Title: Wednesday, May 30, 2007 Public Accounts Committee
Date: 07/05/30
Time: 8:31 a.m.
[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this meeting of the Standing Committee on Public Accounts to order, please. I would like to welcome everyone in attendance. Perhaps we can quickly go around the table and introduce ourselves.

[The following committee members introduced themselves: Mr. Bonko, Dr. Brown, Mr. Cardinal, Mr. Cenaiko, Mrs. Forsyth, Mr. Herard, Mr. MacDonald, Mr. R. Miller, Mr. Prins, Mr. Rodney, and Mr. Strang]

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

[The following departmental support staff introduced themselves: Mr. Bhatia, Mr. Gartner, Ms Lovelace, Mr. Lynkowski, and Mr. Robertson]

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Thank you.

Now, the agenda packages were delivered for this morning's meeting on May 24. If there are no questions, may I please have approval of the agenda?

Mr. Bonko: I so move.

The Chair: Moved by Mr. Bonko that the agenda for the May 30, 2007, meeting be approved as distributed. All in favour? None opposed? Thank you.

Now, we are meeting with the Deputy Minister of Finance and the Ministry of Finance this morning. I would invite the deputy minister to introduce his staff. I would also like to remind him that he has an opportunity for a very brief opening statement. If Mr. Dunn has any comments following the deputy minister, he's encouraged to put his comments on the record. If any of your staff would like to participate in the proceedings to supplement answers, they certainly can go to the microphone that's provided. Okay? We'd like to ask you now, please, to proceed.

Mr. Bhatia: Thank you, Mr. Chairman. As we've introduced ourselves around the table, first of all I'd just like to point out that during the year in question, 2005-2006, the ministry of Treasury Board didn't exist, so that's one of the reasons why we have Doug Lynkowski, the Controller, here with us as well as to assist generally with any questions that you have. As she indicated in the introduction, Bonnie Lovelace is our executive director of strategic and business services and our senior financial officer. To my right, Dennis Gartner is responsible for the pension insurance and financial institutions division of the department. Grant Robertson, to my far right, is the assistant deputy minister responsible for budget and fiscal policy. We also have a number of other staff with us to help with other questions should the need arise.

In terms of the year I will make only the very briefest of comments. It was clearly a year of very strong financial performance for the government: total revenue approaching $36 billion; net revenue after expenses of about $8.7 billion, significantly higher than budgeted. Expenses were about $27.2 billion, or $1.2 billion higher than the original budget. As you would be aware, there was accumulated debt still on the books of about $2.2 billion, and that was fully offset by assets in the debt retirement account of an approximately equivalent amount. The sustainability fund had net assets at March 31, 2006, of $4.1 billion, and a further $1.1 billion was deposited into the sustainability fund after March 31. Significant assets were also held at year-end in the capital account, about $4.2 billion, to provide prudently for capital expenditures going forward. So, as I indicated, a very strong year financially, with a strong financial position at the end of the year.

With that brief overview, I'd be pleased to answer your questions.

The Chair: Thank you very much.

Mr. Dunn, please.

Mr. Dunn: Thank you, Mr. Chairman. Yeah, the Ministry of Finance has overall responsibility for the government's fiscal strategy, fiscal plan, and budget and for tax savings and investment management policy. As he's introduced Doug Lynkowski here, you may want to ask the deputy minister how he intends to work with the deputy minister of the Treasury Board to ensure a seamless transition of responsibilities.

In our annual report Finance starts on page 93 of volume 2. We have one numbered recommendation relating to the supplementary retirement plans outside the government's plan. The government's plan is in the annual report of the ministry. The government responded on March 19, 2007, that this recommendation was under review. So it was not accepted but was under review. You may want to ask the deputy minister for information about what is being reviewed, what is needed to make a decision, and when the information will be available.

We noted progress made on past recommendations to both Alberta Treasury Branches and Alberta Securities Commission. With Alberta Treasury Branches we noted satisfactory progress on three recommendations that we had repeated for several years. Following our special review of the Alberta Securities Commission we had made 10 recommendations in our October 2005 report on the Security Commission enforcement system. The commission fully implemented five of the recommendations and made satisfactory progress on the other five. You also may want to ask the deputy minister, through him to his staff, for information on when these remaining recommendations will be fully implemented.

As the deputy has referred you to Alberta's annual general report, which is comprised of three sections: the executive summary, the consolidated financial statements, and measuring up, which has all the performance indicators, on page 2, as the deputy has referenced, the government reports that revenues exceeded expenses by $8.7 billion, $3.5 billion higher than the 2004-05 and $7 billion higher than budgeted. You may want to ask the deputy minister why there was a significant increase from the budget, you know, what effect this had on the fiscal plan.

On page 93 of that report the government reports that only 59 per cent of Albertans were satisfied with the information they received from the province on the government's financial performance. That's below their target of 70 per cent. That's on page 93 of the annual report. You may want to ask the deputy what he intends to do to improve that rate.

Regarding the annual report of the ministry, which is comprised of the ministry, the department, the pension plans, the Treasury Branch, the Securities Commission, and many other entities, in that annual report income tax revenue for 2005-06 is stated at $7.6 billion. Goal 3 on page 33 is that "revenue programs are administered fairly, efficiently and effectively." The target ratio of amounts added to net revenue to cost of administration is 12 to 1. As explained in the performance measure, that's 12 additional dollars of tax revenue for every additional dollar of expenditure to gather that tax revenue.

Through the revisions of returns and claims, the collection of overdue accounts, and audit activities, Finance recovers tax revenues that may otherwise be lost. The ministry's results for 2005-06 were 11.9 to 1. However, you may want to ask the deputy minister how the target was derived and whether an analysis has been done on all income tax programs to determine whether the results could be improved.

Mr. Chairman, those are my brief opening comments.

The Chair: Thank you very much.

We have a list of questions already, so we'll start because I suspect this list is only going to grow. Mr. Miller, please, followed by Heather Forsyth.

Mr. R. Miller: Thank you, Mr. Chairman. I'd like to refer the committee members and those staff that are present to page 155 of the Department of Finance annual report, which references the timberland investment class. My questions pertain to the $11 million loss suffered by that timberland investment class, where an employee apparently inadvertently failed to hedge the investment against the Canada/U.S. dollar exchange for a period of several months in the spring and summer of 2005. My question is for the Auditor General. In your opinion would this failure to hedge that investment class against the Canada/U.S. dollar exchange constitute not adequately safeguarding an asset?

8:40

Mr. Dunn: Thank you, Mr. Miller. We were aware of that investment in the timberland and that the investment was at one time in Canadian dollars converted to U.S. dollars and thereafter not hedged for a period of time, a period of time, I believe, up to the fall of 2005. The consequence of not hedging from the conversion from Canadian to U.S. dollars was that $11 million loss because the Canadian dollar strengthened.

