

[Chairman: Mr. Martin]

[10:02 a.m.]

MR. CHAIRMAN: If we could, I'd like to bring the meeting to order. Before we have the Treasurer make some comments, we have two sets of minutes. The first one that was distributed to members was for October 26, and then we have minutes of November 2.

First of all, would somebody like to move adoption of the minutes of October 26? So moved. Any discussion? Seeing none, all those in favor of adopting the minutes of October 26? Carried. Would somebody like to move adoption of the minutes of November 2? So moved. Any discussion? Seeing none, all those in favor of adopting the minutes of November 2? Carried.

Just before we get into it, we had to do some shuffling around for next week. I discussed this with Mr. Moore. Of course we have the Treasurer here today, but Mr. Chambers will be here a week from today, on the 23rd.

I think we all know the hon. Treasurer. The format we'll follow — I'd like to turn it over to him to introduce his staff. Before the end of the meeting, whenever that is, we will call on Mr. Rogers to make some comments. If you recall, the Treasurer did give me the form with some of the recommendations they'd looked at in going through the Auditor General's comments, and I distributed that to all members of Public Accounts. I appreciate getting that information, Mr. Treasurer.

Without anything further, I appreciate your taking time from a busy schedule, and maybe I could turn it over to you, Mr. Hyndman, to make some comments and introduce your people here.

MR. HYNDMAN: Thank you very much, Mr. Chairman. On my immediate left, I would like first to introduce Mr. Al O'Brien, who is the controller, and beside him, Mr. Ernie Heisler, who is the assistant controller.

I have no elaborate opening remarks, Mr. Chairman. I'd just like to point out that once again we as the government view the report of the Auditor General of the province of Alberta as a significant document both for this committee and the Legislature. There are 47 recommendations, each of which is important. The report of the Auditor General, which I believe was tabled on April 12, 1983, and the responses which members of the committee have, containing as well comments of the government, I think reflect work of both parties with respect to the accounts of the province that has and keeps Alberta in the front ranks in Canada in terms of public auditing and public controlling.

With those comments, I'd be pleased to answer questions with respect to any of the comments which the government has filed in the document and look forward to a discussion.

MR. CHAIRMAN: Thank you very much. Questions to the Treasurer? Mr. Pahl.

MR. PAHL: Thank you, Mr. Chairman. This perhaps is not so much a question as a request for a little bit more explanation with respect to Recommendation 21 on page 12 of the Provincial Treasurer's response, regarding the simplification of the royalty revenue system.

MR. HYNDMAN: Could you give me the paragraph number of that? My background information is tagged as per the actual paragraph.

MR. PAHL: Section 2.4.1. Is that the cross reference?

The request or recommendation was that

the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from

natural gas and natural gas by-products . . . [and to have] a more efficient and less complex way of calculating, verifying, and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.

The response seems to indicate that because of an option, or the underlying policy of ability to collect mineral shares in kind, you can't do much more. I guess I'm asking why there isn't more flexibility. I didn't quite understand. On the face of it, it seemed to be a reasonable recommendation, but I couldn't really grasp this royalty-in-kind concept and why it would interfere with a more simplified system. I guess the whole process of oil and gas production is more complex than we think.

MR. HYNDMAN: It is very complex, and I'd like perhaps to initiate the discussion by having the controller, Mr. O'Brien, offer a few comments as to Recommendation 21.

MR. O'BRIEN: I'm certainly not an expert on the royalty system or the energy industry. I think you'd have to have the department give you a full explanation. But I think the basic point being made is that the royalty system, both in theory and in law, is an imposition physically at the point of production. The producer owes us royalties. As I understand the nature of gas marketing, it's really not congruent with the way the royalty system works. The practicalities of gas production are that you have a number of producers and you have a collecting system. The gas is really marketed at a processing plant level, let us say, so that in order to get at the amount of royalty owing, we have to work back from an actual fact, which is a point of sale, to a hypothetical fact at a point of production. In my simple understanding of what the department is saying, that is the essence of the problem that they're saying makes it difficult to develop a simpler royalty system. It's the fundamental thing that we're trying to tax something that isn't really the reality in the market place.

MR. PAHL: I think I understand the problem, and I'm not sure it would help me to get a full explanation either, quite frankly, Mr. Chairman.

I guess the only other thing I'd like to say is that I reviewed the 47 recommendations. I didn't keep a complete score, but I think the responses that were not in agreement or "yes" were certainly in the minority, probably less than 10 per cent. So I guess I'm pleased to see — and I would extend the compliment both to the Auditor General's report for hitting the mark, and I guess to the Provincial Treasurer for responding in a positive spirit, because I see that there is a good deal of agreement with the recommendations and a lot of action has gone on.

