



Legislative Assembly of Alberta

The 29th Legislature
Second Session

Standing Committee
on
Public Accounts

Treasury Board and Finance

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Second Session**

Standing Committee on Public Accounts

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Standing Committee on Public Accounts

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Monica Park, Director, Banking

Mark Prefontaine, Senior Assistant Deputy Minister

Stephen J. Thompson, Executive Director, Capital Markets

8:30 a.m.

Tuesday, April 5, 2016

[Mr. Fildebrandt in the chair]

The Chair: Good morning, everyone. I'll call this meeting of the Public Accounts Committee to order and welcome everyone in attendance. I'm Derek Fildebrandt, chair of the committee.

I'll ask members and guests to introduce themselves for the record, starting to my right.

Mr. S. Anderson: My name is Shaye Anderson. I'm the deputy chair and MLA for Leduc-Beaumont.

Ms Goehring: Good morning. I'm Nicole Goehring, MLA for Edmonton-Castle Downs.

Ms Renaud: Marie Renaud, MLA for St. Albert.

Mr. Dach: Lorne Dach, Edmonton-McClung.

Mr. Westhead: Cameron Westhead, Banff-Cochrane.

Mr. Malkinson: Brian Malkinson, Calgary-Currie.

Ms Luff: Robyn Luff. I'm the MLA for Calgary-East.

Ms Miller: Barb Miller, MLA, Red Deer-South.

Dr. Turner: Bob Turner, Edmonton-Whitemud.

Mr. Gotfried: Richard Gotfried, Calgary-Fish Creek.

Mr. Thompson: Steve Thompson. I'm the executive director of capital markets with Treasury Board and Finance.

Mr. Prefontaine: Mark Prefontaine, Alberta Treasury Board and Finance.

Mr. Epp: Lowell Epp, Treasury Board and Finance.

Ms Park: Monica Park, Treasury Board and Finance.

Mr. Minnaar: Phil Minnaar, principal with the office of the Auditor General.

Mr. Ireland: I'm Brad Ireland. I'm an Assistant Auditor General.

Mr. Zurbrigg: Doug Zurbrigg, principal with the Auditor General.

Mr. Hunter: Good morning. Grant Hunter, MLA, Cardston-Taber-Warner.

Mr. Barnes: Good morning. Drew Barnes, Cypress-Medicine Hat.

Mr. Cyr: Scott Cyr, MLA for Bonnyville-Cold Lake.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: A few housekeeping items before we turn to business. Microphone consoles are operated by *Hansard*, so there is no need for members to touch them. Audio of committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts can be obtained on the Legislative Assembly website. Please turn your phones to silent as they may interfere with the audiostream.

Are there any additions or changes to the agenda as distributed?

Seeing none, would a member move that the agenda for the April 5, 2016, meeting of the Standing Committee on Public Accounts be approved as distributed? Mr. Dach. Any discussion? All in favour? Opposed? Carried.

Do members have any amendments to the March 15 minutes as distributed?

Seeing none, would a member move that the minutes of the March 15, 2016, meeting of the Standing Committee on Public Accounts be approved as distributed? Ms Goehring. Any discussion? All in favour? Opposed? Carried.

I will welcome our guests from Treasury Board and Finance here today to speak to the economy and efficiency of cash management systems in the government of Alberta, which the Auditor General addressed in his February 2016 report. Members should have the committee research and Auditor General briefing documents as well as the updated status of the Auditor General recommendations submitted by Treasury Board and Finance. We'll begin by inviting senior ministry officials to provide opening remarks of not more than 10 minutes. The remaining time will be offered to committee members to ask questions.

You have the floor.

Mr. Prefontaine: Thank you, Mr. Chair. We appreciate the opportunity to attend today's committee meeting and discuss cash management and banking activities within the Department of Treasury Board and Finance. As you've heard, my name is Mark Prefontaine, and I'm the senior assistant deputy minister for the Department of Treasury Board and Finance. With me is Mr. Lowell Epp, assistant deputy minister of treasury and risk management within the department, and two of his colleagues, Mr. Stephen Thompson, executive director of capital markets, and Ms Monica Park, director of banking. Mr. Epp's division is responsible for many aspects of cash management and banking for the government of Alberta.

I want to start off by saying that Minister Ceci has broadly accepted the Auditor General's recommendations regarding banking and cash management and has publicly expressed a desire to resolve this rather complex matter, but a lot of work lays ahead. For starters, the government's first task is to develop a detailed response to the Auditor General's report. That process includes working with the Auditor General, the Deputy Ministers' Council, and cabinet and will take many months to complete.

So it is somewhat unique that we're here before you today to answer questions when the government has not yet had a chance to formally respond to the Auditor General's report. Nevertheless, the commitment was made for Treasury Board and Finance to speak to this issue today, and we're happy to be here to the extent that we're able to speak to the matters.

First, I want you to know that cash management is a critical and complex function in government and one that the department takes very seriously. In fact, our department initiated a number of actions prior to the audit to address the issues that were later identified in the Auditor General's report. These actions include conducting a review of banking practices across government and a review of the consolidated cash investment trust fund to determine whether it should remain in place in the future. The department has also worked with other government departments and agencies to improve cash management practices.

One example is working with the Alberta Gaming and Liquor Commission to reduce cash holdings within the AGLC and move cash more quickly from the lottery fund to the general revenue fund. The department is also examining other aspects of cash management and the legal, technological, and structural implications of making changes to how cash is managed. For our

part, the department is ready to proceed with the procurement and implementation of an automated treasury management system as funding has been recently approved. I should add that our department brought forward similar funding requests before, most recently in 2014.

I would now like to provide you with some historical perspective. Cash management as it is practised today in the government of Alberta is a result of numerous decisions made in the past about government structure and relationships between departments and agencies. For instance, relative to other provincial governments, Alberta tends to have a decentralized model. This is not necessarily good nor bad, but it has had an impact on how responsibilities have been divided, including the responsibility for making payments and collecting revenues. This has clearly impacted how our banking services have been structured and how cash flows through government.

