanted to go on record. I am looking forward to seeing the Minister of Health and Wellness here. I know she's scheduled in the not-too-distant future, and I know that there's a fair bit of experience in that ministry that perhaps should not be underestimated. That's all I have to say.

The Chair: Thank you, Mr. Rodney.

Mr. Dunn: The last section I want to review very, very quickly is the one that we chose to put in a separate section called Public Private Partnerships. That starts at page 49, and I mentioned this briefly in my orientation last week. The purpose of putting this whole section together was to try to bring some clarity around the issue of public/private partnerships. This is made up of three sections in this piece here. One, we wanted to give a general review of the public/private partnerships, so the general background – what are they, and how do you define them? – the overall observations specific to Alberta, and then the two public/private partnerships that were under consideration at that time: the Calgary courthouse, which at that time was being considered to be a triple P, and the south Edmonton ring road.

We spent a fair amount of time doing a comparison of what is happening in other jurisdictions not just in Canada but also around

the world. That's why we wrote the section around what common perceptions are and what common misperceptions are, and are they applicable?

Just to remind everyone, it seems like we quite often debate that if it's a public/private partnership, it must involve the financing. What we try to emphasize here is that in the construction of a capital asset, you have really the four main components, which are the design, the build, the financing, and then the last component, which a lot of people don't focus on, the operation or maintenance of the capital asset. It was that latter component which has caused a concern around what's known as deferred maintenance or infrastructure deficit in that we did not maintain the integrity of all those buildings, bridges, et cetera, and therefore we have a very large infrastructure deficit.

What we try to bring out in this piece here is that you must focus on the four components. The design and the build is a typical construction contract, and the province of Alberta does a lot of that right now with the private sector. They have engineering and architectural firms in the private sector that help them on the design. They employ, obviously, a lot of the private-sector construction companies. Alberta doesn't have its own equipment and that to do all their own building.

The third element, financing, is something which a lot of people seem to trip over, but we've got to remember that Alberta is different than all other jurisdictions. That's why I went through the financial statement. When you compare yourself to Nova Scotia or New Brunswick, they are net borrowers. Alberta, as a net investor, has to also look at the economic return on its investments. Therefore, it's not just simply a consideration around the financing, as to whether or not it's a good or bad deal. Finally, at the end of the day, can you maintain the integrity of the serviceability of that asset over its full life?

Thus, we wrote this at some length to try to address those types of questions and, as we said, demystify this area and hopefully try to bring some clarity around what are the issues that should be considered. I think you asked me this last week: did we conclude that it was a valid option for the province of Alberta? Yes, it is a valid option for the province of Alberta. Our main concern at this point is that we may just fall into a traditional mode where we do not consider these alternate financing sources, and then we may end up not producing the most efficient capital construction.

The Chair: Thank you.

Mr. Dunn: Any questions?

The Chair: There are a number of members who have expressed an interest in asking questions, and we'll start with Ms Blakeman.

Ms Blakeman: On this one specifically I think it's Mr. Chase.

Mr. Chase: Yes, Mr. Dunn. I'm very concerned about the P3 process. It's extremely costly. I and a number of municipal leaders consider it a forced rather than a first choice. When the community is given "It'll be a P3 or you won't have a project," they willingly accept the debt over a period of 30 years, frequently, rather than not have the project built. This is the government's justification for the project being built faster by a P3 as though it had some kind of magic.

The government has billions of dollars in surplus. It has a better borrowing rate than private companies, yet it claims that P3s are the way to go. What I'm concerned about is that while you possibly wait for these recommendations that you've made – improve the

definition of a P3, determine key prerequisites, et cetera – we can get ourselves further into debt, hidden debt, because it doesn't show up on the government ledgers. It shows up in private ledgers.

I have yet to see an example from either the Maritimes in Canada . . .

The Chair: Question, please, Mr. Chase.

Mr. Chase: Can you please tighten up your definition of why a P3 has value for money and provide examples?

Mr. Dunn: Okay. First I'm going to address a couple of the matters that you mentioned in there, and hopefully bring some clarity to it.

First of all, it's not hidden debt. The province of Alberta already has P3s. On the financial statements – and a lot of these are lodges, homes, nursing homes, this type of thing – you have both the asset, but you also have the obligation. If you look back at the financial statements that we just went through, on the balance sheet it's called Other Liabilities. I know people have mentioned that it's Enron, and these are the SPEs, the nonconsolidated special purpose entities. No. They're already in there. They're not by way of a funded debt obligation; rather, it's the present value of future payments that are required under the agreement, which are then recorded as a liability.

9:10

Let me assure you that it's going to be our position – and that's the position that we've agreed to so far with Finance – that both the asset and the obligation are recorded on the financial statements at the time that the asset becomes available for use by the province of Alberta. The one small accounting difference is: what do you do with the asset while it's under construction? But that's a simple timing problem, and that's not the essence of it. So it's not a hidden debt issue.

