

Standing Committee on Public Accounts

8:34 a.m.

[Chairman: Mrs. Abdurahman]

THE CHAIRMAN: I'd like to call the Public Accounts meeting to order. The first item of business: could we have approval of the agenda, please? Moved by Barry. All in favour? Any against? Carried unanimously.

At this time I'd like to extend a warm welcome to Hon. Walter Paszkowski, Minister of Agriculture, Food and Rural Development, and also once again to our Auditor General, Peter Valentine. I'd like to ask the hon. minister to introduce his staff, please, and likewise with the Auditor General. Then, following the introductions, you could do your introductory remarks.

Thank you.

MR. PASZKOWSKI: Thank you very much, Madam Chairman, and good morning, everyone. I am very pleased to be joined by key members of our staff here, who I consider have been the driving force of this particular department's successes. We've had a lot of successes in the past three or four years, and I can see nothing but even greater success with the dynamics of the people surrounding me here today.

I'd like to introduce my deputy, Doug Radke – I don't think you have to rise and take a bow or anything; just stay in your place – and Dave Schurman from AFSC. Most importantly, I'd like to introduce the new president of AFSC, Brian Manning, who just joined us about a month ago. We're very pleased to have Brian joining our staff. He comes to us from crop insurance in Manitoba. We're very pleased and look forward to all the dynamics that will continue to flow here in Alberta, Brian, so welcome in joining our staff. Les Lyster; Yilma Teklemariam at the end; Mike Mylod; Ray Bassett; Larry Lyseng, with the finance people; Barry Mehr, head of market development: that's the extent of my staff.

Thank you.

MR. VALENTINE: Good morning, Madam Chairman. I'm delighted to introduce Mike Morgan on my left, who is the Assistant Auditor General responsible for our work in the area of the Department of Agriculture, Food and Rural Development. I'm also pleased to be able to introduce Ellen Vlieg-Paquette, a principal in the office who is about to assume engagement responsibilities for this department.

THE CHAIRMAN: Hon. minister, if you'd like to make your opening comments.

MR. PASZKOWSKI: Thank you, Madam Chairman. I'd certainly like to take a few minutes to give a bit of an overview on Agriculture, Food and Rural Development's activities for the period under consideration today. Looking back over '94-95, it was a year of customer focus. Through the business planning process, the ministry identified its significant customers as those producers and processors who contribute to a sustainable market-driven agrifood industry. The ministry is committed to improving policies, programs, resources to better suit the needs of its customers. We're very, very much customer oriented, recognizing that the people we serve indeed are the clients.

Significant customer focus change was achieved in the field service sector, research marketing services, and central program support. Better customer focus was achieved through major consultations with industry on grazing reserve operations, irrigation funding, safety net reform, and crop insurance. In all these cases we went out in the field, talked to our customers, talked to the

producers, talked to those that are actually going to be using the programs, and consulted on a firsthand basis.

The ministry also worked very closely with customers to take advantage of world market opportunities. Thirteen cross department product teams who actively consult with customers were established to identify innovative and creative ways to serve the needs of the government and to better serve the needs of the industry. Through these 13 groups, we feel we're now better positioned to actually work with the industry, see that the industry itself is driving the process.

Before us, Madam Chairman, are public accounts records for the ministry's '94-95 gross budget estimates. They were \$366,406,000. The records also indicate that \$316,679,000 was actually spent, resulting in \$49,727,000 being unexpended. The unexpended funds were located throughout the ministry's general revenue fund budget and mainly consist of operating dollars.

The provincial contribution to the Agriculture Financial Services Corporation was \$34,279,000 less than budgeted as participation was lower than anticipated in both crop insurance and the revenue insurance programs. A better than average claim experience for the 1994 crop year, together with administrative efficiencies, also helped to lower those numbers and resulted in lower operating costs of the corporation.

As a result of downsizing and restructuring by regions and divisions effective April 1 of 1994, administrative savings appeared throughout programs 1 to 5. In addition to the administrative savings, the majority of payments to employees who opted for the early retirement option program were paid from the '93-94 budget, and that's consistent with the information I provided to the committee on March 22 of '95.

The Crow benefit offset program was terminated on March 31, 1994, but due to multiyear claims and increased volumes of feed purchased prior to program termination, an overexpenditure of approximately \$12 million occurred. It's difficult to assess how much backlog there really is in a system until you close down that particular program. In this particular instance there obviously were a lot of certificates out there that hadn't been picked up and applied for, and when the program was terminated and the cutoff date was identified, everyone rushed to make sure that they cleaned up all the certificates they were holding and brought them forward, which actually were more than we had anticipated.