The budget and accounting environment has also evolved in recent years. For example, 2015 was the first year that the budget was presented on the same scope and basis as the consolidated financial statements in the annual report. Among other things, this means that the financial impact of the SUCH sector is included directly in budget revenue, expenses, assets, and liabilities. This change in how government is viewed financially is now only working its way through other aspects of how government is managed, including the management of cash resources.

The Auditor General suggested government evaluate how it can use excess liquidity in government-controlled entities to reduce the government's debt and borrowing costs. While it's possible these resources could be managed centrally to achieve better outcomes for government, in our view it's premature to have that discussion given that the government has not yet had the chance to provide a formal response to the Auditor General's recommendations.

Another change I want to mention is in regard to the contingency account. As was foreshadowed in Budget 2015, the government plans on drawing down savings held in the contingency account. As you're likely aware, we expect the balance in the contingency account to be reduced to zero in the next fiscal year. Simply put, we're in a different fiscal situation than we were 10 to 15 years ago. Back then cash held by agencies was viewed differently, and government itself had accumulated cash from multiple surpluses, so the focus of cash management at the time was not on minimizing borrowing requirements but on maximizing investment returns on excess cash. It was for this reason the government created the consolidated cash investment trust fund, or the CCITF.

The CCITF is a mechanism created to pool the cash held by government and government agencies so that the cash could be invested in higher returning securities. In the absence of the CCITF, each agency's cash was invested in isolation and frequently was left in each agency's bank account, where it earned a substantially lower return. The CCITF enabled agencies to maintain sufficient access to their cash balances so they could meet their financial obligations while also maximizing their investment returns. The government worked closely with its bank, CIBC, to create a structure where the cash in each of the participating CCITF bank accounts was swept at the end of each day and deposited into a single account. This cash was then used to purchase short-term fixed-income securities by the investment management team at the Alberta Investment Management Corporation.

The participants maintained their bank accounts, which showed their daily balances as if the money had never left their account, but in reality there was no money sitting in those accounts, and the money had been used to purchase said investment securities. In essence, the department created a high-yield chequing account that earned a higher return for participants than the bank would have

paid to them but still allowed participant agencies to have the same access to their cash.

This pooling of cash to maximize investment returns made a lot of sense as a way to manage cash for the government and its agencies at a time when both cash balances and interest rates were higher. However, as the Auditor General states in his report, decisions made in the past may no longer be applicable to the environment we now find ourselves in. Clearly, Alberta's situation has changed, and that is why the department began work that adapts how cash is managed.

Before I conclude my initial remarks, I'd like to respond to some of the findings in the report. The department is in agreement with the major themes of the report as it had begun work already on addressing these issues before the audit was initiated, but the report makes some statements that the department feels provide an incomplete picture of cash management and banking in the government of Alberta.

8:40

One of those statements makes reference to driving a car without having a fuel gauge, which implies that the amount of cash held by government in its accounts cannot be determined. This is simply not the case. Approximately \$500 billion – half a trillion dollars – flows through the various government and agency bank accounts every year. In other words, on average about \$2 billion flows through our accounts on a daily basis. This money flows through our accounts efficiently, and payments and collections are made on time. It is true that the department uses spreadsheets to compile information about cash flows and cash balances. We also monitor the activity and balances of our bank accounts frequently throughout the day to ensure sufficient cash is available to make payments and that excess cash, where possible, is invested by the investment management professionals at AIMCo to earn the best return possible.

Is there room for improvement? Of course. The staff in the treasury and risk management division are very professional, capable, and justifiably proud of how they've been able to move enormous amounts of cash on a daily basis for the government of Alberta. The deputy minister and I are also very proud of their work. But the fact remains that an automated treasury management system is definitely needed and would enhance our processes and information by automating the collection and compilation of data.

The second statement that causes us some concern is that the department could have avoided about \$20 million in net interest costs if \$1 billion from the CCITF had been used to reduce borrowing requirements. As we understand it, this estimate compares the cost of money borrowed for an average term of about 10 years at about 2 and a half per cent with money invested in shorter term securities at about half a per cent.

This is an apples-to-oranges comparison and assumes that the department would have reduced long-term debt issuances with the \$1 billion in funds from the CCITF. Comparing interest rates on different terms assumes that interest rates will stay the same for the entire borrowing or investing period. If short-term interest rates rise in the future, the borrowed funds could be locked in at a very attractive rate while the cash earns a higher rate.

It would be more appropriate to compare the costs of short-term borrowing against the returns of short-term investing. During 2015 the CCITF earned an average return of .84 per cent whereas the average costs of the three-month debt issued by government was .64 per cent. The comparison of CCITF in short-term borrowing is not perfect, but it provides a more relevant comparison. This is not to suggest that excess cash should not be utilized to reduce the government's borrowing requirement. The department agrees that it could, and it is working toward that end.

In conclusion, I'd like to highlight some key points with respect to cash management in the Auditor General's report. As I stated earlier, the department recognized the opportunity for improvements in banking and cash management long before the report had been initiated and had a number of projects with this goal in mind. An automated treasury management system is a critical component moving forward in implementing necessary improvements. The department supports the procurement of an automated treasury management system to enhance our ability to manage cash more efficiently.

I want to impress upon you that this is not a job that someone will do off the side of their desk. It will take significant investment and the use of outside resources. Improving the cash management process will be complex as it includes policy decisions, legal and fiscal constraints, and structural and technological change, and it will require the assistance of other departments and agencies along with time and resources. But, in our view, it is the correct course of action.

Thank you.

The Chair: Thank you very much.

I'll open up the floor to questions from members. Please let me know if you have a question by raising your hand.

We'll begin with Mr. Malkinson.