So for the record, I'd just like to say that I'm pleased to see that the system is working to the extent that the report is given. It hits the mark and, in the main, has also been responded to very positively.

MR. R. MOORE: Mr. Chairman, I'd like to direct this . . .

MR. CHAIRMAN: Mr. Moore, could I just get . . . The Auditor General wanted to make a quick comment, and then I'll come back to you.

MR. ROGERS: I would just like to make a comment before we leave the subject of the simplification of the gas royalties, the method of collection. Within the constraints and the objectives that are indicated in this answer, I would just like to say that during the work involved in developing a new system, the department is seeking ways in which they can achieve these objectives, yet have a simpler system than the one they had before. So

work is going on in that area. We're quite satisfied with what they're doing in that respect.

MR. CHAIRMAN: Thank you. Mr. Moore.

MR. R. MOORE: Thanks, Mr. Chairman. This question would probably be properly directed to the controller. It's in relationship to Recommendation 26 regarding revolving funds controlled, on page 15 of Mr. Hyndman's report.

It's a concern to me that there is a potential to exceed statutory limits on these revolving funds. In Mr. Hyndman's comments, I note that

a reporting procedure was implemented in October 1981 to provide early warning of potential payment from revolving fund advances which would be in excess of statutory limits. This procedure enables the Office of the Controller to ensure that limits are not exceeded.

That's been in place since 1981. Is this indeed fulfilling the purpose that it indicates here, giving a proper early warning? Are we now able to react to this and not exceed its limits?

MR. O'BRIEN: Yes, I think we can say that it is. We do have a system now to monitor the balance, which we didn't have before that time.

MR. R. MOORE: And we're not running into too many areas where it's exceeding?

MR. O'BRIEN: No, we're not. We haven't encountered any further difficulties.

MR. R. MOORE: Mr. Chairman, I have another question, not related to this. It's actually not a supplementary; it's on Recommendation 15. It relates to the funding sources of payments for basic health services. The comment from the Provincial Treasurer was that

Bill 38, Health Care Statutes Amendment Act, 1983, includes clarification and proper authority for payment and reimbursement of "Medical Aid" on behalf of injured workers.

These are workers under workers' compensation. It says that the necessary agreement and regulation changes are being prepared.

We see this so many times from government: something is being prepared, or they're working on it with no time frame on the other end. When can we expect that the necessary agreement and regulation changes will be in place, or have you any information on that?

MR. HYNDMAN: I think I'll probably have to check with Mr. Diachuk, the Minister responsible for Workers' Health, Safety and Compensation, to ascertain the status of that. Perhaps I could report back through the chairman with a statement as to where that stands. Fair comment.

DR. CARTER: Mr. Chairman, first a general question to the Provincial Treasurer with respect to a multiplicity of funding programs, which I assume were in direct relationship with the federal government. Could you make any comment about how quickly those transfers take place? In any given year, are we substantially behind in recovering funds from the federal government in terms of the number of months?

MR. HYNDMAN: I'll ask the controller to make some comments as well. Basically we would like to get the moneys to which we are entitled under the various agreements —

established programs financing and others — as soon as possible, because then we can put them in the bank and start earning interest on them. There is a lag time, which can vary one, two — I think in some cases — even three years between the time of estimated calculation of the dollars and the amounts coming forward, because it relates to statistical information which the federal government wants and the various agreements between the province and the federal government. I don't know of any serious problems with regard to unjustified delays of a major nature in the transfer of moneys from the federal government, but it's certainly something which we constantly monitor — as do other provinces — in terms of trying to get those dollars to the province of Alberta as soon as possible so that can assist our budgetary situation. Maybe the controller would like to elaborate on that.

MR. O'BRIEN: I don't really think I'd have any comment to add. I think generally it's been quite satisfactory. In large measure, the federal transfers are now all made by electronic funds transfer and so on. I think they're relatively current, and, as the Treasurer mentioned, we certainly do monitor the major payments very closely.

DR. CARTER: Just one brief follow-up on that. Do we find, for example, that the energy sector transfer causes more problem than, say, funding coming through for advanced educational needs?

MR. HYNDMAN: I suppose the transfers of dollars under Advanced Education have been taking place for a larger number of years on a pattern and procedure that's been relatively known. I would think that there's no question that the national energy program, for example, added a new layer of complexity with respect to the transfer of dollars back and forth. PIP payments and the oil and gas activity program of the province of Alberta and its various elements, including such things as the royalty tax credit, necessitated additional accounting and auditing procedures. It's an area where both the industry and the government would like to see less complexity and more simplicity, but that may have to await the expiry of the national energy program and the oil and gas activity plan.