Financing. For those of you who have been involved in financing, you probably recognize that if you have a guaranteed income stream, a 30-year payment under a contractual obligation from a triple-A borrower, the province of Alberta, that is akin to a guaranteed bond. You can borrow against that income stream, and you can obtain financing not very dissimilar to what the province of Alberta would. So many of these consortiums can access international sources without the province of Alberta having to go through any bond issue or anything else. They do all that. They can come up with financing which is really not that much more expensive than the province of Alberta.

The challenge that we put out to them through this recommendation is: are you sure that at the end of the day you get value for money from the construction of the asset? It's primarily the construction of the asset and all costs that go into it: the design, the build, the financing, and the operating and maintenance of that asset. At the end of the day do you get value for money? That's the essence of our recommendation. That's the challenge. Show us value for money regardless of the structure by which you achieve the purchase of that asset.

The Chair: Thank you.

Mr. Chase, do you have a follow-up question, please?

Mr. Chase: Based on the P3 projects that have taken place to date, do you believe that the province has gotten value for money in these projects?

Mr. Dunn: Okay. There was a lot of confusion last year with the Calgary courthouse. It was, quote, going to be a triple P. Then after

a while the financing was taken away, and then the actual operation later on became a second contract. That's why part of the confusion about what is a triple P. Certainly my challenge back into the department is: you must define a triple P.

I'll use an example here: SuperNet. If I asked you a question, would you say that SuperNet is a triple-P project?

Mr. Chase: I have no idea.

Mr. Dunn: SuperNet cost the province of Alberta, through a fixed contract, \$193 million. The private sector, Bell, came in – it's rumoured, because we haven't seen their books, but it's rumoured – at somewhere in the neighbourhood of \$120 million. The total project cost is thought to be about \$310 million, \$320 million. There was a significant contribution by the private sector to a public-sector infrastructure by which the private sector can derive additional revenues because they get the revenues where private citizens sign on, but the public sector gets its backbone throughout the province at its fixed contract.

Clearly, the province of Alberta had to finance its \$193 million, but Bell financed its \$120 million, and it is going to derive revenues publicly from other sources that the province of Alberta would not have derived. In other words, the province of Alberta is not, like Telus or Shaw, in the business of selling cable access and that type of thing, but Bell and others are. Although that was a fixed-costs contract, in my mind that's as much a triple P as one that you might have had on the front end that was publicly announced as a triple P. It was described as a fixed-cost contract. The province, because it had its ceiling on there, was protected against any cost overruns, and the private sector had to absorb all the cost overruns, all the design problems, and all the rest of it and currently, right now, are completing the testing.

That's why I say that it is, to me, important for you as a committee member, when you're in a nonpartisan meeting like this, to try to get into the essence – the important thing is the value for money – and not just be locked into one way of thinking about matters. We will certainly on your behalf be raising always what we consider to be: was it an efficient, effective, and economical way of them completing that task? I'm not sure if I've answered your question with that.

The Chair: Thank you.

Dr. Morton, followed by Mr. Bonko.

Dr. Morton: Thank you. Mr. Dunn, I have a question about P3s and how they address the issue of deferred capital maintenance. Over the 20 years I've owned my house, I've replaced the roof twice, partly because Calgary gets a lot of hail. I replace the roof, which is expensive, because I want to protect my asset. During those same 20 years I've been at the University of Calgary, and I've seen a lot of deferred maintenance there, which has led to damage of other goods. Why does that happen in public ownership? Well, in the end the priority of publicly owned assets – the governments and the people responsible are more concerned with delivering immediate service than protecting the integrity of the long-term asset. So my question is: in your comparative studies with other provinces or other countries does the P3 approach address this issue of the neglect that follows from public ownership of capital assets when it comes to maintenance?

Mr. Dunn: Okay. That's seen from the proponents of triple P as one of the big advantages. If you end up on a traditional design, build, construct, and then the province owns, the private sector is out after the completion of the construction. After that, it's up to the province, the public sector, to maintain the integrity of that.

If, rather, you finance it over 30 years, and the private sector is involved in the operation and maintenance of it over 30 years, and you pay for it over 30 years, they have a commitment and obligation to continue to maintain the integrity of that asset because the agreement states that at the end of the 30-year life it must be returned to the province of Alberta – I forget what the terminology there is, Doug, that they use – basically in good standing. So it really does have an advantage of addressing that ongoing operation, preventive and corrective maintenance.

However, you're going to pay for it also, but you're going to pay for it through the agreement and the contract. That's why it's up to Infrastructure and Transportation to assess the value of that on a present-value basis. Is it better for us to just design it and build it and then us maintain it, or is it better for us to now start to pay for that ongoing maintenance to avoid that infrastructure deficit?