Mr. Malkinson: Thank you, Mr. Chair. I'd like to focus my questions and attention on the issues of cash management and banking practices within the government. As noted in the AG report, there are many opportunities to improve cash management and banking practices across government. For decades it seems like the previous government wasn't taking meaningful action. They weren't pooling and using cash as effectively as possible, and they didn't acquire the most basic IT infrastructure required to properly manage the finances of one of the largest governments in the country. Indeed, it seems like it has taken a report from the Auditor General to draw attention to the obvious: we need a 21st-century system to effectively manage cash in the 21st century. The AG report notes that despite the department identifying the need for an integrated cash management system as far back as 2004, the government of the day took no action.

I have two questions. Why did the government take no action on the integrated cash management system? Why do TBF and other departments continue to rely on the use of Excel spreadsheets to manage cash across government?

Mr. Epp: As a department we submitted requests for an automated system, and the government assessed it against other priorities and made its decision. We were not privy to those considerations, so I cannot comment on why they did not. We simply made our requests and did the best that we could to acquire the system.

Your second question? Sorry.

Mr. Malkinson: Why do TBF and other departments continue to rely on Excel spreadsheets to manage cash across government?

Mr. Epp: Well, we rely on an Excel spreadsheet, a complex spreadsheet. It's not just a simple one that somebody drew up one day, you know. It's a fairly complex and automated spreadsheet. Excel is a very powerful tool, don't forget. That is one aspect of cash management. That is a compilation of data. Certainly, it could be automated. An automated treasury management system would pull in information from banks, from other systems that have cash flow information and would compile that for us, but it wouldn't change the quality of the information going in. It might change the accuracy because any time you are retyping numbers into the computer, there's a risk of error. Generally speaking, that doesn't

happen because we have a number of people looking at it, but that can happen. So it would speed up that process. It would improve accuracy.

We do rely on systems for our information. We rely on banking systems and their Internet platforms to get banking information frequently during the day. We are communicating with our banks through those systems throughout the day to monitor excess cash or shortages of cash so that we can react accordingly. We similarly rely on systems such as AIMCo's accounting systems to track the flow of funds because AIMCo's bank accounts are a big part of that – half a trillion dollars goes through them – and we interact with their systems.

So it's not without systems. It's just that the final piece that brings it all together is a spreadsheet.

Mr. Malkinson: Mr. Chair, am I in the queue for a follow-up?

The Chair: Yes. Okay.

Mr. Malkinson: Thank you, Mr. Epp.

In follow-up, you were talking about those systems and accuracy and that there was time spent on data entry and that there could be a risk of error. What type of savings could we expect to find with an effective cash management system? I know in the preamble you mentioned the need for a more modern IT system.

The Chair: A word of caution that it's bordering on a new question, but we'll let it go.

Mr. Malkinson: Thank you, Mr. Chair. My apologies.

Mr. Epp: It's very difficult to assess the impact of the system alone on how much money could be saved. Arguably, we could reduce it if the information we get is better – and that's an if, not a necessarily so – if we can integrate more fully with other government systems and departments, but again now we're going beyond the treasury management system. If we can reduce our daily variance and invest that money or reduce borrowing, we can save some interest there because the interest we get paid by the bank is less than we can earn in the market, typically. We're talking 10 or 20 basis points if we invest that in the market instead of leaving it in the bank. We're not talking hundreds of basis points, a basis point being .01 per cent. So that is certainly one of the things that we can do.

The major changes and advantages from cash management will come from using that system to improve our information and integrating it with other systems across government and within agencies. We'd have better information sooner, and we could co-ordinate that information.

Mr. Malkinson: Thank you.

The Chair: Mr. Cyr.

8:50

Mr. Cyr: Thank you. I really appreciate all you guys coming out here. It's great to see you. It looks like we've been seeing you quite a bit this last little while.

Mr. Epp: Well, it's the elevators, right?

Mr. Cyr: You're right. You're right.

I have a general question, but I'm going to need a little bit of history from you guys to answer it. You put forward the request in 2014 to update or go with the new management system, but it was rejected. I'd like to just ask a few questions on how this system works, if that's fine.

Mr. Epp: The approval system?

Mr. Cyr: Well, for instance, just general questions like: how many bank accounts do we have?

Mr. Epp: Oh, okay. Sure. We have 1,751 as of yesterday.

Mr. Cyr: Okay. Very specific. Thank you.

Mr. Epp: I thought you might ask.

Of those accounts, just to give you a little more background, 666, ironically, are for the use of agencies, and the remainder are for government departments.

Mr. Cyr: Now, these 1,751 accounts: are they with different banks across Alberta?

Mr. Epp: We have accounts with seven different institutions. Most of them would be with the CIBC but also with the other five major banks and ATB.

Mr. Cyr: Isn't that – I'm sorry, Mr. Chair. Can I continue?

The Chair: For a follow-up, yes.

Mr. Cyr: When you get these spreadsheets for each one of these 1,751 bank accounts, are those spreadsheets done by your department, or are they done by the specific ministry that is responsible for those bank accounts?

Mr. Epp: We have a core group of accounts that relate to the general revenue fund. No matter who is in control of that account, if you will, which department, we can look up the balances in that. For any of the government departments we have access to the information from the banks on how much is in there.

Mr. Cyr: Okay. So you guys actually don't do the . . .

The Chair: I'll remind participants to ask for a follow-up, but keep it orderly.

Mr. Cyr: So you guys don't actually do the entry work of creating those spreadsheets?

Mr. Epp: There's only one spreadsheet . . .

Mr. Cyr: There's one spreadsheet. Okay. That's a very good clarification.

Mr. Epp: . . . at least that we use; I can't speak for other departments.

There's one spreadsheet. It's a cash flow forecasting spreadsheet. If you look at it, you'll have no idea what it's trying to do because it's highly technical. It lists every major cash flow that's going to go through our bank accounts, our various key bank accounts. Quite frankly, when I say key bank accounts, the general revenue fund, as the report pointed out, isn't one account. It's a number of accounts. But we can go into that later.