MR. CHAIRMAN: I don't have anybody else on the list. Are there any further questions?

DR. CARTER: Recommendation 33 on page 18 of this report, section 2.4.11, is with respect to electronic data processing and security. I wonder if we could have some additional comments on this, other than the fact that the government concurs with the recommendation. May we assume that all departments are seriously looking at how much of their data really ought to be absolutely secure? Surely there are some gradients as to what information is more secure than others. Then there is the whole concern with respect to how computers can be accessed from outside the government. Have we had any additional progress with respect to the matter of data processing security?

MR. HYNDMAN: The concern about security mirrors, I suppose, the success that Alberta has had in this regard. I think that we could objectively say that the province of Alberta is in the lead in Canada, if not North America, in the application of electronic data processing to auditing and to the controlling areas. From a technological point of view, that means that the issue of security is more front and centre here than it would be elsewhere. As I see it, it's an ongoing thing. To date, we haven't found situations where there have been any impending or massive breaches of confidentiality or anything of that kind. Yet the technology changes so quickly — and I suppose those who might want to get into the system in an improper way are increasing their knowledge as well — that it's something which the Auditor General has very appropriately drawn close attention to. With those general remarks, perhaps the controller would like to offer a little more

detail as to the gradient suggestion that was made as to whether levels of security are being looked at.

MR. O'BRIEN: Yes, we have been attempting to follow up on the Auditor's recommendation with departments. I think that we could fairly safely say — and I think the Auditor would agree — that program departments are becoming increasingly aware of their responsibilities in this area. I think that the fundamental concern the Auditor was raising when he first issued this was that many departments were assuming that the data processor, the people doing the data processing for them, most frequently in the Public Works, Supply and Services Department, would look after their security for them. They weren't recognizing that they needed to go through that data, look at what was really critical and what wasn't, and to assess that. We haven't had responses from all departments on this, but I think our general reading is that that recognition is very much there. As the Treasurer said, it is an ongoing concern. I think it would be fair to say that we're not aware of major concerns with departments not addressing the issue. Whether they have addressed it satisfactorily is a much more difficult thing to assess. Frankly, it is probably like all other things: there are no perfect answers.

As a general comment, I think we would say that at this stage there is a greater concern with the security of the back-up arrangements, which is part of what the Auditor mentioned. I think there is fairly good control on confidential data, but the Auditor's recommendation also mentioned the security of the computer programs themselves in the event of fires and disasters of one kind or another that would destroy computerized installations and computerized data banks. I think it would be fair to say that there is considerable room for further work in that area. That is perhaps a major area of concern, as well as, clearly, the confidentiality. Departments are certainly working on this. Without exception that I am aware of, I think they have recognized the concern and importance of the matter. It is a matter of trying to find the right solutions.

MR. R. MOORE: Mr. Chairman, I am just going to make a comment. There was an apparent lack of questions on your last query. I want to comment that I am very pleased with the document we have in front of us. It is not that we have no interest in what is going on. The fact that the document was well prepared and answered the questions well, left very little room for us to come back with questions after reviewing it. I compliment the Auditor General in raising the questions first and also the replies and comments of the Provincial Treasurer. It is well prepared, and that's the kind of information we like to get. In my opinion, it is one of the better documents we've had before us in Public Accounts. That's just a comment. I see there are some more questions coming, so maybe I was out of line in making that comment.

MR. CHAIRMAN: You are the vice-chairman, and I go along with whatever you say.

MR. NELSON: Mr. Chairman, I hope you say that in a couple of weeks when we deal with workers' compensation.

MR. CHAIRMAN: Don't take this too far.

MR. NELSON: Mr. Chairman, to the Provincial Treasurer. In one of the recommendations in section 2.6.1 relative to the Alberta Research Council, it appears that there have been ongoing or existing problems with regard to the areas of accountability, fixed assets, and what have you. I am just wondering if the Treasurer has any information to determine whether at this date the council has straightened out the Auditor General's concerns and what additional information the Treasurer might have as to the comment that was made after the recommendation of the Auditor General.

MR. HYNDMAN: Mr. Chairman, I think the Auditor General very appropriately saw that there was a problem at the Alberta Research Council with respect to financial control and that there was a need to eliminate it. He properly used the term "take vigorous action to eliminate the serious financial control problems" and then delineated the details of that. To my knowledge the Alberta Research Council has, and is now responding on this three-year plan basis to try to ensure that in future reports it has a better report card, shall we say.