Just to supplement this briefly. It was certainly our office, through Ken and Doug, who focused on this over a number of years to get them to quantify and disclose the amount of deferred maintenance in the province of Alberta, and I believe last year was the first time that Infrastructure and Transportation both quantified and publicly disclosed in their annual report the amount of deferred maintenance in the province of Alberta buildings. I don't know – Doug, can you help me here? – if it also included the SUCH sector. I think it was only the province's assets but not the schools, universities, and colleges.

Mr. Wylie: That's my understanding.

Mr. Dunn: They are also now starting to tabulate that. Each of the universities and hospitals are also now providing that information so that when it's quantified, it will be the whole of the public sector, as I mentioned, when it comes into the reporting entity, and will include all universities, colleges, that type of thing.

Dr. Morton: Thank you. That's a very helpful answer.

I just would add that I think the key word is not just that the private partner has an interest in looking after capital maintenance – excuse me, you said that they had a commitment to look after capital maintenance. I think the other key word is that they have a self-interest in doing so. I think the key in these types of capital projects is harnessing private self-interest to serve the public interest.

Thank you.

The Chair: Thank you.

Mr. Bonko, followed by Reverend Abbott.

Mr. Bonko: Thank you, Mr. Chairman. Can the Auditor General provide a comprehensive list, perhaps, of all the P3s that were under way or proposed during the 2002-2003 year?

Mr. Dunn: We don't have it off the top of our head, but certainly that question can be directed to the Department of Finance or probably, Doug, through to the now-combined Ministry of Infrastructure and Transportation. So I think if the clerk will take the question, we can pass that through to the Ministry of Infrastructure and Transportation. They should be able to provide that to you.

9:20

Mr. Bonko: Did you look at any one of these, then?

Mr. Dunn: Well, we looked at the two big ones. The southeast Edmonton ring road and the Calgary courthouse were both in the proposal phase, and they had not had defined agreements, so we had

looked at them in their concept phase. It's our understanding that the final agreements that came out for the Calgary courthouse took it away from being a financing and an operation and maintenance by the private sector, so it took itself out of a triple P. But we believe, and we will be looking at those final agreements this year, that the southeast Edmonton ring road is a triple P.

The Chair: Thank you.

Before we get to Reverend Abbott's question, all members, I would remind you that you are entitled, if you wish, to ask a question about any part of this annual report. We're not just talking about P3s this morning. If you have any interest or any issues in any part of this report, please feel free to direct your questions to Mr. Dunn through the chair.

Mr. Dunn: Thank you, Mr. Chairman.

The Chair: Proceed, Reverend Abbott.

Rev. Abbott: Thank you, Mr. Chairman. I guess first of all maybe just a general comment on how other large corporations finance their capital projects. I would highly doubt, but I'm not sure – I wouldn't mind hearing from you as to how these large corporations do their major capital projects. Do most of them pay for them up front, or do they finance them over a number of years?

Then it's a bit of an unrelated follow-up, and that is on the P3s with municipalities. Did you look into that at all where, for example, it may be a municipal government such as a small town or something that's willing to finance a provincial building such as, say, a school? Did you look at that at all as a possibility in order to, again, maybe get a school in a town that's needed sooner than the province is able to finance that?

Mr. Dunn: Okay. In the two questions I'll deal with the first part, and, Doug, if you'll deal with the second part around municipalities and school boards.

The major corporations that I dealt with in my private-sector days, rarely bought large, substantial, long-term capital assets out of current cash flow. Most of them did do a long-term financing arrangement to look at the life of the asset together with the life of the financing, and those were matched in that way.

As to the municipal questions around school boards and that, Doug?

Mr. Wylie: The short answer to your question is no. Our focus was on the processes, basically the capital planning initiative within the government of Alberta that was at that time under development particularly dealing with the Calgary courthouse, the Calgary Courts Centre, and the ring road. So the scope of our audit did not extend to proposed projects with municipalities.

Rev. Abbott: Thank you.

The Chair: Thank you.

Mr. Eggen, followed by Mr. Oberle.

Mr. Eggen: Yes. Thank you, Mr. Dunn. My concern and a lot of people's concern about the P3s is a question of transparency. For example, the south Edmonton ring road is turning out to be a very expensive piece of road, you know, compared to the usual market per-kilometre construction rates that I've looked at. At the heart of it, I think, is that there's a problem with taking the initial tender to contract and then adding contract extensions on to it. So how would

you, perhaps, seek to clarify how this process should go through in an equitable and transparent way? We're seeing one tender going out, and then we're seeing these additions being tacked on, and this is a place for accounting irregularities.

Mr. Dunn: Okay. Core to the triple P is a component that's called the public-sector comparator. It's a requirement for the department, as they go through the RFP, the request for proposal, the request for interest stage, to come up with what would be known in colloquial terms as a shadow bid. What would it cost us if we did it on our own? They go through extensive detail to come up with that public-sector comparator.