We track those cash flows, and we know what transactions are coming up, whether they be investment transactions. Twice a week the government pays suppliers, so we track those. Service Alberta runs that payment system. So we get a day or two before how much is going through there. We track all those sorts of cash flows through that spreadsheet. The spreadsheet is simply the place where we put it together. We get information from wherever we can, whether that's other systems or, often, phone calls and e-mails with

departments for special types of payments; for instance, when our municipal grants are going out, those sorts of things.

Mr. Cyr: This will be bringing us back to what my original question was, Mr. Chair. To go back to why this was rejected in 2014, is there a bit of a turf war happening between the ministries because they don't want this management software put in place? Is that why it was rejected? I'm just trying to come up with why they wouldn't do this.

Mr. Prefontaine: Again, we can't speak to why certain decisions were made previously. We made the request. I can tell you that there are often a number of competing priorities. I certainly would not frame any relationships that we have with other departments as being a turf war. In fact, there are a number of ongoing conversations with the departments on how we can improve cash management broadly. That would be the best response to that question.

The Chair: Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chair. Thank you for being here with us today. Some great opportunities for us to improve some systems. It would seem to me that we don't have any challenges with respect to human resources. We've got some talented people running the system, but we do seem to have some barriers or impediments to improving the program. I guess, you know, looking at it from a businesslike perspective, it sounds like we need some IT improvements to go from spreadsheets to something more real time. I'm assuming that a lot of this involves some manual data entry and things like that. I guess the simple question is: how much will it cost for us to move into the 21st century on this, and what would be a potential savings on an annual basis that would justify that investment, to allow this to become a top priority for us in government?

Mr. Epp: The projected system cost right now is \$3 million, but we have not gone through an RFP or a request for information, which we expect to do this year. The request for information, we hope, will go out soon. Any time you're projecting costs, it's always dangerous to do so until you have sufficient information, but that's our estimate. That would include both the system and installation costs. Now, of course, there are different kinds of systems with different sorts of models, pay up front versus annual fees, so I use that figure with much caution.

Again, it is very difficult to assess the financial benefits. You know, as we pointed out in our opening remarks, if you compare it to our borrowing costs, for example, you're usually comparing apples to oranges, right? When we have excess cash, sometimes it's invested for as little as one day, often for as many as 15 days.

Just to back up a step. The province tends to have more cash in its bank accounts at the beginning and the end of the month because of the way revenues come in. Quarter-ends are better because we get income tax payments. The middle of the month tends to be when we are in negative cash, if you will, for that month. So at the beginning of the month we will often invest till the 15th, and then we will use short-term debt at times from the end to the beginning of the month. If we can reduce, you know, \$10 million of float and add 20 basis points – that's not \$3 million; I'm bad with math, apparently – that's a few hundred thousand dollars a year, certainly.

That doesn't encapsulate the whole value. Knowing where our cash is and knowing how we can use it can certainly help us rearrange our borrowing requirements, the amount of excess liquidity we have to hold. As we move away from a sustainability fund with a positive balance, the province will be borrowing, so we

have to look at cash differently. What happens if the markets shut down for a couple of months, which happened in 2008 largely due to the liquidity crisis? So what does our cash reserve have to look like? These are decisions that we are examining, and a cash management system will allow us to make better day-to-day decisions in that regard. If we can reduce our borrowing requirements, you know, along the lines of the Auditor General's report, that will also have a positive impact. By borrowing less, we're going to lose interest earned and offset it with lower debt service costs, but the impact that I think about is that if we have lower debt in the market, that means we have less to sell, and the price of that debt, the interest rate on that debt, will be slightly lower.

9:00

Mr. Gotfried: Just a quick follow-up, Mr. Chairman. It sounds to me that given the volume of the dollars we're dealing with in the treasury, even with a modest calculation, but certainly with some significant improvements, there could be a significant annual payback towards this investment. It might be larger, arguably, than what you're stating because I think you're being pretty modest with some of the improvements that possibly could be made. You know, the business case, I think, that could be made there and perhaps made a bit more strongly is: do you feel that maybe that could be drilled down or that we could quantify that so that we could show that an investment is going to be offset by a return on investment over a five-year period, for example?

Mr. Epp: We have done that in our submission, in all of our submissions. Certainly, we have shown that there are returns there. Those are highly technical calculations with a lot of assumptions, so I tend to be very modest about them for that reason. We're talking opportunity costs and savings that are hard to prove, quite frankly, so for that reason, I tend to be more cautious. We have no doubt in our own minds that this will pay for itself and it's the right thing to do.

Mr. Gotfried: Thank you. You know, we encourage you to move towards best practices and to save taxpayer dollars as best we can. Thank you.

The Chair: Mr. Dach.

Mr. Dach: Thank you, Mr. Chair. I appreciate the presence of members from the Treasury Board ministry and from Finance given that while the details of the government's response isn't yet formally public, you still agreed to appear. However, the President of the Treasury Board and Minister of Finance has indicated that he broadly agrees with the recommendations and will seek to implement them, and I was glad to hear that he's willing to move on the file. I am curious, however: do the officials know whether or not our sister provinces – British Columbia and Saskatchewan, for example – have implemented cash management systems, and if so, when and how familiar are you with them?

Mr. Epp: We're pretty sure that we're the only province in Canada without a treasury management system, an automated treasury management system. I hesitate to say without a treasury management system; we have a system. It has people instead of computers. But that's our understanding; we are the only province.

You know, another piece of information is that a lot of the information that other provinces would store in a treasury management system has been stored and is stored in what is now AIMCo's investment management system. It has a slightly different purpose and is not perfect, but that's the accounting system we use

for our treasury area. Remember that up until 2008 that was part of the department, so that was the IT decision that was made historically, and it did not address things like cash forecasting and compilation of banking information, polling of banks, and these sorts of things. But that's another part of the system picture.

The Chair: A follow-up from Mr. Hunter.

Mr. Hunter: Thank you, Mr. Chair. Have you been able to calculate the cost savings in employee costs if you were to automate?