I suppose one of the reasons there is a three-year plan and it might take longer than we would all like might be because of the reality that the availability of dollars and manpower for every aspect of government operations is now significantly limited, compared to what it was in the 1970s, for example. I think the Alberta Research Council is moving, and it will move within those constraints.

Al, do you have anything to elaborate on?

MR. O'BRIEN: I don't think I could really comment, other than on one point. I guess the Auditor would have to comment on the extent to which the concerns he identified have been resolved. I am aware that the council has installed a new automated financial system which interfaces to the Treasury system. Certainly my understanding is that current financial reporting to their own board and control of their current operations has improved significantly over the past year. As you said, there were major problems with their financial operations, and they are trying to resolve them over a period of time. I don't think they have resolved all the concerns in the fixed asset area. Perhaps the Auditor would have more current information.

MR. ROGERS: Mr. Chairman.

MR. CHAIRMAN: I will maybe let you comment at the end of this. There seems to be some more interest, and it may bring it out.

MR. NELSON: Does the Auditor General wish to respond further?

MR. CHAIRMAN: Would you rather he does that now?

MR. NELSON: If he wishes. Otherwise I will continue with a couple of other supplementaries.

MR. CHAIRMAN: What I thought I would do is let you finish yours, Mr. Pahl has a question in this area, and then call on the Auditor General.

MR. NELSON: I will just continue. To the Treasurer: considering that I determined from the comments made in the report by the Auditor General that the circumstances here have some severity, is there not some method in place so we can have these public funds protected in less than a three-year period and have some management tool placed on the administrators of this fund to properly identify and correct these items in a shorter fashion than what has been suggested here, over three years?

MR. HYNDMAN: I think one of the problems is the amount of work to be done. The Auditor General properly indicated that a pretty complete approach on a number of fronts was necessary to be put into effect by the Research Council. I am sure that the minister responsible is aware of that and wants to see that done.

As noted in the comment, though, there is the matter of the availability of qualified employees and of budget. The reality is that as a fiscal policy of the province, the public service of the province of Alberta is to be reduced over the next number of years, as are the rates of increase of all operating dollars and maybe all capital dollars as well. So it

is within those limitations. I think there is the commitment in the Alberta Research Council to get a good report card from the Auditor General and a full understanding by it of the seriousness of the problem, but I believe that three years is probably a realistic time line.

MR. NELSON: Mr. Chairman, one further question. I guess I will put on my private enterprise hat now. Considering some of these problems that appear to be here, if I was in the private sector, I would probably go broke. Considering the areas of blank invoices, people apparently signing for materials over and above the limits applied — and I am not sure whether I'm reading this correctly — some difficulty in determining whether fixed assets are actually in place, would we not be prudent to have management place some of its resources into the area of cleaning up what appears to be a bad act to ensure that public funds and assets are protected, that in fact the area of errors with invoices, et cetera, is all corrected and in place so we can be reasonably assured that some of the upfront things are being protected and that some of the other management difficulties that can be experienced, and possibly do not impact the financial area as much as some of these that I've identified, can be placed in this three-year program?

MR. HYNDMAN: I think the suggestion that there be a prioritizing of activity in terms of fixing up the problem is a sound one. My understanding is that that's in effect now, and I certainly conveyed that to the Alberta Research Council.

On the initial comment, though, I think I would quarrel with the comparison with the private sector. I think that when you look at the incredible number of dollars involved here — something in the order of \$9 billion — the accounting of the assets, disbursements, and moneys coming into the province of Alberta is probably equal to or better than any similar size private corporation in North America. I think that's because of the fact that we have an audit approach that is very, very thorough. But that's a matter for future debate.

MR. CHAIRMAN: I'll have the Auditor General comment, but because we're still in the same area here, I'll let Mr. Pahl go.

MR. PAHL: Mr. Chairman, my supplementary question may incite some debate, but in effect I'd like to rise to the defence of the Alberta Research Council, whose mandate I understand involves research and extensive co-operation with the private sector. That means that they have to interface with a whole range of accounting systems, from very good to very bad, extensions of projects, and a whole range of other sort of mitigating circumstances that at times don't lend themselves to neat and tidy accounting.

So I would just raise the point that although the Research Council has had a troubled history in terms of accounting, I am not aware — and I serve to be corrected — of any instances of fraud or theft or outright misappropriation with respect to their activities. I would like to suggest to my colleagues the Provincial Treasurer and the Auditor General that they're in the business of research. If we are being penny-wise and pound-foolish here, then I guess I would like to express the caution, if not the contrary view, that perhaps in that area we should look at cost effective protection of public interest, rather than at what I would call orderly accounting to the nth degree.