We see that as part of the business plan or the justification for the construction of the asset, whether it's done by the private sector or the public, that it will meet the service needs. So with the public-sector comparator we ensure that for any of the new proposals coming in from the private sector, the quantification of the private sector's cost in total is therefore agreed to the public-sector comparator. They ensure at the end of the day that it's better go one route versus the other route: which one provides the lowest cost with the greatest value?

Doug, can you supplement that around any other comments around the business case? That was one of the areas that we were concerned about with the Calgary courthouse, that it was moving along faster than they had really got their public-sector comparator in place.

Mr. Wylie: Yeah. I think maybe to set the context and stage of our work. Some of the questions have gone around this. When we did the work, the process was in process in fact. So we planned to look at the business case, the request for interest, request for qualifications, request for proposal, and contracts if they were signed at this stage. During our review, which concluded in July of 2004, the agreements weren't signed. The deals weren't done, so to speak.

I think, with respect to your specific comment, that it's an important point. We focused on process here. We really had to focus on process. We addressed that through our six-part recommendation dealing with the timelines of when certain things are done. When is the public-sector comparator performed? When is the business case considered to be complete and done?

We felt that there was room for improvement in their processes, the timelines of when they were doing what, the type of analysis they were doing, the rigour of the analysis, the information that was making its way up to Treasury Board, and the like. So we felt that there was some room for improvements, and that's in essence part 4 of the recommendation dealing with "improve the timelines of information and the overall analysis of alternatives." So it is an important issue, and we thought some improvements could be made in that area.

Mr. Eggen: Yeah. My experience, you know, with contracts for building a courthouse or building a road or whatever is that it's very common for amendments and changes and additions to be placed into a contract. So seeking clarity with the tender process, then, plus the necessity for additions I think makes it quite a tangled web to sort through, certainly.

I have a supplementary, right?

The Chair: Yes. Briefly.

Mr. Eggen: Okay. All right. You mentioned this idea of the shadow bid. You know, this brings to mind my essential problem with this P3 thing. If you are creating a shadow bid and you're

going through all of that process – and essentially the ability for the P3 private contractor to receive favourable funding is based on the good standing and equity and triple-A standing of the Alberta government – then, I mean, you have your shadow bid. You have the equity that's putting it together. What's the advantage of bringing in a private contractor? What cost advantage do you have, then, if you have all the pieces in place already?

Mr. Dunn: I'll just stop you there. Recognize that you're bringing the private contractor in regardless. The private contractor is still going to build it.

Mr. Eggen: Yes, but you are . . .

Mr. Dunn: It's the construction companies.

Mr. Eggen: Sure. Of course. I mean, that's a fine thing, right?

Mr. Dunn: So the architect, the engineer, and construction company are going to be from the private sector. A question becomes at the end of the day: have you fixed the cost with no changes, that type of thing? Work order changes are always a concern in the construction industry. Have you fixed the costs at that point and fixed their obligation?

Why triple Ps became favourable in some other jurisdictions is the element of risking a risk transfer, the cost overrun, as you said, the work order changes. What's the risk of that stuff growing on you and people starting to add more needs and requirements? You transfer that – but you have to pay a premium for this – to the private sector, and they run the rigour of staying on line, on time, on budget.

The Chair: Thank you, Mr. Dunn.

Mr. Oberle: Mr. Dunn, thank you. A few moments ago Mr. Chase asked you a question, and I wonder if you could just provide a bit more clarity to that question for me. Do we get value for money from P3s? Maybe stated another way: given that you've made some recommendations here about definition and scope of consideration in P3s, if those are followed and implemented, do you see P3s as a valid way for the province of Alberta proceeding with constructing and maintaining public infrastructure?

9:30

Mr. Dunn: Value for money on P3s is dependent upon each and every project. Indeed, you must do the rigorous negotiation, and, just like the previous question, you must ensure that there are not additional construction changes in there that you're paying for. So it is a valid option subject to your doing sufficient homework and comparisons and bringing out the public service comparator. It is a valid option, but it is not necessarily, by definition, a better way to go. You've got to look at each and every one of these significant projects on their own.

Mr. Oberle: Okay. I'm not talking about all projects in some sort of partisan, blowing-your-horn approach here. Given the homework is done on a particular project, it is a valid way to proceed?

Mr. Dunn: That is why we've concluded at the end of the day that it would be, in our opinion, unfortunate if the province of Alberta ignored it all. We believe that they should, in order to bring value for money out, go through the challenge: is there an alternate way of constructing whatever it is that we require that will be less expensive to the public sector? We believe that they should be looking at that

and not ignoring it. To ignore it denies you the opportunity to achieve it better. One of the things that I'd be concerned about is just the timeline by which it takes a project from concept and approval all the way up to the final availability.

If you think about the Calgary courthouse, courts are already there. Alberta is renting premises in Calgary – and we know what the cost of renting premises in a major urban downtown centre is – and I believe it's six areas. If it takes you two to three years longer to build that courthouse because you run a certain way of doing it, you're going to have to pay two to three more years' worth of rental on those present courthouses. If you can shorten the timeline, bring up efficiency in the design, building, and the operation/maintenance of it, then clearly you save all that other rental cost, and you have the access to the service capability of that asset.