Mr. Epp: Most of those savings would occur in other departments, so we haven't been able to do that. It goes deeper than a treasury management system. Bank reconciliation costs would be one, automating that function. I can't comment on those because that involves other departments. We certainly know that our cash forecasters – we have two full-time cash forecasters because if one goes down, we desperately need the other one, among other things. It's a key-person risk, clearly. Could we save one of those positions? Possibly. We can certainly get them doing higher value work.

Mr. Hunter: Mr. Chair, if I understand you correctly, there are two positions. You said that your system is human inputters versus an automated system.

Mr. Epp: Yes. Instead of having a system polling the banks.

Mr. Hunter: You say that there are only two people that are in charge of that?

Mr. Epp: Yes.

Mr. Hunter: Okay. Thank you.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. Again, thank you for answering our questions here today. The Auditor General went on to say that the system we've got is an antiquated system. I'm just curious. What can we immediately do to start to bring ourselves back into the 21st century here?

Mr. Epp: The key is the automated treasury system. That's the key piece of technology that we believe we need to in your words bring us into the current century. As far as the remainder of things, there are a lot of policy decisions.

Like I said before – or Mark said, actually – the consolidated cash investment trust fund was created to pool cash but for an entirely different purpose, and it was done in an entirely different circumstance. The accounting world was different. The interest rates were higher, we viewed agency cash differently, and we weren't borrowing. Certainly, most of that time we weren't borrowing. So those things have changed. But that's a policy decision and with legal implications for agencies. Quite frankly, we haven't done sufficient work to make a decision one way or the other on that.

Mr. Cyr: Okay. Thank you, Mr. Chair, and thank you for that answer. Now, this automated system that you are contemplating, are you going to be creating that from scratch through Service Alberta, or are you going to be getting that from some sort of international provider? What route are we going with this so that we have an idea of, I guess, the instability that's going to be created when we implement this new system?

Mr. Epp: We fully expect to buy or licence, I suppose, a system that's already in place. We have networked with our provincial counterparts to explore what systems they have. We will be doing a request for information to receive different proposals from industry. We need to do some learning ourselves on this, and that's the point of the request for information, to obviously learn what's out there. By all means, this is not an internally developed system. This is an external, proven system that we will be using.

Mr. Cyr: So when you made the recommendation . . .

Mr. Dach: With all due respect, Mr. Chair, have we not continued on this line of questioning long enough? There are plenty of other questioners in line. I believe we've exhausted this member's time in terms of follow-up, have we not?

The Chair: I do believe this questioning is straying a bit from the original, although I would ask you, Mr. Dach, to be recognized by the chair before speaking yourself.

Mr. Dach: Thank you, sir.

The Chair: But, yes. Mr. Cyr, I think we're going to have to consider that a new line of questioning and wait until we come back to you.

We're going to go to Ms Luff.

Ms Luff: Thank you. A lot of my questions have been answered already, but I think you can maybe just make things a little clearer for the record. You haven't formally responded to the Auditor General's report yet, but you did say that, you know, you've requested funds for this information cash management system for a long time. They have been approved, yes?

Mr. Epp: The budget hasn't been presented, but our understanding is that it will be in the budget.

Ms Luff: Okay. Provided that those funds are in the budget, we will be getting a new cash management system.

Mr. Epp: Yeah. Well, I can't presuppose what the Legislature will decide.

Ms Luff: Okay. All right. Given that this is probably coming down the pipe, if you could just elaborate a little bit more. Some people have, you know, asked already, but just elaborate a little bit more on: once this IT system is implemented, do you feel that it will take care of the basic functions as identified in the Auditor General's report, things like automated processes, reconciliations? You mentioned cash forecasting a little bit. Will we actually be able to properly manage cash within the government given this new system?

9:10

Mr. Epp: Absolutely. But I would argue that we properly manage cash now. It will enable us to do more and to do it more efficiently and to do some higher value work with people that are currently employed, by all means.

Ms Luff: Thank you.

The Chair: Ms Goehring.

Ms Goehring: Thank you, Mr. Chair, and thank you for presenting this morning. For years we've often heard that the previous government was an effective steward of the public purse. This report seems to indicate otherwise, that they weren't really minding

the store. Do we know on the specific item of uneconomical use of cash management how much it cost the treasury overall?

Mr. Epp: We've never done such a calculation. Within the policy decisions such as the CCITF decision to pool cash to maximize investment returns, we believe we did that. The CCITF, which is managed, has about \$4 billion in investments right now, give or take. It varies. It is used not only by agencies and other entities associated with government; it is also used by AIMCo's investment clients, where they want to invest in money market securities. For example, the local authorities pension plan has a permanent allocation to money market securities in its asset mix, and that money is invested in the CCITF. They feel that that's the best investment option for that particular asset allocation for that pension fund.

So I would argue that, you know, there's proof out there that that fund is an appropriate cash management vehicle. There are a lot of value judgments that could be made, I suppose, of whether or not cash could be used alternatively, but again that's really – you know, beauty is in the eye of the beholder, I would say. Within the policy framework that we have – the legal framework, policy framework, and governance framework – we certainly believe that we have managed as effectively as we can.

Ms Goehring: Thank you.

The Chair: Mr. Barnes.

Mr. Barnes: Thank you, Mr. Chair, and thanks to all of you for presenting today and for the work you do for Alberta. I want to talk about the execution of this. Mr. Prefontaine, in your opening remarks you said that the previous government made a commitment or decision to a decentralized model. I'm concerned that if we move to a lot more of a centralized model, we'll lose some of the benefits of what we have now. If you don't mind, could you speak to the strengths about what's working with the decentralized model and what the fears are, you know, 200 miles from Edmonton as to what might happen here?

Mr. Prefontaine: Don't let my comments be inferred that we're presupposing a shift away materially from the current level of centralization or decentralization. My comments were simply reflecting that where we've gotten to today has been a function of a series of decisions and a series of relationships that have existed for a long time, whether that be within the various departments of government or departments and their respective agencies.