I'm sure I will invite a response, but when we mandate an organization such as the Research Council to work in co-operation with the private sector on frontier research, I really think we have to make sure that we don't wind up taking research managers' time inappropriately away from their work and toward meeting requirements we have if there are no evidences of fraud, theft, or what I would call serious misappropriation of public funds. I'm sure that's a balance they wrestle with, but I'd like to invite a response on that somewhat contrary view.

MR. CHAIRMAN: I was going to allow the Auditor General in here, but seeing you did incite debate, I'll allow Mr. Nelson to have one statement. Then we'll go to the Auditor General.

MR. NELSON: Mr. Chairman, I certainly take the invitation very well. There was no suggestion of fraud or anything of that nature in my questions. I certainly take objection to the hon. minister — what appears to be a suggestion that everything's rosy and good and what have you. I'm certain that the Alberta Research Council does a tremendous job with their 550 people, three of whom are on the front lines in Calgary, which has 80 per cent of the activity that relates to it.

However, at the same time, Mr. Chairman, I think that whether the Research Council does a good, bad, or indifferent job, it is still on their hook; they are responsible for public funds in certain areas. I think they have to deal with those funds accounting-wise in a similar fashion to anybody else, either in the private sector or the public sector. It is our job to oversee that operation, to ensure that those funds are protected as a public entity.

I think that if we're here just to praise everybody and what have you, we're going to be shirking our duties. We can give praise where it is due, and I'm sure that the Research Council can be praised in very many ways. I think we all know the Provincial Treasurer does an excellent job, but at the same time there have been some very severe comments made by the Auditor General. I think if there are some things that need to be brought forward, they need to be done in a proper fashion and in such a manner that we are assured these things are corrected so the public's interest is also protected.

MR. CHAIRMAN: I have three more speakers after this, but because we're into this area, I'm going to call on the Auditor General to make his comments.

MR. ROGERS: Mr. Chairman, all I was going to say was that work we have carried out at the Research Council since this report was written has indicated that indeed they are working on systems that will cure many of the problems. Because these systems usually take a fairly long time to develop and implement, matters are not fully under control. There has been improvement over the situation that we reported on when this report was written, but they have a way to go.

I think one of the main areas was the one that has been referred to. When you get a very enthusiastic and dedicated group of people, they don't always attach the proper importance, if you will, to accounting and keeping track of the public funds involved. But I think this has improved, and I hope that in a year or two it won't appear as an annual item in the report.

MR. CHAIRMAN: Thank you. I'll move on to the next. We might get the Treasurer back in the conversation. Mr. McPherson?

MR. McPHERSON: Yes, I hope to get the Provincial Treasurer back in the conversation. Mr. Chairman, through you to the Provincial Treasurer: my comments are with respect to the unfunded pension liabilities in the public service pension plans. We in Alberta have six pension plans and guarantee another one in the public sector. In the private sector, pension plans must be fully protected by establishing reserves. In the public sector, this is not the case. In public service pension plans, we create what's known as unfunded liabilities because, of course, we have the opportunity in government to tax people to fund future pension liabilities. So we end up with a situation in public service pension plans where assets are less than the liabilities.

I know that in March '81 the Provincial Treasurer directed \$1.1 billion to public service pension plans. I assume that that money was arrived at by estimating what the fund would have been had the government retained and invested all the contributions by

employees and employers. But we do have a continuing gap, if you will, in relation to the unfunded liability. I assume that that gap is caused essentially by two things. There's no interest accruing to what would have been a reserve, had there been a reserve. I have to assume that the other area that causes an unfunded liability is that there is not a sufficient amount of employer/employee premium contributions to make up current costs, so we have a widening there. Mr. Minister, my concern is — over time, what steps are you contemplating to protect future taxpayers against this widening unfunded pension liability?

MR. HYNDMAN: Mr. Chairman, I think it's a very important question, because those contingent liabilities with respect to various funds in varying amounts are certainly there. As noted, in 1981 we did take the initial step of establishing a pension fund of \$1.1 billion. That certainly did not cover the whole liability situation by any stretch of the imagination, but I think it did assist in establishing the principle that there must be sound management and accountability with regard to pension funds.

As noted by the Auditor General, there are perhaps three ways in which that liability can be dealt with, on the understanding, of course, that it would be a multiyear process. One would be to increase the size of the pension fund. With the province in its second year of a large deficit, at the moment that is certainly not a realistic option. The other would be to reduce benefits, and the third would be to increase contributions. I don't believe there would be widespread support for reducing the benefits which would accrue to those who are now paying into pension funds. So I think the reality is that it would be prudent, and we are now addressing various options which might involve an increase in contributions by the employee and by the employer, such that over a period of years there could be a better balance between the moneys that must go from the pension fund and those which go into it.