In addition, the farm fuel distribution allowance program was overspent by \$3.2 million in '94. The reason for that was that '94 was a very, very good production year, and quite frankly the better the production, the bigger the production year, the more cost is going to be incurred in trying to bring in that particular crop. There was more money spent on fuel because of the fact that there was a big crop out there, and that's consistent, that's normal policy.

Both these overexpenditures were offset by unexpended funds for the whole farm and transition funding as it moved towards the whole farm income stabilization program. It was deferred a year, so there was a lot of unexpended money that was available and more than offset the shortfall incurred in those two programs.

Madam Chairman, the Agriculture Financial Services Corporation is a vital part of this province. With your permission, I'd like to take a couple of minutes, if that's proper, to highlight some of the corporation's activities. The year '94-95 was the first year of operation of the Agriculture Financial Services Corporation following the merger of the Agricultural Development Corporation and the Alberta Hail and Crop Insurance division. The Agriculture Financial Services Corporation operated within the budget for the year and improved its operating results from the previous year when the two corporations operated separately. I think a key and important element was combining the two to develop efficiencies that we foresaw and, indeed, did occur.

The highlight of the operation was an excess in revenue over expenditure of \$251 million. A dramatic drop in insurance claims due to better weather, better commodity prices, lower interest rates on borrowing, and sustained improvement in the management of loan portfolios all added to the significant savings in administrative expenses that contributed to this surplus that was achieved at the end of the year. Administrative expenses dropped 11 percent from \$34.6 million to \$30.7 million, and that's a fairly outstanding number and one I'm particularly proud of. This was achieved partly through voluntary retirements, reduced costs in adjusting, and the 5 percent wage rollback. All three combined to allow for that 11 percent.

In '94-95 the corporation operated with significantly lower contributions from the provincial and federal governments, and the contribution from the province for the year dropped to \$147.8 million from \$212.8 million in the previous year. This was a full reduction of 30 percent. The contribution from the federal government dropped by nearly 24 percent from the previous year, and during the year under review the deficit in the revenue protection program was eliminated. As you may recall, in the preceding years quite a deficit had built up in that particular program, and by '94-95 we were able to totally remove that deficit. That, of course, was something that was very, very much a concern, because anytime you have a huge deficit – as you may recall, in the revenue protection program you sort of built your own deficit and you had to look after that as the program carried forward. This was achieved due to important management initiatives. Better weather conditions and better commodity prices of course all contributed. The revenue program is expected to have a significant surplus after final payments are calculated in January of '97.

Agriculture Financial Services increased its lending to beginning farmers to \$65.4 million from \$56.1 million in the previous year, and I think that's a significant number. This is a reflection of farmers' optimism and better grain prices. The arrears greater than one year category was brought down to 1.6 percent, and I think that's a very, very significant number for the direct farm loan portfolio. That's one that at one time, you may recall, was as high as 12 percent, and I think it was quite an achievement to bring it down to 1.6 percent. The number of quarters available for sale was brought down to a total of 13 quarters. That's all that's out there at the present time.

With that, Madam Chairman, I conclude my remarks and look forward to questions. If indeed we're not able to answer any questions here today, we'll certainly see that they are responded to in a written fashion.

Thank you for your patience.

8:44

THE CHAIRMAN: Thank you.

For the benefit of *Hansard*, with the large number of staff, if you could just identify yourself when you're speaking it would be appreciated.

MR. PASZKOWSKI: Thank you. We'll do that. Certainly if there are any questions I can answer, I'll refer them to staff and between the two of us hopefully we'll be able to answer them here. If not, we will see that there are answers provided.

THE CHAIRMAN: Thank you very much.

Mike Percy.

DR. PERCY: Thank you, Madam Chairman. Mr. Minister, staff, Auditor General, I'll just echo – my colleague Ken Nicol, Lethbridge-East, has always spoken very highly of the business plans of the department of agriculture, and certainly they do stand out as being very tight and very focused.

My questions start from the Auditor General's report, page 84, on loan monitoring. The recommendation concerns the information base to evaluate loans, "particularly loans to borrowers who are experiencing loan repayment difficulties." My first question is: in terms of the staff at Agriculture Financial Services, what's the training background? Do many of them come from the financial community, Treasury Branches, chartered banks? Are they specialists in lending activities, or are they sort of line agriculturalists?

MR. PASZKOWSKI: I'll start answering that and have Dave supplement. The basic is both. You're not much good if you don't understand agriculture, and you're not much good if you don't understand financing. What we try and do is get a blend, a combination really. We have Tim Heavenor looking after the commercial, and we have people that look after strictly the agricultural. Remember, what we do here are two different types of lending. We do agricultural and we do commercial lending as well in the agricultural business, so you really have to know both along the way. We do send for training. The best training, of course, is on the job. You know, practical training is by far the greatest. Nevertheless, we do try and hire expertise, and quite frankly, I think the records show for themselves the performance.