One of the key things in terms of implementation or execution that we need to do is have very thoughtful and thorough discussions with departments and, through them, with their respective agencies about what's working well, what they would like to see as outcomes in the future to help them make decisions in managing their cash. As Mr. Epp pointed out, as a department within Treasury Board and Finance we have vision into all of these accounts, but we have control over a subset of those accounts, and what we need to do is work with them to find out what the most effective model will look like moving forward. Again, one of the things that's shifting in today's environment is relationships with agents of government, and we'll have to take that into account.

To say where we're going to land in terms of more centralized or less centralized, it's too early to say at this point in time. We're focused on what will make sense given the environment that we're in.

The Chair: Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chairman. There were some references in the Auditor General's recommendations of both 2012 and 2014 around performance measure targeting from the ministries and some of the parameters and expectations in that regard. Given the challenging fiscal environment that we're in, it would seem to me that those performance measure targets and measures against opportunities for greater efficiency and effectiveness are of key importance to all Albertans. I'm wondering if these are still some outstanding recommendations here with respect to improving that process. Is there further progress being made in terms of achieving that and thereby perhaps identifying areas for cost savings without affecting front-line services?

Mr. Prefontaine: So your question is related to performance metrics rather than the cash management recommendations?

Mr. Gotfried: That's correct.

Mr. Prefontaine: It was my understanding we were here to discuss the findings and recommendations regarding cash management.

Mr. Gotfried: Okay. I was just looking at that. Maybe I'll just defer my question, then, to some of the further risk with respect to cash management.

There are some recommendations also with respect to pension plan funding management. Is there anything related to the pension fund cash management that applies to the cash management discussions we're having today?

Mr. Prefontaine: One connection that would be made – and Mr. Epp has already referred to this – is that some of our public-sector pension plans do look at CCITF as an attractive option for short-term investment, but that's a policy decision they make at the pension board level and is an important part of the relationship that they have with AIMCo.

Mr. Gotfried: Okay. Thank you.

Mr. Epp: I should add that Alberta Pension Services, who manages the pension ins and outs, if you will, certainly have their bank accounts within our system, so that is part of the banking review that we did. I don't think that we found anything particularly egregious or any efficiencies there.

Mr. Gotfried: Those would be more long-term investments, I would assume, in those cases.

Mr. Epp: Yes.

Mr. Gotfried: Thank you.
Thank you, Mr. Chairman.

The Chair: Ms Renaud.

Ms Renaud: Thank you, Mr. Chair. You've been talking about different ways to effectively manage cash. We spoke about the IT, and you mentioned numerous times policy framework. Are there other steps – or could you elaborate on the steps we could take or that you could take – to manage cash more effectively? The second part of that is that you said that there were, I think, 1,751 bank accounts. I don't know where the number 666 came in, but it did sort of catch my attention.

Mr. Epp: That's how many accounts for agencies of government.

Ms Renaud: Okay. You know, we've heard a few times: "Are there too many bank accounts? Do we need to look at that?" I just wanted to hear your thoughts on that.

Mr. Epp: There are certainly opportunities for improvement. I'm unaware of many systems where there are no opportunities for improvement, and certainly cash management is one of them. Some of the activities we have focused on are working more closely with agencies.

We pointed out one. It doesn't seem like much perhaps, but the lottery fund used to in the past transfer money to the general revenue fund. All payments out of the lottery fund – to charities and community groups and so on – are actually paid through typical payment processes, which use the general revenue fund's accounts, so that money has to make its way into the general revenue fund eventually. It used to sit in AGLC in the CCITF, invested in the CCITF, for three months before it would be transferred, essentially four times a year. Once every three months they would transfer. They're now transferring once every month, and with a little luck we'll get that down. So there's one opportunity for improvement.

9:20

Another one is that for most agencies – and this is true not only because of banking structure but because of legal reasons – they can't run overdrafts. So if they have a short-term cash shortfall, how do they pay for it? They legally don't have an option. By the way, the CCITF doesn't allow for overdrafts.

So what happens? There's a tendency to carry too much cash. What's the worst-case scenario? Well, I could have – I don't know; pick a number – \$10 million go through, worst case, when the average is maybe \$100,000 or \$500,000. But since they legally can't run an overdraft, they have to protect themselves, so we have to look at banking solutions and perhaps legal and policy solutions that would allow a different approach to that question so that they don't have to hold cash to avoid that sort of 1 in 100 event where they happen to bounce a cheque. We certainly don't want any government of Alberta agencies bouncing cheques. That's the treasury management system. That's the banking system. That's the current IT systems. That's co-operation. It's not one easy solution. Quite frankly, I wish it was. This is very complex, much more complex than I ever imagined, quite frankly.

Ms Renaud: Thank you.

Mr. Epp: You also asked about the bank accounts.

Ms Renaud: Yes.

Mr. Epp: Could you repeat that question?

Ms Renaud: Well, you know, we've heard . . .

Mr. Epp: Do we have too many bank accounts, basically?

Ms Renaud: Yeah.

Mr. Epp: A simple answer would be yes. If our goal was managing bank account fees only, the answer would be yes, but I'd rather move cash efficiently and have too many bank accounts than reduce bank accounts and reduce efficiency. My team and I focus not on how many bank accounts but on how fast the cash is moving and on what it would cost to change those bank accounts.

A popular one is Alberta Energy – that's come up in the media and a couple of other places and, I'm sure, at this committee – where they have one bank account for each remitter. Now, if you understand the history, back in the '80s, when this was set up, there

was no such thing as interbranch banking. Banks didn't have the technology so that you could actually have one bank account.

You know, I moved from Regina to Edmonton in 2000 – go, Riders. Sorry, I'm going to pay for that one, aren't I? I have no intention of moving back, by the way. I went to the bank and said, "I want to change my accounts because we moved." They said: "Why would you do that? You can just keep the old account number. It doesn't matter." Well, that wasn't the case in the '80s. Where you banked was where you had your account, and you couldn't transfer money easily or get money easily out at a different branch.