MR. McPHERSON: A supplementary, Mr. Chairman. If I can make the comment, not only am I satisfied with the answer but if I may throw this out, I would have personal concerns about the government throwing an awful lot of money into the unfunded liability at this moment, not only because of our deficit but it seems to me that it would constitute nothing more than a direct exchange of debt. In an unfunded liability, we don't have to pay any interest. But if we went to the market place — which it seems to me we would have to do — to borrow the money to fund the liability, we would certainly be paying interest. So we would just be exchanging debt, and I think it would be counterproductive. But I am encouraged to hear consideration being given to current employees increasing their contributions, at least closing the gap where their contributions are more in line with what their benefits are foreseen to be.

My question is, has the government given any consideration to investigating the Saskatchewan experience? My understanding of what's known as the new Saskatchewan plan is one whereby they walled off their former defined benefit plan and established a new plan which was a money purchase plan. The money purchase plan is one whereby the cost into the plan is known. The benefit of course is unknown; it's dependent on the investment in the economy. There is no unfunded liability in a money purchase plan as opposed to a defined benefit plan. Is the government giving any consideration to that kind of move?

MR. HYNDMAN: I'll ask the controller to comment further, but yes, that is one option of perhaps five or six that we have been exploring and reviewing — the ways in which these liabilities have been dealt with in Canada and across North America. That one has some novel features. It certainly is more realistic in terms of making abundantly clear the sources and distribution of various funds, so that's one we are looking at. I'll ask the controller if he'd like to elaborate on it.

MR. O'BRIEN: Yes, certainly we are examining exactly how the Saskatchewan plan works and what is involved. As the member says, essentially our plan and the Saskatchewan plan are at opposite ends of the spectrum. I would think that the Saskatchewan plan is a perfect plan from a treasurer's point of view, because the costs are absolutely defined and the benefits become a function of what the costs will pay for. Our plans are not nearly so satisfactory from a treasurer's point of view in that the benefits are defined and the costs become a function of the benefits.

I guess the area that I think the government will have difficulty coming to grips with and that will require a fair bit of consultation with the various interested parties, both employers and employees, is whether in the fullness of time that Saskatchewan plan in fact meets the other objectives. It's nice to have a funded pension situation, but if it doesn't give you the right results in terms of retirement incomes, you're back to the same difficulty. I guess that's what we feel uneasy about, particularly in a public-sector situation where presumably the government has both an employer concern and a kind of broader overall general concern in a social sense with the adequacy of retirement incomes.

It seems to me potentially possible that the money purchase plan could lead to a false sense of security, because in an accounting and financial sense, by definition, your pension plan is funded. But if 30 or 40 years down the road, which is really what we're trying to provide for, the money purchase plan provides totally inadequate retirement incomes, then the problem is going to come back on the public sector, perhaps on another account, but it's still going to be there. It seems to me that presumably one is seeking a balance, a plan in which one can control one's liabilities and the cost of the program, yet also recognize that the fundamental objective is to provide at the end of the day a, quote, adequate retirement income. So I think one has to have a balance. I have a feeling that perhaps neither our current situation nor the Saskatchewan one gives the right balance in that equation.

MR. McPHERSON: Mr. Chairman, I think we have three supplementaries, and this is my last one. I'll make it as good as I can. With the greatest amount of respect to the controller — talk about inciting debate — I would love to rise to his comments and challenge them, but I will only make this one comment: yes, there should be a balance, and it should be considered. I guess my only comment might be: why would the public sector expect any more from their pension plans than the private sector when money purchase plans will be a direct function and a result of the functions of the market place and the interest that's available through the market place over time. Certainly that's what's happening in the private sector and I'm not so sure that taxpayers can continue to afford to provide defined benefit plans in the public sector when we in many cases certainly can't in the private sector. Be that as it may, that's not my question.

My question is with respect to indexing. Am I correct in my assumption that indexing of public service pension plans is a determination of the Provincial Treasurer each year, or is it more like the ludicrous situation that we find in the federal government where their pension plans are so rich it's almost disgraceful. I'm speaking specifically in terms of the Members of Parliament. I don't have the figures with me, but I'm sure that most would agree that they are disgraceful. Are our indexing provisions a function of a decision by the Provincial Treasurer, or are they based on some fixed formula, i.e. CPI or something like that?