MR. SCHURMAN: About 98 percent of our entire staff, the people on the lending side and the people on the insurance side, are actually people who have farm backgrounds. They were born and brought up on a farm, and that's basically where they got their agricultural start. On the lending side, about 40 percent of the loans officers have a banking background as well as agricultural roots. The other 60 percent would have come through the agricultural side. They usually have a degree in agriculture and might have been an agrologist, something like that, along the way; plus, they've got some lending experience either through us or, for some of them, through the banking system, Treasury Branches. Very few of our staff don't have a definite agricultural background. The lending in agriculture, because you lend for periods up to 20 years and repayments are one year, is a totally different concept than the monthly mortgage type of lending that the normal banker would be used to. It's something you have to get used to, and you have to be prepared for the longer cycles between payments. The people we have are experienced in that area and are able to deal with it.

MR. PASZKOWSKI: You try to develop as much as possible a team. As was mentioned, agrologists are very key, very fundamental, and very important to the process, as is the fundamental lending process, as is marketing, depending on what particular element is being addressed here. So there is a team concept that's been built as well.

DR. PERCY: The minister distinguished between agricultural lending and commercial lending. I believe that's what I heard. But aren't the criteria the same? This is a commercial enterprise. The criteria for the agricultural side might be broader, but there would still be a given set of criteria that would have a commercial basis for both the agricultural lending and the commercial lending.

MR. PASZKOWSKI: The composition of the teams would be a little different, but certainly the general criteria are always the same, as I mentioned before. Lending is lending. However, the information-based team will be somewhat different for the commercial and somewhat different for the straight agricultural land lending. Market development, for example, is very key in commercial. Understanding the need of that particular commercial endeavour is

very key and very fundamental.

MR. SCHURMAN: When we're in the beginning farmer type of lending, we're looking for the same sorts of things we would look for from a commercial enterprise. We're looking for forecasts and business plans, how they're going to market their product and their production side of things. However, when you're looking at the commercial type of operation, you're probably looking for different things within the business plans than you are within a farm business plan. You're looking for a lot of production skills in the farm business plan. On the commercial side you're probably looking a lot closer at the marketing plans than you might have to do with strictly a farm operation.

MR. PASZKOWSKI: An agrologist wouldn't be nearly as critical to a commercial – supposing it's a meat processing plant. There wouldn't be a need for an agrologist, whereas in the beginning farmer program and some of that, obviously that becomes critical. So your team composition is somewhat different. But you're right; the basic concept is the same.

THE CHAIRMAN: Thank you.
David Coutts.

MR. COUTTS: Thank you, Madam Chairman, and good morning, Mr. Minister, gentlemen of the department, and Mr. Auditor General. My first question this morning is on farm income assistance. I'm looking at volume 2 of public accounts, in particular page 46. My question is regarding the expenditures of farm income assistance as shown in reference 5.2 of that volume. The records indicate a budget of \$97 million, with \$90 million being spent, resulting in a basic underexpenditure of \$7 million. It would appear that this underexpenditure is directly attributed to the funding of \$19 million for the whole farm and transition adjustments not being utilized. I'm wondering if the minister could provide this committee with the reasons why this may have occurred.

MR. PASZKOWSKI: Okay. You're referring to where the differences have come from?

MR. COUTTS: Yes.

MR. PASZKOWSKI: Okay. Part of it was in the farm fuel rebate program. That's a significant number. As I mentioned, '94-95 was a relatively good crop year. In order to harvest the crop, particularly at the harvest end there was a huge additional expenditure required to the tune of 3.2-plus million dollars. That contributed quite significantly to the overall additional cost.

On the other hand, though there was a small additional cost, that was great because ultimately the industry benefited with a large crop, ultimately we had major savings in the GRIP program, ultimately we had major savings in the crop insurance program. So there was a tremendous offset there that was beneficial to the province.

8:54

THE CHAIRMAN: Supplementary, David.

MR. COUTTS: You answered my supplemental.

From the standpoint of the farmers that benefited from the farm fuel distribution allowance, how many farmers would have been involved in that distribution allowance?

MR. PASZKOWSKI: Well, we've actually got good records in that

area because they have to apply. Each one has a number. Before you can qualify for the farm distribution allowance, you have to be issued a number. We have something in the area of 51,800 farmers that have numbers, and that of course is a legitimate farmer. You have to have produced \$10,000 of agricultural material in order to qualify for a number. That puts some legitimacy into the overall process of being an actual producer. So the number is 51,800, to round it off.

Doug, do you have anything?