We were aware that the Department of Finance through their investment management group had informed all of its stakeholders of this consequence. They had made it well clear. They had indicated that this was not in accordance with their policy. Their policy was to hedge, so they had not adhered to their policy. They had made changes in their practices and procedures in order to avoid this in the future, but at the end of the day the consequence, Mr. Miller, is that $11 million of currency exchange loss was incurred.

So your question was: did that adequately safeguard the assets? The policy when applied adequately safeguards the assets. The policy was not applied.

Mr. R. Miller: So the failure to hedge did not adequately safeguard the asset? That was my question.

Mr. Dunn: Yes.

Mr. R. Miller: Okay. If, in fact, that is the case, then – and we now have the Auditor General's office acknowledging that the asset was not adequately safeguarded – my follow-up question would be this: the Auditor General Act, section 19(2)(c), requires the Auditor General to report such a circumstance in your annual report, so could you please show me where in the Auditor General's annual report this particular situation is reported?

Mr. Dunn: As you are aware – we've discussed that with Mr. Miller through a direct correspondence with Mr. Miller – we did not report it in the annual report. We were aware that the policy violation occurred. We are also aware that the corrective activities had taken place and that the department had done everything, in our opinion, in order to safeguard itself from that violation in the future. We had no recommendations to make to the department. Since the department had followed up on it, made adequate disclosure, and had completed its corrective action, we had nothing to offer or suggest to them, so we did not report it.

Mr. R. Miller: If I could just submit, that's not good enough. The act requires you to report.

The Chair: Thank you.

Mrs. Forsyth, followed by Mr. Bonko.

Mrs. Forsyth: I want to ask about the recommendations from the Auditor General report on page 97, volume 2. It's about the recommendation that

> the Department of Finance assess the annual and cumulative costs and risks associated with Supplementary Retirement Plans [and also] review the Treasury Board Directives to ensure that the amount disclosed as the total compensation of each senior executive includes Supplementary Retirement Plan benefits earned in the year.

It indicates in there that this recommendation is under review. I want to know why that recommendation is under review.

Mr. Bhatia: The indication that the recommendation is under review does not at all mean that we are not acting on the recommendation. I'll maybe ask one of the others just to supplement on that specific point, but I believe that the reason that it was put as under review was simply that there were a very large number of issues involved and raised by that recommendation, and we wanted to get into the work to determine the full scope of what needed to be done. In fact, what we have done is surveyed across ministries to determine the nature and extent of supplementary retirement plans that had been put in place by entities within the broader public sector. We have compiled that information, and we've provided it to the Auditor General. In addition, we have in fact been working with the Treasury Board ministry to put forward to Treasury Board, the committee, a revised directive relating to supplementary retirement plans. So we have been very actively working on that recommendation despite the fact that it was actually indicated as being under review.

Mrs. Forsyth: Okay. My next question is under the annual report, and it goes to the message from the minister.

Mr. Strang: Page what?

Mrs. Forsyth: Page 6 under the annual report from the message from the minister.

She alludes to on that about working or retired Albertans wanting to know that their pensions are secure. In 2005-06 you consulted with stakeholders on proposed regulatory amendments to improve the oversight of private-sector pensions. It goes on to say, "The changes proposed in 2005-06 followed legislative amendments approved in the previous fiscal year to increase the transparency and accountability of pension plans." Can you please tell me the status of that?

Mr. Bhatia: I'll ask Dennis Gartner to respond to that one.

Mr. Gartner: Regulations have been passed in 2006 which do require sponsors of pension plans to provide additional information to plan members about the funding of their pension plan so plan members have a better indication of the risks involved in their pension plan.

Secondly, the regulation also enables the superintendent of pensions to require additional information from plan sponsors when the superintendent is supervising the pension plans.

Mrs. Forsyth: Thank you.

The Chair: Thank you.
Mr. Bonko, please, followed by Mr. Strang.

Mr. Bonko: Thank you, Mr. Chair. Media reports indicate that the employee tried to cover up the incident. This is with regard to the timberland investments. To the Auditor General: did you find any evidence or indication of a cover-up?

Mr. Dunn: No indication of any cover-up. In fact, they were very open with the disclosure. When identified, they informed the various stakeholders of what happened and what their plans were to correct it. They were very open and transparent with their communication.

Mr. Bonko: Okay. Then to the deputy minister. On April 19 the media report had indicated that the individual was let go for trying to cover it up. In your opinion would that be true or false, then?

Mr. Bhatia: As you can appreciate, we really can't comment on the details of HR matters. All I would confirm is that that employee is no longer with the department.

The Chair: Thank you.
Mr. Strang, followed by Mr. Miller, please.

Mr. Strang: Thanks, Mr. Chairman. To the deputy minister. I guess that my first question, what I'm looking at, is: were there any major cuts in the 2005-06 budget of Finance?

Mr. Bhatia: No, there were no major cuts.

Mr. Strang: Okay. Well, then, my supplemental question. On page 94, under the ministry's revenue schedule, there's a list called Special broker tax. This tax was budgeted at $750,000, but the actual value is showing over $6 million. Can you explain why this tax and why there's such a large discrepancy on that one?

Mr. Bhatia: Dennis Gartner will answer that.

Mr. Gartner: The special broker tax is a tax on insurance that is not available through licensed insurance companies, so you're purchasing insurance from an insurance company, perhaps offshore – or whatever the case is – that's not licensed. With the economic activity in Alberta over the past number of years and all of the construction works, et cetera, many of these works are not insured by licensed insurance companies; they're insured through special brokers. So the volume just skyrocketed.

The Chair: Thank you.
Before we proceed to Mr. Miller, I would like to just alert the officials from the department not to touch the microphones if you don't mind, please. *Hansard* looks after all that. It's like your car; it just works. Okay?
Mr. Miller, followed by Mr. Rodney, please.

8:50

Mr. R. Miller: Thank you, Mr. Chairman. Further to the questions around the timberland investment class, page 7 of the second-quarter update from the Alberta heritage savings trust fund 2005-2006 indicates under timberland investments that the underperformance of this investment was due to the strengthening of the Canadian dollar against the U.S. dollar. I would submit to you that that is in fact not factual; it's simply not true. The loss was due to a mistake that was made by an employee in the department, and I have that on the record from the Finance minister. So my question is: why was it reported in this manner in the second-quarter update, when, in fact, it's not true? I believe that the public was misled.

Mr. Bhatia: I may ask somebody else to supplement. But as we've acknowledged, a mistake was made. The investment should have been hedged, and it wasn't. The economic loss occurred because the Canadian dollar strengthened.

Mr. R. Miller: The loss occurred because the Canadian dollar strengthened, but the mistake was made, and it is not reported anywhere. This is my concern, and I'm like a dog after a bone on this one. I'm not going to let this go until I have an explanation that every member of this committee can understand. Something took place here that appears to me to have been swept under the carpet, and I'm not happy about it.
My question to the Auditor General: why did you sign off on these audited statements when, in fact, you were aware of what had taken place, and this that was presented here is not representing what actually happened?