MR. HYNDMAN: The legislation provides that each year the Executive Council may provide a cost of living index with respect to the various pensions that the province administers. So it is optional whether there would be one. Then each year it is at the discretion of the Executive Council what that amount might be. It has varied over the last number of years. I believe that was brought in, in 1969 or 1970. On no occasion has it been exactly the same as the inflation rate. It is my view that that degree of

flexibility should remain so that each year the fiscal situation of the province and the inflation situation in the community and the country are looked at, then on an annual basis, bearing in mind all exigencies, a decision made as to whether there would be any adjustment and, if so, what.

MR. JONSON: It's a question on the same topic, Mr. Chairman. As I recall, a few years ago the rough calculations made were to the effect that the funded portion of the Teachers' Retirement Fund compared to the unfunded liability was roughly fifty-fifty. Does that pattern hold for the other pension plans that we're responsible for?

MR. HYNDMAN: I'll ask the controller if he could perhaps elaborate on that.

MR. O'BRIEN: I don't have the TRF numbers at hand, but certainly on the basis on which we have reported the liabilities in the public accounts, they are more like 25 per cent funded than 50 per cent. In relation to the former point, though, I think it is important to understand that the liabilities which we have reported include an assumed liability for cost of living indexing of the pension plans on the assumption that that will be the practice, but that is at the discretion of the Executive Council. In my understanding, in measuring their liability many other plans, including private-sector plans, typically make no provision for the effect of future cost of living adjustments, if they're granted. I believe approximately one-third of our reported liability is a function of that. So one is really making only a reasonable estimate of what the liability could be expected to be in the event that a certain course of action is followed in future. But on the basis we reported, it's 25 per cent.

MR. JONSON: That brings up a couple more questions, Mr. Chairman. To the controller, just to be sure of the answer: are you saying that if we put all of these pension plans together, the funded portion is about 25 per cent? That would include TRF.

MR. O'BRIEN: No, that's excluding TRF. Of the provincially administered plans, the overall liability at March 31, 1981, was \$4.1 billion, and the pension fund was established at \$1.1 billion, so that's the kind of ratio.

MR. JONSON: A supplementary question, Mr. Chairman. If you're costing in a projected cost of living increase, are you doing the same thing with the increase in revenue from the contributions? I suppose we don't know what will happen in terms of wage restraint, but it will be inching its way up too and will have a compensation effect, it would seem, on the liability of the fund.

MR. O'BRIEN: Yes, Mr. Chairman. The pattern of assumptions that was used in determining the liability was, as we thought at the time at least, an internally consistent set of assumptions. We assumed an inflation rate; we assumed a real rate of return or, in this case, a discount of the unfunded liability of 2.5 per cent; and we assumed historical patterns of wage and employment growth, as well as the cost of living assumption. Those were viewed by our consulting actuary to be internally consistent assumptions at the date of the valuation, which was March 31, 1981.

I think that today one would probably assume a lower rate of growth of real wages, and certainly a number of other factors might change but, I would hope, not dramatically. The difficulty is that we are trying to deal with liabilities that are 40 years down the road, so one doesn't want to overreact to just the conditions of the day at the point of valuation.

MR. JONSON: One other supplementary question, Mr. Chairman. I would read into the recommendation and the comments that possibly there is a pattern here of — what's the

proper term — slippage, and so on, in terms of the funded portion of these pension plans. Do you have any estimate of what rate that's at? What I'm trying to say is that it seems that there is some indication that possibly the funded portion is becoming smaller relative to the liabilities. Do you have an estimate on that?

MR. O'BRIEN: Yes, certainly we have. Our actuary has also done cash flow projections forward 35 years, using those assumptions. In fact the proportion of the liability that is funded grows under the assumptions that were used by the actuary, which is assuming continued growth in public-sector employment, continued growth in real income — the kinds of assumptions you mentioned. That could change if those change. But the fact that not only did we put the \$1.1 billion in but we are at least putting the current contributions into the fund rather than taking them into budgetary revenues, and that there is still a positive cash flow, results over a period of time in the growth of the proportion of the liabilities that are funded. But as was noted in the previous comment, because the current funding is not meeting the current costs, let alone dealing with the past unfunded liability, clearly the absolute level of the unfunded liabilities is growing over time, and has grown in the past years.

MR. MUSGROVE: I would like to get back to financial control. On page 22, Recommendation No. 40 says

It is recommended that the Department of Transportation proceed without delay to eliminate numerous deficiencies in its financial controls and accounting systems

The comments go on to say that there have been some controls put into place, but maybe we could get the department to tell us what some of these deficiencies in control are.