The Chair: Thank you.

Ms Blakeman, followed by George VanderBurg.

Ms Blakeman: Thank you. I'm wondering if I could move to a different section of the Auditor General's report, and I'll direct your attention to page 193. This is around the investigation of the now-called Charlebois contract that the Auditor General followed up on based on a question raised by the Leader of the Official Opposition.

The first question. You did a lot of investigation on the particular contracts that were offered over several years between the Minister of Health and Wellness and this particular individual, but this particular individual had contracts with other government departments and entities like regional health authorities. Did the Auditor General look at any of the contracts that this individual, Mr. Charlebois, had with any of those other entities? If you didn't, why did you make the choice not to do that?

Mr. Dunn: This recommendation is the one that the government also has responded to under what they call the accountability section, contracts for consulting services. At the time that we did this work, no. We looked at only the department of health and were also aware that the contracts were already identified. However, both the chief internal auditor's office and our office this year are looking at consulting services contracts throughout the ministries. So it was merely a timing issue. We had not yet completed that work in order to be able to report on it at that time. We only had the department of health completed.

Ms Blakeman: So you didn't pursue that individual beyond that. Okay.

Mr. Dunn: At that time.

Ms Blakeman: My second question then is: given that there appears to have been no paperwork or confirmation of what work was done, how are the Alberta taxpayers reassured that the work that was done was legitimate work as compared to endeavours outside the parameters of what he should have been doing, if he was acting as a personal assistant to the minister, who was seeking leadership, and that the time was spent assisting in that? How do we know that? How do we know what he spent his time doing? How do we know that he spent his time doing something that was for government, that was eventually to benefit the taxpayers of Alberta, as compared to a party function?

Mr. Dunn: You're getting into some political questions here. What we have looked at and the criteria on which we determine the substance of the contract – we laid out the criteria that we expected

there. We did comment that this department has a very good contracting process. It was redesigned in the early part of 2002 and has a very good contracting process. We felt that if they'd followed their own system, then this type of contract would have been identified, and it would have had examples of expectations, deliverables, performance measures, et cetera. They just didn't follow their system. The findings that we came down with said that we could not identify exactly what was being done, and therefore we reported that we could not see value for money within this contract.

The Chair: Thank you.

Mr. VanderBurg: Mr. Dunn, just back to the P3s. When you meet with other auditors from across Canada, there must be lots of discussion on P3s. I'm just wondering. When you talk to the auditor for British Columbia – they have a long history; I can think of one highway, the toll highway, the Coquihalla highway – have you had discussions about the value of that roadway versus government-built and -funded roadways?

Mr. Dunn: In response, directly about that highway: no. But we do have comments on it through our community with all the other legislative auditors across the country. Yes, the accounting for and the systems by which you report on P3s is under discussion in other jurisdictions. In fact, there was a joint meeting between our office and the B.C. office around the processes that should be expected. B.C. has gone now into more P3s. They have a very good accountability process.

There was a joint process also that involved our office together with the province of Alberta's Infrastructure and Transportation people with the province of B.C.'s infrastructure and transportation people. Those are the operators/construction type of people talking about what they would expect they can do and then see if it would be acceptable to the accounting and auditing world. We felt that that was a very productive exercise there.

Doug, you can also share the work that you did, the research that you did across the country around how the systems that others are following in accounting for P3s.

Mr. Wylie: Yes. Well, our focus was on processes and what other audit offices had undertaken and reviewed as part of the processes, where things worked well and where things maybe didn't work so well from the perspective of the focus on risk, that we wanted to look at. We did spend a fair bit of time with our counterparts in B.C. As Fred said, I think that in B.C. they have a little bit different structure. There's an actual organization, a Crown agency called Partnerships BC that has expertise and that deals strictly with the alternative capital financing type of arrangements. We met with them, had some consultation with them.

We've met with a number of the audit offices, particularly B.C. though. As Fred mentioned, one thing that B.C. has just issued is a report where they're publicly reporting on I think it was the Abbotsford hospital, where the Auditor General of British Columbia has actually issued an opinion on the assertions made by the government relating to the success or value, if you will, of that project.

Mr. VanderBurg: Well, Doug, through Mr. Dunn, do you have some summary or something on that you could share with me? I'm just interested in seeing some written opinions from the British Columbia auditor on that.

Mr. Dunn: Yes. Through the clerk we'll provide a copy. It's a very

ingenious way that they're looking at the public reporting on that triple-P project. It's both the comments from Partnerships BC together with the Auditor General's comments. We'll get a copy of that report through to the clerk for each member.

Mr. VanderBurg: Thank you.

The Chair: Thank you.

Mr. Chase, please proceed, followed by Mr. Griffith.