Mr. Dunn: As you appreciate, the statement that you referred to, the interim statements, are not audited – they're not audited – but the annual financial statement is audited. So the signing off on the financial statement will be for the year ended March 31, '06, and then, of course, the current year, March 31, '07, in which case the signing off would have ensured that that loss as calculated is adequately reported within those financial statements. It's included in the financial statement.
I can assure you, Mr. Miller, that the loss was not swept under the table from the financial statement perspective. It was included in there and is reported as part of the return overall on all the investments that were made. So it's not like it was avoided, and it was not ever reflected in the books. In fact, they reflected it right away. It was on understanding the change of the currency that they were aware of that they had not followed their policy. Actually, they identified it relatively quickly. This did not go on for a long period of time, but in the period of time when it was unhedged, the Canadian dollar did appreciate. Therefore, the fact of not following the policy did incur the loss that you're referring to, and it has been reported within the financial information.

The Chair: Thank you.
Mr. Rodney, followed by Mr. Bonko.

Mr. Rodney: Thank you, Chair. Would it be permissible for the chair if I don't ask a question on timberland at this point? Is that okay with you, sir?

The Chair: That's fine.

Mr. Rodney: All right.

Mr. R. Miller: You might want to ask a question on timberland.

Mr. Rodney: I'll save that for you folks.
I do have quite a serious question, though, and it relates to page 14 in the report of the Auditor General, November 2006. There was a

recommendation to AADAC to improve management controls over contracting. Out of respect for the committee I will refrain from the urge to editorialize and give other angles. My question is simply this, and it's for the record: what controls does Finance have over contracting processes?

Mr. Bhatia: Alberta Finance has done a significant review of its contracting policy during the 2005 year. In fact, in January of 2006 we implemented an enhanced contract policy that ensures that we have improved accountability around the decision to contract, contract selection process, review and approval process, including the establishment of a contract review committee within the department, and stronger oversight over contract administration as well as contract wrap-up.

Mr. Rodney: Okay. Thank you. Now, two pages later in the same report of the same year there's a recommendation, and again it happens to refer to AADAC. It refers to credentials of prospective employees and ensuring that criminal record checks are completed in accordance with policy. I just wonder what policies Finance has in place to ensure that this situation won't happen in this department.

Mr. Bhatia: As you can appreciate, a very large number of our positions are involved directly or indirectly in financial transactions, sometimes very significant financial transactions. So in conformity with the overall government policies with respect to criminal record checks and credit checks and so on, in our department there's a particularly extensive list of positions that are subject to those kinds of checks. We use credit checks extensively across the department and criminal record checks to minimize the probability that an employee with a compromised background would be in a position of trust.

Mr. Rodney: Thank you. Thanks, Chair.

The Chair: Thank you.
Mr. Bonko, please, followed by Mr. Herard.

Mr. Bonko: Thank you, Mr. Chair. On September 27, 2006, at the heritage savings trust fund meeting, the Member for Leduc-Beaumont-Devon asked about the timberland investment class. [interjections]

The Chair: Order please.

Mr. Bonko: He asked about the timberland investment class to the Department of Finance chief officer, Mr. Parihar. Less than 12 months before his heritage trust fund meeting the CIO issued a formal memo to the deputy minister about the hedging incident. Why wasn't there more information with regard to the committee at that particular time or at least coming clean as to what the incident was?

Mr. Cenaiko: What page is this on?

Mr. Bonko: That would be on page 490 of the annual report with regard to investment risk management.

Mr. Cenaiko: No, but in the documents you referred to.

Mr. Bonko: Oh, that was just with regard to a meeting.

Mr. Cenaiko: So that's not in here.

Mr. Bonko: It was a meeting of the committee which discussed that particular . . .

The Chair: Let's proceed, please.

Mr. Bonko: So I had asked the question.

The Chair: Who did you direct the question to?

Mr. Bonko: Well, to the deputy minister.

Mr. Bhatia: I don't have the transcripts of that meeting with me, nor have I looked at them, so I can't provide any further comment on the response that would have been given at that time.

Mr. Bonko: Okay.

Mr. Bhatia: There may be staff here who were present at the time, so I'll just ask if any of them can comment any further on that.

The Chair: Sir, if you could respond in writing through the clerk to all committee members, we would be grateful.
Take your second question, please.

Mr. Bonko: Okay. Second follow-up, then. Thank you, Mr. Chairman. Were Alberta taxpayers in any way, shape, or form to cover the losses of the other partners in the timberland class action there?

Mr. Bhatia: The government made the decision in light of the fact that the loss resulted from an error and resulted in losses to funds that were not only government funds but also funds for which the Minister of Finance is trustee, that it was appropriate to reimburse those funds for the losses. As a result and as I'm sure you're aware, but I'm trying to put into context for you, a supplementary estimate was approved this past session to provide compensation to those funds that are not direct government funds.

Mr. Bonko: And that'll be in the $7 million?

Mr. Bhatia: Yes, that's right.

The Chair: Thank you.
Mr. Herard, followed by Mr. Miller.

Mr. Herard: Thank you very much. Currently we're looking at the way that we are organized with respect to Finance. As a rookie I would think that we now have a department that oversees revenue and we have one that oversees expenditure. That's probably an oversimplification. It's going to be really important that we have a seamless transition from what we had to what we currently have and how we currently operate. At the suggestion of the Auditor General I'd like to know what sorts of actions Finance is taking with respect to Treasury Board to ensure that we do have a seamless transition so that next year we're not looking at a lot of different things that we don't understand.

Mr. Bhatia: Just a little bit of background. I think the intent of creating a Treasury Board ministry and a Finance ministry as separate departments in part was to strengthen the focus of both departments, in the case of Treasury Board on expenditure management and the expenditure budget process, and with respect to Finance the overall fiscal policy and strategic financial perspective for the government.

9:00

Starting immediately from the announcement of the new government structure, we began both informal and formal measures to ensure a seamless transition. The formal measures included the development, essentially, of an MOU between the departments clarifying the responsibilities of each department in the areas where they interact closely, which are really the areas of budget process, as well as ultimate reporting on the financial results. With a little bit of help from a consultant Brian Manning and I developed an agreement on the responsibilities, including the responsibilities for the key outputs, such as the fiscal plan, the estimates books, et cetera.

We also agreed that the initial transition would include the immediate transfer of some staff to Treasury Board where it was very clear that their responsibilities were transferred to the new department but a more gradual transition for others, in particular to allow the budget process to proceed smoothly this past spring. In fact, that was the case. The departments worked together very effectively to produce a budget quickly in response to the changes in cabinet and the delays caused by the leadership process.

The departments do have a clear understanding of their roles. There is always a need for close communication and collaboration between the departments, and that's an important part of the way we carry on today.