MR. HYNDMAN: I guess page 46 of the Auditor General's report deals with that in more detail. As well, page 47 deals with expenditure and accounts payable, fixed assets, and payroll, leading up to the recommendation on the last page, to which you refer. There's clearly work to be done there, and again this points up the value of having a Legislature Auditor General bringing to the attention of the government and to this committee the fact that there are deficiencies here and weaknesses that need to be remedied.

MR. CHAIRMAN: I gather you've answered the question. I don't have anybody else on the list. The Auditor General has asked — I'm sure the Treasurer would be interested in this — for some general comments, I believe, at the end. At this point, I'd like to turn it over to him if I could.

MR. ROGERS: Thank you, Mr. Chairman.

MR. PAHL: Mr. Chairman, are we finished with the Provincial Treasurer, and should we allow him to continue his business?

MR. CHAIRMAN: I thought the Treasurer would be interested in the comments. It's still part of dealing with the overall aspect. I'm sure you might be interested.

MR. PAHL: I guess I was just a little curious, I suppose, as to what direction this was taking.

MR. CHAIRMAN: Mr. Rogers asked if he could make some comments, because they're reacting, of course, to his general comments. After the questions were finished, he asked if he could have time to respond in a more general sense about how the Treasury Department is doing — these sorts of things. That's why I thought for sure that the Treasurer would like to be here for that.

MR. PAHL: He may want to respond.

MR. CHAIRMAN: He's quite welcome to do that also.

MR. ROGERS: For the record, Mr. Chairman, I just want to state that I'm extremely pleased with the responses. It's natural that in such an exercise there would be some areas where we don't see eye to eye, and I think those are quite obvious. One interesting one has to do with the land purchase fund. That matter is not yet resolved because in the opinion of my legal advisor these transactions are ultra vires, whereas Treasury has a legal opinion that the transactions are intra vires. I'm not quite sure where we go from there. I hardly think we'll be going to court over it, but we have to resolve that problem.

There are a number of other problems — very few, actually, considering the number of recommendations — where recommendations have carried forward from year to year. I think we're working together to try to dispose of those.

But there is an area that I would like to comment on, Mr. Chairman, if we have a few moments. It's No. 45, on page 25, and the response states that

the Government will give careful attention to the results of the Auditor General's audit of management control systems to identify areas where this data could more accurately measure programme achievements.

I just want to bring the committee up to date with what we have been doing in this area. We have been really looking at what a lot of other people have been doing. The interesting thing is that there are a lot of plans but very little has been implemented as yet. I suppose the main areas would be the federal government, where accompanying the estimates for every department are detailed plans, if you will, as to what the money is going to be used for. In other words, this information is available for members at the time the budget is examined.

Timing wise, I was in London on vacation in September, and I dropped in on the controller and auditor's office of the new government audit office there. They gave me a copy of a document that was presented to the House of Commons, Parliament, by the Prime Minister and the Chancellor of the Exchequer in September '83. If I could presume to read from this document, I think it's just a matter of interest as to what other people are doing in this area. That is not to suggest that because other people are doing it we necessarily do it, but just as a matter of interest.

In particular, it is intended to develop the White Paper to contain clearer statements of the policy objectives to which expenditure is directed; and these will in turn be related to progress and performance indicators wherever possible.

And, of course, performance indicators were the subject of this particular recommendation.

The intention is that there should be the closest possible relationship between both the public expenditure White Paper and the Estimates and the information systems which departments are developing for the management both of programmes and of their own activities and costs.

The general aim is to disclose as much information as possible from departments' internal management information systems.

That is the way in which they've expressed intention of going in the U.K. I just bring this to attention as further developments in this particular area which we will be developing in the next report.

Overall, Mr. Chairman, I am very happy with the responses given by the government to the '82 report.

MR. CHAIRMAN: Thank you. Mr. Treasurer, would you like to make any concluding remarks at all?

MR. HYNDMAN: No, Mr. Chairman. I think it's been a useful debate and review, and I've welcomed it.

MR. CHAIRMAN: At this point, I would like to thank you. I really did appreciate getting this laid out the way it was in Public Accounts. That has probably happened in the past; I hope it does in the future. I thought it was an excellent document that we could focus on. I would like to thank the Treasurer and his staff for taking the time to come here. I know it's a busy schedule, and we do appreciate it. Thank you very much.

MR. PAHL: I move that we adjourn.

MR. CHAIRMAN: It's been moved that we adjourn.

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Okay. Next Wednesday at ten o'clock.

[The meeting adjourned at 11:09 a.m.]