Mr. Chase: Yes. My question has to do with parks and protected areas sort of along with the determination of assets. Do the province's parks and protected areas have an assigned monetary value?

Mr. Dunn: We're under Community Development. Do you have a page reference?

Mr. Chase: Well, I couldn't find anything. That's why I was asking. It is under Community Development, and there is a section, but within that section I didn't see any sort of definition of parks and protected areas or any sort of evaluation.

9:40

Mr. Dunn: Okay, if you look at page 103 – I'm trying to keep people back, as the chair said, into our report – we talk about the management of parks and protected areas and the service delivery alternatives. We had in prior years looked at parks, and we're very concerned about the maintenance of parks, and this goes back to Dr. Morton's question to the deferred maintenance. We had reported on that in the previous year, that the ministry had to look at ways in which they would ensure that the integrity of those parks was being retained.

Are those parks on the books of account? I'll leave that over to you.

Ms White: Yes, the parks are on the books of account of Community Development. If you go to page 104, though, we say that according to current records, there's \$37 million in deferred maintenance built up on the parks. I don't, unfortunately, have the data on what the value is of the assets on the books of Community Development.

Mr. Chase: My concern is that over the years, with the desire to pay down the debt – like other parts of what I would call infrastructure, this is people infrastructure and animal infrastructure and so on – the value of these parks has decreased considerably. Does the Auditor General recommend specific amounts of money that would be needed to bring them back to their restorative process? Like we talked about in P3s, we take that into account: what does it look like when it's turned over? Well, in this case it's still part of the public accountability.

Mr. Dunn: Obviously, our office doesn't make recommendations around the budgets of other departments, but what we do make recommendations around are the systems by which they determine their needs. So how do they determine the condition of those parks, the deferred maintenance, and are those adequately and accurately summarized and reported through to the MLAs? Therefore, it's up to them, as you direct that question back to the Minister and the Deputy Minister of Community Development: how do they ensure that those dollars are properly received by that ministry through its approach to Treasury Board?

The Chair: Thank you.

Mr. Griffiths: Mr. Dunn, I apologize; I'm going back to P3s. So I'm sorry if I'm hounding on it, but I have a question for you. I also apologize if this is more conjecture than just a request for information. I've always had it explained to me that when you do a P3 project, the public side gets a deal, and the private side gets a deal because an outside revenue stream exists so that the private sector can help absorb some of the capital. That's what the essence of a P3 is and what makes it work. I'm wondering if that's true.

Mr. Dunn: Okay. Clearly in the construction of any asset you want to ensure that that asset gets completed. Therefore, you want to make sure that there's the sustainability of the contractor, the private-sector party. It's not advantageous to go into an agreement with a party, whether it's a P3 or otherwise, that would not have the ability to complete that project, because you would end up with a half-completed project you have to take over.

It's expected that under P3s there will an advantage for the public sector, whether it be timing, risk transfer, operation, and maintenance sustainability. But you would also expect that the private sector would also benefit from that, whether it's by way of additional revenue streams or by way of additional services that they're providing over a contracted period for which they're able to provide it under their cost model cheaper than the public sector. It's expected that both of you will benefit because if one loses, then clearly you would not want to have that type of agreement on a regular basis.

Mr. Griffiths: So, for clarification, some sort of revenue stream external to the partnership or some sort of extra services external to the partnership between the public and private sectors is required to make it a successful partnership?

Mr. Dunn: Not necessarily, because in road construction you also bring in a partner. The consortium that might do this would bring in a partner that would maintain and operate that road, so you'd expect that that organization would derive a benefit from being able to complete that.

When I go back to SuperNet, SuperNet in my mind is an easier example to look at, where the private sector will be able to obtain a revenue stream that the public sector would never, ever have approached. So, clearly, that was a good partnering together, and that's why that private-sector organization would have gone in – and it's turned out that it's maybe a little heavier than they thought when they went in – because of their ability to access other revenue streams that the public sector was not interested in. So those opportunities do come to pass.

The Chair: Mr. Bonko, followed by Reverend Abbott.

Mr. Bonko: Thank you, Mr. Chairman. On page 82, actually, recommendation 6 says that

we recommend that the Department of Agriculture, Food and Rural Development, working with the federal Canadian Food Inspection Agency . . . and the beef and related industries, ensure that Alberta meets its contribution to Canada's BSE testing quota.

Can you maybe elaborate a little bit more on that?

Mr. Dunn: Thank you very much for that question. The section that we've got in here builds off our separate report that we issued at the end of July on the BSE-related assistance programs. At that time we had issued I think it was five recommendations.

One of the critical ones at that time was the fact that Alberta was substantially behind in the quota testing, and there was a risk at that time that we might not have made – at that time the enhanced quota testing was to be 8,000, I think, in Canada. Anyway, Alberta's contribution to that was significantly behind. If Canada as a nation did not meet that testing quota, then we really ran the risk as a nation and, clearly, as a province of having more difficulty with various other countries accepting our beef. So that's why it was directed to the department but having to work with the Canadian Food Inspection Agency to make sure that the beef-related industries, i.e. the producers, will bring in the specimens to have tested.