Mr. Herard: Thank you.

The Chair: Thank you.

Mr. Miller, followed by Dr. Brown.

Mr. R. Miller: Thank you. At the risk of editorializing, I just want to thank the deputy minister for his last answer because that's something I've been trying to find out for three months. So the committee works, and I appreciate your being here.

On April 24 in written correspondence the Auditor General did indicate to me that under Section 19(6) of the Auditor General Act it indicates that you need not report, and you did exercise that section, as you've described earlier this morning, and chose not to report. But the following week in this committee your Assistant Auditor General, Mr. Saher, when asked how often section 19(6) is used to choose not to report, indicated:

> I can't really think of a situation that would actually cause the audit office to use that given the broad scope of our mandate, which is to report publicly.
>
> If I could just add, from a practical point of view I've always considered that to be really guidance in terms of: deal with what is significant publicly.

As I've indicated, I certainly believe that an $11 million loss and a resulting $7 million supplementary supply is significant publicly. My question to you is: what was the situation in this particular case that was so extraordinary that caused you to go against your own office's policy and choose not to report?

Mr. Dunn: I'd like to take this opportunity to amend what Mr. Saher said. I don't believe he understood the context in which you were asking that question, Mr. Miller. This is a section which we do use throughout the course of all of our examinations. As you appreciate, we examine a vast number of entities. We could not report everything that we have come across in every entity in these annual reports.

We do actually use and exercise 19(6) in a couple of manners. When we meet with management of entities, whether a Crown corporation or a regional health authority, we meet with them, and we uncover various matters we discuss with them around their policies and their practices. We will report to them verbally. We will then also in other cases report to them in writing, which was explained as management letters, and it's from those management letters, that are in writing, that we will then bring forward our annual report or special reports to the House.

We have to exercise judgment around what is significant and what is important around the effective administration of the public sector. In this situation since it was brought to our attention, we were aware of what was happening. They had made adequate identification information awareness to others. As the deputy has indicated, they informed the pension plan stakeholders. They made sure in the actions that people were informed of what the policies were, the requirements. We did not see that there was anything further that we could offer or add. They had done what we had expected them to do. They had identified it, acknowledged it, and corrected their practices, and there was no recommendation or anything else that we could bring forward.

Mr. R. Miller: Thank you. My concern is that everybody was informed with the exception of the public. I guess my question would be: if it's not standard practice, why do we not report such things in the annual report and indicate that the appropriate changes have been made, that the recommendations from your office that you made when you met with the department were undertaken and that steps had been taken to make sure that this isn't done again. I note often in your reports that you will indicate in follow-up years that progress is being made. Why would you not have reported this and then indicate that changes have been made and you're satisfied with the changes that have been made?

Mr. Dunn: At that time we decided, as I said, that the situation was identified, acted on, and corrected, and there was nothing further for us to offer. We chose at this time not to report it.

The Chair: Thank you.

Neil Brown, please, followed by Mr. Bonko.

Dr. Brown: Thank you, Mr. Chairman. My question is to the deputy minister regarding the '05-06 revenue projections when revenue exceeded the budgeted amount by $8.2 billion, which is about 22 per cent, which seems to me a very large number. I can certainly understand the volatility of natural resource revenues, oil and gas, through many factors which are beyond our control, such as the world oil supply or geopolitical concerns or even how cold the winter is, but as I understand it, one of the large contributing factors to the surpluses is the amount of money that we get from the sale of lands. It seems to me that those things could be better forecast by looking at what industry is doing, by doing some sort of survey of the industry and also getting information from the Department of Energy. I'm wondering whether or not any steps have been taken to increase the accuracy of your projections with respect to budgeting revenue from mineral land sales.

Mr. Bhatia: I can really only give a partial answer to that because the details would have to come from the Department of Energy. What I would say is that, in fact, the land sales component is probably one of the most difficult revenue sources to forecast because it is the direct result of companies' intentions to explore and develop land for oil and gas. Therefore, the amount that they are prepared to pay and the volume of land that they are interested in bidding on can vary very significantly depending on oil prices, market sentiment, and a variety of other factors. So it is a particularly difficult revenue source to predict.

I will just ask whether one of my staff wants to supplement that because they have the direct interaction with Energy on our revenue forecast.

Mr. Robertson: Sure. I can provide you with some context. Basically, this number does come from Energy. We work very closely with our colleagues on the nonrenewable resource revenue forecast, but this number does originate with the Energy department. I would also say that that was just an extraordinary year. Land sales came in at $3.5 billion. That was $2.2 billion higher than the previous year, which was a record. So it just surprised everyone. I know from my background in forecasting, as Robert said, that land sales is one of the most difficult things to forecast in the whole revenue slate.

9:10

Dr. Brown: Well, given the fact that there's a long lead time, perhaps as much as two years or so, between the time when the leases are let out or purchased by mineral companies to the time when production comes into play, it seems to me that it would be inherently more predictable. But I'll accept your answer and just ask you whether or not in your view there is any control over the amount of those mineral leases that are given out over a period of time or whether or not that's part of your budget process or whether that's entirely within the purview of the Department of Energy.

Mr. Robertson: It's within the purview of the Department of Energy. I mean, these are the land sales bids. It depends on the amount of land they put up, the quality of land they put up, and the feelings of the individual companies as to what to bid for these parcels of land.

Dr. Brown: Well, given that it's the Department of Energy putting up the land, though, shouldn't they be able to give you some idea?

Mr. Bhatia: Maybe I can supplement on a couple of things. The point you made a minute ago about the lead time between the land bids part of the process and the production, that's actually our point, that it's the bidding for land that starts the process and is so dependent, as I indicated, on the particular views of industry at any moment in time. That then leads to exploration and development and production. Of course, from the production we get the royalties. The volume of oil on which we're collecting royalties is relatively more predictable. So it's that initial signal from the land sales that is one of the factors that helps us to predict future production, that part of which is a little more predictable.

In terms of the intentions for land sales, I mean, it's kind of a collaborative process, as I understand it, between the Department of Energy and industry, and industry has a lot of say in what land goes up for bid. It's land that one or more members of industry is interested in activity on, and they have a process with a lot of confidentiality in it and a balance between confidentiality and fairness, that you'd have to ask them about. But it is at least in part initiated by industry, so it's not something that the government has direct control over the volume.

The Chair: Thank you.

Mr. Bonko, please, followed by Ray Prins.

Mr. Bonko: Thank you, Mr. Chair. Could the department provide members with a breakdown of who owns the timberland investment class?

Mr. Bhatia: I can give you an indication of that right now, and I can then follow up with the specifics. The timberland investment is held across a number of our funds. In terms of the pension plans the local authorities pension plan, the public service pension plan, the universities pension plan, and the special forces pension plan account for the pension plan ownership. The management supplementary plan, I believe it's called, owns a very small portion. Then with respect to government funds the heritage fund owns the largest share, followed by the medical research endowment fund, the science and engineering research fund, and the heritage scholarship fund. A couple of the smaller long-term disability funds also own pieces of it. We can provide the specific numbers to you.