On the back end, what most people won't see, when somebody deposited money, made a large payment, there was no information that was tagged with that payment. Alberta Energy created a system, an automated system, and they knew who was making payments, and the way they did that was to create one bank account. Now, those bank accounts don't actually have any money in them. As soon as the money hits that account, it gets transferred to their main account and gets transferred to the general revenue fund. One of the things that you need to know is that approximately 1,300 of our bank accounts never have a balance. They are there for moving cash.

The Chair: Some of us are curious if you have any accounts in Panama.

Mr. S. Anderson: I gave him that.

The Chair: He did. I did steal it.
A follow-up from Mr. Hunter.

Mr. Hunter: Thank you for that answer, Mr. Epp. Ms Renaud asked if there were too many bank accounts. You said that you had five different banks plus Treasury Branch. My question: is there a value to having it in one bank, or is that just mitigating risk by having it in different banks?

Mr. Epp: There are a few reasons we use multiple banks. One is to be able to have access to deposit money in communities where CIBC may not have a branch, which would be a good reason for accounts with a number of those institutions. We also have parts of our banking business that have been won by other banks, if you will. Maintenance enforcement, unfortunately, was in the news yesterday. That banking work is done with the Royal Bank because the Royal Bank won that. Our merchant services: if you pay online to the government of Alberta or if you go to a museum and pay with a card and use one of the point-of-sale machines, that's run by TD. Again, that was a competitive contract. Our procurement cards are run by the Bank of Montreal. It's not that we haven't run an RFP for banking. We haven't run it for the main banking structure, the main accounts, but we do use other bank services when they're better or more competitive than CIBC.

Would it be better to have fewer accounts? Absolutely. Less to track, less to reconcile. But from our banking review of the cost to change banks, systems costs from legacy systems like the Energy one – there are many of them across government – the departments themselves have estimated to us that it would cost about \$2 million to make those changes. Right now the government proper spends \$900,000 a year on bank account fees. So doing an RFP for banking: 5 per cent maybe? The agencies pay about \$300,000, so \$1.2 million in total, so we could save about \$60,000. We estimate \$2 million to change IT. Other transition costs have been estimated to be a million. Those are estimates; take them for what they are. But directionally it's a pretty one-sided picture. Focusing on bank

accounts, reducing them in isolation: yes, and we will work towards that, but we have to consider all of the implications.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you again. To go back to the 2014 recommendation for providing a management software or management cash optimization system, did you just put that forward as a request with no actual research done to that, or have you done all of the work in 2014 and are ignoring that work today to redo it?

Mr. Epp: No. A full package justifying it, a draft RFP, a draft request for information, was done in 2014. That was submitted again in 2015. We have done substantial work over the years on system architecture, not so much of the new system but how it would have to interface with existing systems such as the government's main accounting system, the IMAGIS system.

We certainly aren't redoing that work, but we have never issued an RFI. Well, that's not true. We issued one probably in about 2004, but that's so far out of date, it's irrelevant. We haven't issued anything recently. With the changing fiscal environment I think our priorities and what we're looking for in a system might be a little bit different now, not tremendously different, by any means, but there would be more emphasis on intercompany lending than there would have been in different economic circumstances, for instance. You know, there are still a lot of things that we have to explore that you can only explore once you start talking to vendors.

Mr. Cyr: In the 2014 request how long did you think that it was going to take to roll out that new software?

9:30

Mr. Epp: We estimate that it'll take the better part of two years to procure and install the software.

Mr. Cyr: Thank you.

The Chair: Mr. Westhead.

Mr. Westhead: Thank you very much, Mr. Chair. I just wanted to sort of take us back to what the heart of the Auditor General's report was about, and that's about the efficiency and economy of using tax dollars in the most efficient way possible. You know, in that respect the Auditor General's report concludes by saying, "When government does not use best practices for payment policies, terms and methods, it is missing opportunities to operate in the most efficient and economical way." I know we've heard a little bit about this before, but just to the folks from Alberta Treasury and Finance, if you could sort of walk us through, after hearing what we've already heard: why does it seem as though actions have never been taken to ensure that standards have met the best practices and that the public's money was not necessarily being managed in the most efficient and economical way possible? It seems like that from the Auditor General's report, but I just wanted to give the officials a chance to set the record straight.

Mr. Epp: As I've said earlier and as the Auditor General has said, there's always room for improvement. That's a process that takes time and takes energy, resources, and priorities. Some of these things we just haven't dealt with at this point in time because there were other priorities. By all means, that doesn't make them unimportant, but I would also say that – you know, Mark talked about a decentralized approach to government. Part of that means that departments and agencies have more authority and more

latitude to make decisions that are best for their business than they would in other governance models.

For example, Human Services writes a lot of cheques, okay? Is that the most efficient payment method? No. Why do they write a lot of cheques? Well, some of their clients don't have easy access to bank accounts. Some of their clients come face to face with the Human Services representatives that deal with them. Quite frankly, you know, you'd have to ask them more about their business. I certainly don't want to speak to their expertise because I don't know. But for a lot of reasons other than efficiency they have decided that the best way to deal with their clients is often to write a cheque. They have that authority. The department does not have the authority to tell them to do otherwise. We have worked with them, and we have done pilot projects, and we will continue to work with them to explore the use of things like payment cards.

But the point I'm trying to make is that if you look at payment efficiency in isolation – and there are improvements; there are always improvements – you ignore, perhaps, why those decisions were made. Again, I think that this goes to a point that Mr. Barnes asked, you know: what is one of the risks of centralizing? Well, that we would make a different decision. Again, centralization, decentralization are neither good nor bad, but in this case that authority rests with the department to decide how best to run their business. It has an impact on cash; it has an impact on banking. If we're going to change it, we have to consider all of those impacts, not just the impact on cash or just the impact on banking structure.

The Chair: Dr. Turner.

Dr. Turner: Thank you, Mr. Chair, and thank you to all of you. I'd like to focus my questions and attention on the issue of outstanding cash reserves, particularly cash reserves that exist within the government-controlled entities. As the Auditor General's report has identified, whether the cash reserves exist within the GOA proper or within government-controlled entities, these are still public dollars. Using these public dollars better to take advantage of excess liquidity is just good management.