The reaction to that recommendation, made at the end of August, resulted in some new government assistance programs that were announced I think it was on September 10, where there were enhanced payments to the producer – and I'll go on a little bit here and talk about the four Ds: animals that show those attributes of distress, disease, down, that type of thing – for the producer to bring those animals in for testing. There was compensation paid to them plus also compensation paid to the veterinarians. Until that program came in, there were not as many specimens being made available for the testing by the province of Alberta. Subsequent to that program coming in, which then supercedes this report, Alberta did come on side and by the end of the calendar year was able to have all the testing there.

The province of Alberta, also in response to the previous recommendations, did enhance the testing facilities, and we do have world-class testing facilities now in the province of Alberta, just out here at the Neil Crawford centre.

Mr. Bonko: Okay. A similar, I guess, program could be implemented with regard to the animal game farming. Would we be concerned with the lack of testing with regard to that industry?

Mr. Dunn: That was one of the early concerns, that because of the issue around elk there was a deferral around the testing of beef. That became one of the concerns. The province has addressed the facility constraints by constructing a new level 3 testing facility and now has all the premises and people in place to complete all the testing they need.

However, now they must go on to the testing of the other animals – I'm not sure, Jim, if you've got any further information around this – because it's the disease that would be of concern. It can manifest itself in different forms in different animals. Therefore, all those animals have to be tested, whether it be sheep, goats, elk, or others.

Mr. Hug: In the province we now have the capacity to test the numbers of animals that we need to test. The challenge is to make sure that the animals are brought in for testing.

The Chair: Reverend Abbott, followed by Mr. Eggen.

Rev. Abbott: Thank you, Mr. Chairman. Getting back to P3s, as one of the sort of younger MLAs who has an acute interest in the long-term viability of the province, my questions . . .

An Hon. Member: Younger, huh?

9:50

Rev. Abbott: Not the youngest, not the youngest. I didn't say youngest; I said one of the younger ones.

I really appreciated your comments about at least trying it. You know, that's very, very important. If we don't try it, we'll never know.

I guess the other thing I was wondering: if there is some kind of a comparison – has there been one done in other jurisdictions? – or I guess the cost savings, the differences between issuing long-term bonds for capital projects versus a P3. Is that a fair comparison to do? Would it be a different cat altogether again? What are your thoughts on that?

Mr. Dunn: Okay. I'm going to get into maybe a little bit of economics here with you. Other jurisdictions don't have another choice. They may not be able to issue more debt. It's just their capacity to issue more debt; they may be left with no other alternative. However, the cost of financing inherent in that long-term agreement with the private sector can also bear a very heavy interest rate. As some of you may have heard if you were at the heritage meeting the other day, Alberta can borrow at a very low rate and, therefore, is not subject to that sort of pressure and must do it this way only. It has a choice between either.

You say: "Is there a comparison against it? What is the cost of borrowing?" Trying to maybe link back to your municipal one, as you are aware, Alberta also has something called the Alberta Capital Financial Authority, which has the backing of the province of Alberta, which allows all municipalities, school boards, and universities to borrow at a very, very inexpensive rate. I think the borrowing rates there, if I can remember correctly, this year were down below 5 per cent.

In economic terms you say, "Is it better for us to borrow at 5 per cent and just go it alone versus having the private sector provide the full suite of all four segments: design, build, finance, and own and operate?" I can't think of it as being, "On its own can you make a judgment that one is better than the other?" I think you have to look at the specifics of the situation, the risk to you to construct that asset on your own versus the time you have it.

When I think of the Calgary courthouse, I think that one of the issues that they were struggling with is that we have these ongoing significant operating costs. We're spread out across the city, the Solicitor General has to move criminals, difficult people to deal with, through different areas around and through the city of Calgary, we're paying first-class rental space: all that sort of stuff. It was not a functional way to behave, so we needed to get this done faster. That has a cost to it, to speed it up a bit.

This is where the private-sector comparator comes in. Is it better done through a P3 versus the private sector on its own? That's what we expect the business case to show.

Rev. Abbott: Right. Just as a follow-up, I guess about a year or two ago I was doing some work on a labour bill for the minister, and I was talking to some union leaders, and they had these three different rates. They had the residential rate, they had the commercial rate, and they had the institutional rate. So I asked them what the difference was, and they said, "Basically, who your customer is." I said, "So essentially you could have the same person building the same building and you charge three different rates?" And the answer was yes. Of course, the highest of the three was the government rate. So I guess that there's a good case right there for the commercial rate coming in lower.

Mr. Dunn: It also depends upon the wisdom of the public-sector official and their ability to negotiate. They've got to be prepared to negotiate very hard and be prepared to walk away if the deal is not appropriate.