Mr. Bonko: I thank you much for that.

How much of the entire investment does Alberta own? You somewhat mentioned it having a larger share, but I'm not sure as a percentage.

Mr. Bhatia: Alberta as a portion of the total investment?

Mr. Bonko: Correct. Yes.

Mr. Bhatia: I'm not sure I know that number offhand. I don't know if anybody else does.

The Chair: If the committee would refer to page 141, please, of the 2005-06 annual report. Perhaps the answer lies there, and perhaps Mr. Bonko was asking who owns the rest of timberland. In 2006 87.6 per cent as a percentage of the ownership was the heritage savings trust fund. Is that what you're asking? Who owns the other 12.4 per cent of the pool?

Mr. Bonko: Yes. That would be those other ones that he mentioned, then.

The Chair: No, I don't think so.

Mr. Dunn: Well, I'll let Robert go, and then maybe we'll supplement.

Mr. Bhatia: I'm not quite sure which part you're asking about, but we can provide the answer to both. I gave you a general indication of in the government of Alberta family which funds own an interest in timberland. As I said, we'll give you the specifics on that. The government, Alberta Investment Management, is a partner with others in that investment. If you're asking what share of the total investment we do own, we can also provide you that information, but I don't have it at hand.

Mr. Bonko: That would be fine. Thank you very much.

I have no further questions, Mr. Chairman.

The Chair: Thank you.

Mr. Hug: I could supplement that based on the audit that we do. Our understanding is that Alberta's share is between a quarter and a fifth of the total investment, 20 to 25 per cent.

The Chair: Okay. Thank you.
Ray Prins, please, followed by Mr. Miller.

Mr. Prins: Thank you, Mr. Chair. I'm just referring to page 33 of the Alberta Finance annual report. There we talk about collecting taxes. It shows that we've actually spent about $25 million to collect about $300 million. That's a 12 to 1 ratio. I'm just wondering what would lead to these losses in the first place.

Mr. Bhatia: The reference to approximately $300 million is the specific additional amount collected because of the activity of our tax administration. The total amount of taxes collected is much larger. Our entire corporate income tax base – for example, our fuel tax, our tobacco tax – is all taxes administered by the tax and revenue administration division.

What we're measuring in this performance measure is what additional amount of revenue we can actually attribute to the direct actions of the tax administration. If a corporation files its tax return and pays its taxes on time and we have minimal intervention other than a routine review of their return, we don't count that in this performance measure. If, on the other hand, we do a review or an audit or we undertake collection action or something like that and that results in incremental revenue, that's what we're measuring here.

Mr. Prins: My second question would be: is this a typical amount, or is this ratio trending up or down, or is this pretty stable from year to year?

Mr. Bhatia: It does vary somewhat because you might have a year when there's a particularly large audit, for example, that results in a larger amount being collected as a direct result of our activity.

I'll just ask Jane Clerk, who's the assistant deputy responsible for that, to supplement in terms of any trends that we see in that measure.

Ms Clerk: Thank you, Robert. The typical trend in that is that you'll see over the last three or four years that it kind of bounces up and down. As Robert said, it depends on our activity in our audit files that we check. In 2006-07 we're at a 15 to 1 ratio. What we'll be doing is reviewing that measure in terms of those results. We're also introducing an enterprise risk management process so that we can assess our risk relative to different programs and ensure that we are in fact targeting our resources at the most effective areas.

9:20

The Chair: Thank you.
Mr. Miller, please, followed by Mr. Cenaiko.

Mr. R. Miller: Thank you, Mr. Chairman. I have two questions regarding correspondence, one to the deputy minister. I understand that there was a formal memo issued by AIM's chief investment officer to the deputy minister on October 28, 2005, in regard to the timberland class. I'm wondering if you could share that memo with the committee. I've not been able to get access to it to this point.

Also, I had asked the Auditor General regarding management letters and in particular the management letter that would cover '05-06 and the investigation and recommendations that were made regarding this particular situation.

So I guess that's two questions to both of you.

Mr. Bhatia: In terms of providing the letter, I'd like to take that under advisement, if I could, please. I wasn't sure I caught the second part of your question.

Mr. R. Miller: I'm sorry. I actually asked two there. One was for you, and then the other one was for the Auditor General about the management letter.
Thank you.

Mr. Dunn: We did not have a recommendation to the management of AIM in regard to that because the matter when identified, as you appreciate, was during the middle of the fiscal year. They had identified it, acted on it, and had amended their practices, so we had no recommendation either in our annual report or in our management letter.

The Chair: Thank you.
Mr. Cenaiko, please.

Mr. Cenaiko: Thank you very much, Mr. Chair. On page 97, recommendation 30 with regard to the supplementary retirement plans, and it goes on to page 98, where some health authorities and postsecondary institutions, other provincial agencies have established SRPs for their senior executives. I just wanted to get a sense, at the time of this audit and to where we are today, if there have been issues related to the supplementary retirement plans and if, obviously, the Auditor General has continued to review these.

Mr. Dunn: I'll start off and answer that, and I'm not sure if Finance wishes to supplement it. As the deputy had mentioned, there is a draft Treasury Board directive to amend the disclosure around supplementary retirement plans, and you might remember that there was some media hype around this. Those of you from Calgary will remember that it became part of the issue around: what is the compensation of the CEO of the Calgary health region?

Certainly, all the authoritative guidance that I've looked at says that total compensation includes all that is currently paid together with what is deferred for the future, which includes all pension costs. I indicated that the total compensation would include the supplementary retirement plan. The supplementary retirement plan brought the salary in excess of a million dollars.

It was following that that we said that if there's uncertainty and lack of clarity within the public sector on whether or not these things should be reported – that's why we made the recommendation, Mr. Cenaiko, to have these reported. Also be aware that to the extent that these are being expensed in the current year, the current year's budget is providing for the expense, but these are not funded plans. Unlike the supplemental plan for senior management in the public sector, these are not funded; therefore, the liability accumulates on an unfunded basis. You have paid for it from the public sector down to the entity, and if the entity does not fund it, then when the individual retires, that money has to be paid out. You'll want to ensure that those entities have sufficient resources to provide for that liability, or else you're going to have to fund it again. That's why there is a danger in these plans that they could actually have to be funded twice.

My experience in the current year – Mr. Chairman, I'm going to go into the current year of '07 for a brief moment – is that the entities that have an early close off and reporting now are following the draft Treasury Board directive. It's certainly our office's encouragement for all of them to follow the draft Treasury Board directive and ensure that these are properly described so that the total of the compensation of all the senior executives who are covered by that and have to be disclosed are all on one schedule, which is what I've seen happening, together with the liability by individuals. So you'll see the amount which is going to be paid on their retirement or separation from employment. Those are being disclosed this year, so when the March 31, ’07, financial statements are available, you should see the various entities following the recommendation that was made here.