My first question is straightforward. The Auditor General notes on page 78 of his report that school jurisdictions have \$845 million in cash reserves. On page 82 he notes that the schools had \$1.1 billion in cash and portfolio investments. Do we know today how much schools are holding in terms of reserves? Can you explain why our schools might be holding roughly \$200 million in portfolio investments?

Mr. Epp: I think that's a question best asked of the Department of Education. They are the ones with the responsibility for that.

Mr. Prefontaine: As I believe the Auditor General's report identified, there's already been some shifting of the sands in terms of the relationship with funding and frequency of funding between the Department of Education and school boards. But any questions regarding how much school boards and schools are currently holding in reserves and their portfolios would be best addressed by the Department of Education.

Dr. Turner: Just a short follow-up, though: as Treasury Board don't you have responsibility to vet those investments or to make sure that the investments are being held in appropriate vehicles?

Mr. Prefontaine: No, not as the Department of Treasury Board and Finance. We don't have that responsibility. This gets to some of the decentralization of decision-making and responsibilities and where they lie and why any discussion about improving how the government of Alberta as an organization improves its cash

management needs discussion with other departments, with agents of those departments, and looking at some very strategic policy and legal issues in terms of who has what level of decision-making at what point in time and what makes sense in our current environment.

Already, like I mentioned, there's been some shifting of the sands, again in terms of frequency of funding between Education and school boards. I think we would continue to assert that a simple step – and I'm oversimplifying – like implementing an automated treasury management system would help us help departments and agencies make better decisions in a more timely fashion.

Dr. Turner: Thank you.

The Chair: Ms Miller.

Ms Miller: Thank you, Mr. Chair. The AG's report correctly points out that government departments pay out roughly \$23 billion a year to government-controlled entities. These include school boards, universities, colleges, Alberta Health Services, and other regulated funds. On the topic of universities and colleges, do we know the value of their cash reserves? If they're not using the consolidated cash investment trust fund, why not?

Mr. Epp: Well, first of all, in the last consolidated financial statements the total cash outstanding among government was about \$8 billion. That's what the balance sheet said. Now, some of that, approximately a billion, maybe a little more, was borrowing that we did to take advantage of market opportunities that hadn't been spent yet. That grosses it up a little bit, but \$7 billion is a lot, okay? That would incorporate AHS and all the school boards, et cetera, et cetera, all agencies of government. We certainly have explored that. It's a moving figure. I don't have the latest.

As to why they don't invest in the CCITF, each university, postsecondary institution, school board has their own governance structure and has authority for those decisions, and they have made the decisions, whatever decisions they have made, in the best interests of their own institutions. Could that be changed? Well, that's one of the things that we will be discussing as we develop a response to the Auditor General's report.

Ms Miller: Thank you.

The Chair: Mr. Barnes.

Mr. Barnes: Thank you. Another question, please, around the execution. It was mentioned that next fiscal year the contingency fund will be drawn down to zero. Of course, there's a lot of borrowing happening for the province of Alberta now. Is it more important to get the IT portion correct so Albertans can borrow at the most favourable rates? Is this going to be a huge task on your department going forward, you know, short-term borrowing needs and how this impacts the cash requirements?

Thank you.

9:40

Mr. Prefontaine: As I indicated in my opening comments, this will not only be a task that takes time and resources from our department, but it will also take time and resources from other departments. The actual procurement of a system, however it looks, once we get through the RFI and RFP process is likely the easy part. The harder part will be implementation. Because of the number of relationships and connections that departments and agencies have to how cash flows through government, it's something that we're going to be very sensitive to. Obviously this is, as has already been described, at a time when we're borrowing far more than we have

in the past. That's also a responsibility that Mr. Epp and his division have, to make sure that we're getting the best prices we can for our borrowing. Something that we're going to be cognizant of is concurrent activity, and it would be definitely considered as part of the change management or execution process.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. We do all of the compiling into one big spreadsheet, which means that we have one great big total of how much money we have in excess cash or cash sitting out there. What's the average liquidity or cash on a daily basis that we hold?

Mr. Epp: The Auditor General's report pointed out that the average excess balance is \$23 million. Our target is \$10 million, so we've got a little work to do perhaps. That was a good point. We do monitor it. We do variance analysis. I will tell you that there is a bias towards holding too much cash, and that's because the relative cost of an overdraft is much higher than the relative loss of not investing money. So there's a natural bias to be conservative because we'd rather not run an overdraft. Our main cash forecaster, he knows about his bias, and we talk about it.

The \$23 million instead of \$10 million: I'm not sure an average is the best way to calculate it. I tried to get my guys to do a median, but they weren't able to do it in time for today's meeting. Because that average was done over a longer period, it includes times when we had large bitumen collections. If we were within \$23 million on the end-of-the-month bitumen collections during the best days, you would have won the pool, let me tell you. And we did have pools. That's one day a month.

There's an inherent bias to running too much rather than too little, simply because it costs us less.

The Chair: Are there any other questions?

If not, my question would be: did you ever win the pool?

Mr. Epp: What's that?

The Chair: Did you ever win the pool?

Mr. Epp: No.

The Chair: All right. If there are no other questions, I will thank Mr. Epp and Mr. Prefontaine and other officials from Treasury Board and Finance for their presentation today. We ask that any outstanding questions – actually, I don't think we have any outstanding questions today.

Are there any other items for discussion under other business?

If not, our next meeting will be Tuesday, April 12, with Alberta Justice and Solicitor General respecting Justice Iacobucci's report on tobacco litigation contracts. Please note that the meeting will be scheduled for 8 a.m. to 10 a.m. and there will be no prebriefing before the meeting.

I will call for a motion to adjourn. Moved by Mr. Malkinson that the meeting be adjourned. Any discussion? All in favour?

Hon. Members: Aye.

The Chair: Opposed? Carried.

[The committee adjourned at 9:44 a.m.]