Rev. Abbott: Right.

The Chair: Thank you, Mr. Dunn.

Now, there are four members still on the list to ask questions. In the past if time was getting short, which it is today, members have read their questions into the record, and the Auditor General or the respective minister or his or her officials have responded in writing through the clerk to all members of the Assembly. So there's Mr. Eggen, Mr. Prins, Ms Blakeman, and Dr. Morton who have indicated that they still have questions.

So, if you would like, we will proceed. If you could read your questions into the record or state your questions, Mr. Eggen, the Auditor General will respond in writing through the clerk to all members. Okay?

Mr. Eggen: Okay, thanks. No problem. Thanks, Mr. MacDonald. I'll be as brief as possible. My question has to do more with sort of accounting, of spending in a general sense across all areas.

You've demonstrated some interest in the past in showing electronic records for transactions publicly, and I was looking at some other provinces. British Columbia, for example, has all credit card transactions available on the Internet, and it's quite an illuminating document. You wouldn't want to print it out, Lord knows. Anyway, my question is: would you perhaps discuss some possibilities of doing this here in the province? The total expenditure on credit cards is significant, but I think it's an interest to the public in terms of procedure and how people are spending money.

Sorry, Mr. MacDonald. It's Egg-en, not E-ggen.

The Chair: I apologize.

Mr. Eggen: No worries. That's okay. Thanks.

The Chair: Mr. Prins.

Mr. Prins: Thank you, Mr. Chairman. Mr. Dunn, I'm looking at page 81. We're talking about the borders being closed. There's a paragraph in the middle of the page that says, "As a result of the borders remaining closed to live cattle, there is a huge surplus of over thirty month of age cattle that is becoming a market factor." Now, we had hoped that the border would open a couple of weeks ago. It's not open. It's closed again. It could be for a long time. Any comment on the seriousness of this issue and what kinds of solutions might be considered?

I think the logical steps, the way we see it, would be to increase slaughter capacity and increase efforts on marketing. The last thing we want to see is a cull, but that cull word has been used a few times. Could this be a possibility, and is there ever a time when this could be necessary or feasible to prevent the collapse of the industry?

The Chair: Thank you. Thank you for those questions.
Ms Blakeman.

Ms Blakeman: Right. I'm referencing the recommendation on page 83, the Alberta disaster assistance loan program, in which the AG pointed to deficiencies in the program's ability to ensure that loan recipients met specific criteria. So my question for the record is: did the Auditor General find any loans that were allocated to individuals or groups that did not meet the criteria of the Alberta disaster loans assistance program, and could he give us some expansion and

elaboration if he did find any loans that were inappropriate? The supplementary is: were there recommendations to change this process to make the disaster loans cumulative to recognize they've received them over a number of years?

Thank you.

The Chair: Thank you, Ms Blakeman.
Dr. Morton.

Dr. Morton: Thank you. My question again is about P3s, and I'd like to know what kind of safeguards or procedures are in place to protect against political cronyism and kickbacks between governments and private contractors. My earlier question highlighted the downside of public ownership, the general inefficiencies of the public sector, and neglect of capital maintenance. The critics of P3s point to the potential for abuse on P3s. Whenever governments are doing business with the private sector, there are opportunities for cronyism. From your comparative studies of other provinces or other states, have you identified some safeguards or procedures to protect against this type of abuse, and are there any that you would recommend that Alberta should adopt in going forward if the province continues in the P3 business?

The Chair: Thank you.

I would like to thank all members of the committee for their questions this morning. That concludes our meeting with Mr. Dunn, but of course he will be at each Public Accounts meeting whenever we talk to the respective ministries.

Now, item 4, under Other Business, I would like to advise the members of this committee that last week I indicated that the minister of agriculture had appeared before the committee in 2004. I was wrong. I apologize to each of you. The minister of agriculture last appeared in 2003. I have contacted on behalf of the committee, as instructed, the minister of agriculture by letter, which has been circulated, and also before question period started. The minister of agriculture will certainly appear before the committee this fall, but it will be probably for the fiscal year that will end on March 31. Okay?

10:00

Also, I would like to advise you that there has been a change in the meeting schedule. The hon. Minister of Energy, Mr. Melchin, had to reschedule his meeting, so he and Dr. Oberg, Minister of Infrastructure and Transportation, have switched their dates in April. That revised schedule is included in our agenda packages.

The date of the next meeting, of course, is next Wednesday, and we will be meeting with the Hon. Mike Cardinal. The Auditor General, of course, will be in attendance. Mr. Cardinal is the Minister of Human Resources and Employment.

If there are no other items under Other Business, I would now ask, please, for a motion to adjourn. Thank you, Mr. Bonko. Moved by Mr. Bonko that the meeting be adjourned. All in favour?

Hon. Members: Agreed.

The Chair: Thank you. Opposed? Seeing none, we will see you next week. Thank you.

[The committee adjourned at 10:01 a.m.]