Mr. Cenaiko: So the liability is carried forward, then? It’s continuing to be carried forward because it hasn’t been paid out that year because they’re still employed?

Mr. Dunn: That’s right.

Mr. Cenaiko: So it’s not really a salary, just for clarification. The total compensation would be if they ended today, not if they stayed for three more years.

Mr. Dunn: Total compensation is what you receive today. A lot of people say: what were you paid? That’s how much might be on a T4 slip. That’s what you were paid. Total compensation includes all that you have earned, thus paid today and received in the future. Like any other pension obligation an SRP should be included in the total compensation that goes out for the senior executives because those amounts will be paid out following their employment for which they are not providing any further service, and you are obligated to pay those out. So those have been earned in the year and must be included in their compensation for the current year.

[Mr. Prins in the chair]

Mr. Cenaiko: So, then, technically MLAs would have to include the transition allowance in their total compensation.

Mr. Dunn: In total compensation, that’s right, although not received until subsequent to your involvement.

Mr. Cenaiko: Okay. Thank you.

The Deputy Chair: Okay. The chair has been ceded to myself, so I’m going to follow down the list. The next on the list is Hugh MacDonald.

Mr. MacDonald: Thank you very much. On page 38 of the Auditor General’s annual report 2005-06 he has a lot to say about the Fuel Tax Act and the fuel tax regulation. I’m going to read this. “The annual [operating] cost of the exemption to Alberta Finance is approximately $72 million, meaning that Alberta loses $72 million tax it would collect each year if the program didn’t exist.”

The Auditor General also points out that there are multiple users of the department’s farm fuel database. “Alberta Finance uses the information in the Department’s farm fuel benefit database to monitor use of the benefit.” Are you confident that that database is accurate?

Mr. Bhatia: I think I’ll ask Jane Clerk to respond to that as her division administers those related programs.

Ms Clerk: There are two elements to the database. There are the farmers, which are administered by Alberta Agriculture, and then there are off-road users, which are administered by Alberta Finance directly. With respect to the farmer database our system is synchronized with Agriculture’s system, and as their registration process updates or changes, it is updated in our database as well. So I’m confident that through our electronic interchange processes we reflect what Agriculture has approved on a regular basis.

With respect to the tax-exempt off-road fuel use program we have a regular three-year cycle where we renew the declarations from those participants. We maintain that database regularly. We provide information to the bulk dealers who sell that fuel. Electronically they can access that database to check whether farmers are in fact eligible or whether off-road users are eligible. So I am confident that that is as current as it can be.

Mr. MacDonald: Okay. My follow-up question, if you don’t mind, please. Further along in the Auditor General’s report he indicates that “the Department” – and I’m assuming that it’s the department of agriculture – “does not verify the information in application forms before issuing a certificate” and that a renewal process has not been completed since 1997. What have you done in this fiscal year to ensure that taxpayers can have confidence in the database?

9:30

Ms Clerk: Well, as I said, we maintain direct contact with Agriculture regularly. Agriculture has complete responsibility for the registration of farmers. I would suggest that you perhaps direct that to the department of Agriculture, but we do maintain a complete reconciliation with their database.

Mr. MacDonald: Thank you.

The Deputy Chair: Thank you.

Next on the list is Mr. Strang, followed by Rick Miller. Go ahead, Ivan.

Mr. Strang: Thanks, Mr. Chairman. What I’d like to just discuss is on the business plan. It’s on page 181. I’m looking at your goal 1, and that’s on a financially strong, sustainable and accountable government. I’m just curious. You know, you had your actual for 2004-05 as 55 per cent, yet when we look at your target for 2006-07, you’re up 15 per cent. With the aspect of looking at the budget itself and capital planning and that, when we’ve got the regional health authorities, the schools, and the postsecondaries, what significant aspects did you do to bring up the confidence by 15 per cent?

Mr. Bhatia: I just want to make sure that we’re correct in what you’re asking about. You’re asking about the awareness of the government’s budget and fiscal planning and the like?

Mr. Strang: That’s correct.

Mr. Bhatia: The 70 per cent I believe is the target that we’re striving for there. This is an area of ongoing challenge. We strive to continuously improve the nature of the information that we’re providing to Albertans and ensure that it’s in as simple and readable format as possible. But it is a challenge to reach out to a really wide range of Albertans directly with that information. We are doing some work with organizations across the country to try and identify and develop and implement some best practices around that.

I’ll ask Grant Robertson if he can supplement any further.

Mr. Robertson: I think, basically, Robert, you’ve covered anything I could add to that.

Mr. Strang: Thank you.

My supplementary question is from the same book on pages 184 and 185, and that’s your goal 5. It’s effective leadership in risk management. I guess the big concern I have now, especially with identifying the risk – and as you realize, with the age that we’re in, there’s always a liability on anything we do. I’m just wondering:

how are we covering ourselves on this risk management, especially with the cost overruns that we had in 2005-06?

Mr. Bhatia: Could I just ask for a clarification? What types of cost overruns?

Mr. Strang: Well, cost overruns on the aspects that we're dealing with, especially in infrastructure and transportation.

Mr. Bhatia: Okay. That's a potentially very broad question. Part of Finance's direct responsibility is the risk management fund, which is essentially our internal insurance mechanism. That group is focused on trying to mitigate risk from unintended events, from liability claims, from accidents, that kind of thing. They spend a lot of time with ministries helping them to identify the risks in their business and helping them to find ways to mitigate those risks. Our group also purchases external insurance where it's cost-effective to do so. So that's one type of risk management. On the broader concept of risk management, first of all, the government is working to implement enterprise risk management approaches in each ministry, and we're certainly actively working on that ourselves.

With respect to cost overruns and some of those issues, that is one of the focal points of the new Treasury Board ministry, to in fact improve our capital planning, our processes around capital projects, and our budgeting with respect to capital projects. On that point, I'll just ask Doug Lynkowski if he has anything that he'd like to add.

Mr. Lynkowski: Thank you, Robert. Just with respect to enterprise risk management there is a framework that has been approved, and government departments will be implementing a risk management framework for the '08-11 business planning cycle. That'll become part of the business planning process, so that will look at high-level risks and mitigating strategies to counter any of the potential risks that the government might face as business risks.

With respect to the Treasury Board ministry I know that we are looking at the concept of program reviews. That is currently being developed through a deputy minister committee and is still in progress. Of course, Treasury Board has established a capital plan, an alternative capital financing branch within Treasury Board that's also looking at the issue of infrastructure costs and cost overruns.

Mr. Robertson: If I could just add a supplement to that. Money has been put into the capital account in Budget '07 to deal with cost escalations that aren't offset by mitigation strategies.

Mr. Strang: Okay. Thank you.

The Deputy Chair: Next on the list is Rick Miller, followed by Neil Brown. Go ahead, Rick.

Mr. R. Miller: Thank you, Mr. Chairman. If I can draw your attention to page 104 of volume 2 of the annual report of the Auditor General. We're discussing enforcement systems at Alberta Securities Commission, and recommendation 7 was dealing with strengthening conflict-of-interest policies. It indicates in the report that the committee was expected to make final recommendations to the commission about a new policy by the end of 2006, and the Auditor General indicates that to finish implementing this recommendation, management would need to implement the policy and show that it's working effectively. We're now five months into 2007. I'm wondering if you can indicate to us whether or not that did in fact take place and what steps are being taken to show that it is working effectively.

Mr. Bhatia: The commission is still finalizing its new policies in that area. However, it did implement an interim conflict-of-interest system. The interim system, as I understand it, is functioning well. The Auditor General can comment, perhaps, further on that. A commission committee is examining the conflict-of-interest policies of other securities regulators as well as other possibly comparable private and public organizations. That work has not, as I understand it, quite been finished off, but it's clearly the intent of the commission to finish and implement those practices.

Maybe I could just ask Dennis if he has anything to add, but it is very much the intent of the commission to have a best practices policy.

Mr. Gartner: I have nothing else to add. I think what Robert said is complete.

The Deputy Chair: Further comments?

Mr. R. Miller: Thank you. My related question, I suppose. On the following page, 105, there is discussion of hosting and working sessions policies, indicating that satisfactory progress has been made there. Again, it says that there was a completed draft copy presented on March 15, 2006, and that the policy would be brought to the commission board for approval in fiscal 2007. So I'm wondering if that has happened yet or at what point we're expecting that to take place.

9:40

Mr. Bhatia: I don't have any additional information on that specific point.

Mr. R. Miller: If I could ask that you would provide a written – or perhaps the Auditor General can.

Mr. Dunn: Mr. Miller, since these were recommendations that were made public, we do follow up all public recommendations made. We are just now completing the audit of the Securities Commission for its '07 year-end, so we will be following up those recommendations to see where they are. We will be reporting formally through the Auditor General's report in October of '07 on the follow-up as to whether they've adopted it. Indeed, if you choose, you could have, say, a written response via the department from the commission as to where they are today prior to us getting to our October '07 annual report.

Mr. R. Miller: Thank you.

The Deputy Chair: Next is Neil Brown, followed again by Hugh MacDonald.

Dr. Brown: Thank you, Mr. Chairman. I'd like to ask a question regarding the $8.2 billion of excess revenue over budget in the '05-06 year. It seems like there is a tendency to have an excess of revenue over budget almost every year. One would expect that if the budget estimates are made on an objective basis, you would have some sort of a bell curve and that you would have years when you were under estimate as well as over estimate. Can the deputy minister tell me if there's a deliberate policy of being conservative when projecting oil and gas prices and revenues?

Mr. Bhatia: There's a deliberate policy of being prudent. One of the key indicators that we use of prudence is not just our own forecasts, which in the case of resource revenue are produced by the

Department of Energy – in the case of some of the other revenue sources, they are produced by our own department – but also with respect in particular to the price assumptions that are used in the energy forecasts, we benchmark those price assumptions against a range of private-sector forecasters, and we disclose that range of forecasts in the budget.

The underestimation of revenue is, in very general terms, a result of the part of the energy cycle that we've been in in the last few years, which has been, although certainly with a lot of volatility, generally rising prices and prices that have surprised virtually all observers to the upside. So in that kind of environment, it's almost inevitable that our forecasts will underestimate.

I'll ask Grant if he has anything to supplement.

Mr. Robertson: Plus there's one legislative factor, and that's that we operate under a balanced budget rule. When you ask, "Why isn't there a normal distribution so that sometimes revenue is higher than expense and sometime lower than expense?" in fact, we're required under the Fiscal Responsibility Act to not have a deficit. That's one of the risk factors that we have to take into account. It's a legislative factor that effectively affects how we do our forecasts as well.

Dr. Brown: A follow-up question, and that is whether your modelling or your methodology of projecting the oil and gas revenues is refined from year to year based upon the experience in past years and whether or not the advisers or institutions that you rely on for those projections are changed based upon their historical accuracy.

Mr. Bhatia: I'll ask Grant to comment.

Mr. Robertson: Sure. As a general rule we are continually looking at our models on particularly income tax, and our colleagues in the Energy department are continually looking at their models and where they get information from. As Robert had said earlier, we meticulously benchmark everything we do. So when we come up with a forecast, we will show what other private-sector forecasters have done in oil and gas. We will also provide sensitivities to each of those forecasts so that people can do their own calculations, if they wanted to. If they want to use a different oil price, a different gas price, a different exchange rate, that's all available in the budget document.

Out of interest, 2005 was obviously one of those years where we just had a surprise in nonrenewable resource revenue. It hit a record of over $14 billion. I went back to the '06 budget, and that's where we track and say: "How did people do? What was their record?" The actual oil price in '05 was just under $57. The average of the private sector – and these are people like RBC Capital Markets, Peters and Co., Lehman Brothers, JPMorgan, the Conference Board, and about three or four others, for a basket of about nine or ten. They missed that forecast. They were under by essentially $14. The Energy/Finance forecast was under by about $12. So we actually outperformed the private sector on the oil price.

If you look at what happened on gas prices, that was a tremendous year in '05. The gas prices averaged $8.63. When we look at what the private-sector community did, they were out by $2.66 lower, and we were out by $2.67 lower. I mean, we meticulously benchmark. We track what we're doing. We track what others are doing. We try and get the best advice we can. Our objective is to get as close as possible to the right number, but it's just an unpredictable world that we live in.

The other institutional thing that happens that's important is that when we do come out with a forecast on revenue, living in an uncertain world, then we have quarterly updates. So if something does develop, if a trend starts to set in on oil prices, gas prices – it could be the exchange rate now – we will reflect that in our quarterly updates as we go through the year.

The Deputy Chair: Thank you very much.

The next questioner is Hugh MacDonald, followed by Ivan.

Mr. MacDonald: Thank you. My questions are around schedule 4 on page 42 of the consolidated financial statements. We're looking at expenses by object in 2006 and a comparative for 2005 in the grants that are given out by the government. In the fiscal year 2006 grants to the Crown-controlled SUCH sector organizations, that's $12.4 billion, and other grants totalled $7.9 billion, for a total of well over $20 billion in grants. Should that grant amount balance with what is reported in the blue book for the fiscal year ended March 31, 2006? If they don't balance, why not?

Mr. Bhatia: I'll ask Doug Lynkowski to answer that question.

Mr. Lynkowski: Mr. Chairman, the financial statements and the annual report are prepared on an accrual basis of accounting, so commitments and accrued liabilities, et cetera, would be recorded in the annual report. The blue book is on a cash basis. It's on an as-paid basis as opposed to recording accounts payable. So they will not be the same.

Mr. MacDonald: They will not be the same.

Now, in the 2005 fiscal year-end they were out by $52 million. Are you telling me that eventually they should balance?

Mr. Lynkowski: Yes, Mr. Chairman. It's, in essence, timing differences.

Mr. MacDonald: It's timing differences. Thank you.

The Deputy Chair: Are those your two questions?

Mr. MacDonald: Yes.

The Deputy Chair: Okay. Thank you.

Ivan Strang, followed by Rick Miller.

Mr. Strang: Thanks, Mr. Chairman. I guess that the one question I want to ask is from page 182 of the business plan scenario, and what I want to talk about is your goal 2. As you realize, with the shifting information that is across our nation now, I'm just wondering: what kind of recommendations are you giving your ministry so that we can always keep to having the lowest taxes for the constituents of Alberta?

9:50

Mr. Bhatia: I'll give a general answer, and then I'll ask Grant to supplement. We monitor and, in fact, publish in the budget a comparison of taxes across the country, and we monitor that very closely. We also monitor our competitiveness with other jurisdictions, primarily looking at particular states in the United States, and we monitor literature coming from others, such as the C.D. Howe Institute and so on, always with a view to looking at where our tax system is competitive and whether there are places where types of activity for which it isn't competitive or where perhaps the economic efficiency of the tax system can be improved.

So it's an ongoing process. We evaluate changes that the federal government is making and whether those should be paralleled in Alberta to the extent that we have discretion on those matters. We also provide input to the federal government from time to time on our views on tax measures. We carry out kind of a range of activities all in the aid of monitoring the tax system for efficiency, for competitiveness. As well, of course, we get from time to time submissions from outside parties who are asking us to look at particular measures, and we look at them within that broad frame of competitiveness and efficiency.

Grant, would you like to add anything?

Mr. Robertson: That covers most of it. I guess the other thing that we do is that over the years, when we felt it necessary, we've had tax review commissions. So we've had separate commissions to look at our tax environment and its competitiveness, and we also do periodically major tax reviews. We did one a couple of years ago that looked into our tax competitiveness.

Mr. Strang: Okay. Thank you.

My supplementary. Robert, in one of your other lives here with the aspect of the Alberta heritage trust fund: how are we going to get out to our constituents that we really have one? It doesn't matter how many people I talk to. When you go and talk to the schools, you know, the grade 6 classes, even the teacher doesn't believe we still have one. I'm just wondering how we're going to get that message out. I mean, it's a good story. I'm just wondering how we're going to get that out to our constituents.

Mr. Bhatia: I understand the challenge. One of the items in the mandate letter that the Premier directed to hon. Dr. Oberg is to establish a financial investment and planning commission, and that is intended to focus on the savings mechanisms that the province uses. I expect that that will cover a pretty broad range of questions, including relating to the heritage fund, and it may well comment on how its visibility can be improved and how communication about it with Albertans can be improved.

Mr. Strang: Thank you very much, Robert.

The Deputy Chair: Thank you.

Next is Rick Miller.

Mr. R. Miller: Thank you, Mr. Chairman. Page 100 of the second volume of the annual report. In reference to recommendations made by the Auditor General regarding Alberta Treasury Branches, recommendation 3.1.1 regarding lending policy compliance – and these are recommendations that the Auditor General's office has been making since 2003 – shows that satisfactory progress has been made in terms of having lending officers comply with corporate lending policies. But it also indicates that more time will be required to reach full compliance. I'm wondering if you can comment on that since we're now, you know, four years into this process, and they're still saying that more time is required.

Mr. Dunn: It's a matter that we have been following up with senior management of ATB for a number of years.

I'm going to turn this over to Jim Hug, who has been involved and responsible for the ATB audit for, I guess, the last nine years.

Mr. Hug: In terms of, you know, how long it will take to rectify the problem, I really can't give you an answer on that. We are following up with them on what they are doing to rectify the problem. For example, as we indicate in the report, they're looking at trying to prioritize their policies to indicate to their staff which are the most important ones to be followed. There's also some additional training that's going on. There's additional compliance staff that have been hired to help monitor the situation.

It's the kind of thing that won't change overnight. In fact, in the long term I doubt if you would ever have in any branch or lending situation a hundred per cent compliance. So the question becomes: when will we reach a state of reasonable compliance? We will continue to monitor that. At the time that we believe they have achieved that, we'll indicate that the recommendation has been implemented.

Mr. R. Miller: Thank you, Mr. Hug. In the same vein, 3.1.2 talks about branch operations compliance, and again an indication that there has been satisfactory progress, but this is a recommendation that goes back to the year 2000. So now we're seven years hence, and we're still indicating that it's going to take time to achieve acceptable standards. I'm wondering if you're as frustrated as I am when I read that. How long do we have to wait for ATB to comply with your recommendations?

Mr. Hug: It does go back a long way. I don't think that management worked diligently in those early years to rectify the problem. It became evident after a few years that what they were doing wasn't being successful, and the compliance problems were continuing. I feel comfortable that in the last couple of years management is focused on these issues and is working diligently to correct the problem. So I'm hoping that in the near future we can report that it has been rectified. Again, it's not possible for me to say exactly when that will occur.

Mr. R. Miller: Thank you.

The Deputy Chair: Thank you very much. We're just about out of time, and we have two left on the list. I'm going to ask them to maybe just read in their questions if they want written answers.

I'll go to Dave Rodney first, then Hugh MacDonald.

Mr. Rodney: Thank you, Mr. Chair. I know we can only refer to last year's numbers and reports.

Dr. Brown: '05-06.

Mr. Rodney: The previous year's. It's a bit of a sensitive one. It involves investments. You know, this has been brought up in the House from both sides in the last few sessions having to do with investments in tobacco. I just wondered if we could find out what the policy has been and if we expect any change going forward on investments and the criteria by which we invest, especially when it comes to controversial sectors.

The Deputy Chair: Thank you. That's your question?

Mr. Rodney: That's my question.

The Deputy Chair: Then I'll go to Hugh MacDonald.

Mr. MacDonald: Thank you. My two questions are on page 99 of the Auditor General's report, volume 2. They're around the supplementary retirement plans. Why did the Department of Finance not do an analysis of costs and risks of the multiple supplementary retirement plans to the province? That's my first question, please.

My second question is: why did the accrued benefit obligation increase from $7 million to over $18 million in the same period?

Thank you.

The Deputy Chair: Thank you. Those questions will be written into *Hansard*, and the answers will be submitted back in writing through the clerk to all members of the committee.

At this point I would like to thank all of the members, Mr. Dunn and his staff, and the people from Finance for their answers. Thank you very much.

That will bring this meeting to an end. I think if there's no further business, we're ready for a motion to adjourn.

Mr. Strang: So moved.

The Deputy Chair: All in favour? That's good. Thank you.

[The committee adjourned at 10 a.m.]