MR. RADKE: Madam Chairman, if I might, I'd like to return to the first part of the question dealing with the \$19 million whole farm income support assistance. That was the year in which we were engaged in protracted negotiations with the federal government in an attempt to obtain a relatively uniform whole farm income support program that would apply across the country. We had significant difficulties with the way in which the federal government was headed, namely an emphasis on NISA, the net income stabilization account, as the cross-Canada whole farm income support program. We had troubles accepting that because, in our view, the program is ineffective – it's in fact counterstabilizing rather than stabilizing – and because it does not meet the green requirements of the GATT agreement. Those negotiations carried on throughout the year without agreement, and as a result, we did not spend the money we had originally intended to spend on whole farm income support in that particular year.

THE CHAIRMAN: Thank you.
Debby Carlson.

MS CARLSON: Thank you, Madam Chairman. Good morning, everyone. My questions are on volume 3, page 14, the Agriculture Financial Services Corporation, note 18, allowance for doubtful accounts and for losses. Given the answer you gave my colleague Mike Percy in terms of the due diligence done in loans, I find the write-offs in 1994-95 to be quite amazing at over \$19 million, in fact a million dollars more than the year before. Mr. Minister, could you explain for us how you got to the write-offs in the loans, the property for sale, and the other assets during this time period, and what criteria were used to establish that they should be written down?

MR. SCHURMAN: On the write-offs for doubtful accounts, it's important to remember that the write-offs are not necessarily related to the loans that are made in a particular year. The write-offs can be a culmination of several years of protracted legal proceedings. In a foreclosure action, for instance, we might write off in 1995 something that occurred back in '88 or '89. So those write-offs are not necessarily related to the business we're doing in any particular year. What relates to the business we're doing in a particular year would be the amount of change in the allowance for doubtful accounts. I think that's a better monitor of what our progress has been in getting control of our portfolio and monitoring our portfolio.

Part of the write-offs in 1994-95 also were related to the Northern Lite Canola operation. A big chunk of that in the other asset column and the note to the financial statements relate to writing off Northern Lite Canola. One of the things we did when we sold Northern Lite Canola: we were actually able to sell it for \$6 million, and it resulted in a return to the province of about a million dollars. Treasury owned some of the shares, and the balance was owned by ADC at the time, which is now AFSC. Each of us got about a million dollars out of the proceeds of the sale of Northern Lite Canola. That really was as opposed to continuing to subsidize it for a number of years, so it stopped the subsidy program and also had a small return to the province.

MR. PASZKOWSKI: That was also implementation of our sort of cleanup program where we changed our whole process as far as lending. We decided that we were going to clean out any high-risk type of thing that was really behind, so we developed a new process. Remember that at one time this portfolio had something like a 12 percent default and it was very, very significant, and through change in our policies and a change of our whole process, we're now down to that 1.6. As a matter of fact, Mr. Manning just indicated today that as of now we're down to something like 1.4. This reflected part of that restructuring whereby we redeveloped our whole lending strategy.

MR. VALENTINE: Hon. member, I would just draw your attention to the fact that the allowance at the end of March 1994 was 6.6 percent of the portfolio, and at the end of 1995 it was 5.6 percent of the portfolio. If you look on page 6, the last expenditure item shows you the provision for the year, and the entity has done substantial work in connection with reviewing their portfolio as a result of observations we've made. You can see the provision dropped from 7.9 to 2.8 in the year, so I would suggest there's been some reaction to the observations my office has made.

THE CHAIRMAN: Supplementary, Debby.

MS CARLSON: Thank you. Just as a point of clarification on Northern Lite Canola, the write-offs in the '95 year were only \$250,000. It was in the previous year that they were substantial. Mr. Minister, can you tell us what's in the write-down of other assets there of \$13 million when the provision was for \$2.5 million?

MR. PASZKOWSKI: Well, some of that would be restructuring of our land portfolio as well. That would be part, but there would be others as well.

MR. SCHURMAN: In that other asset column, the majority of what's in . . .

THE CHAIRMAN: Excuse me. We were having a problem hearing the minister when he was speaking. I don't know if *Hansard* picked it up, but I couldn't hear what you were saying.

MR. PASZKOWSKI: Okay. I'll repeat. I'll wait until the light comes on. I apologize.

Part of it, of course, was in the whole restructuring of our land lending. Like I've mentioned, at the present time we have something like 13 quarters out there that are in no-man's-land. That's virtually nothing in the volume of business that we perform. At one time that was a substantive part of our portfolio, and we've been narrowing that considerably. That's part of it. Mr. Schurman may be able to identify some of the others.

MR. SCHURMAN: Perhaps if I just go right down that column under other assets, it might help everybody understand. The allowance at the end of March '93 – that was the second year previous – was \$14.8 million, and the majority of that again was related to the Northern Lite Canola plant. We increased the provision that year by \$1.5 million. Again, most of this is related to that plant, and the majority again at March 31, 1994, the \$16.3 million, is related to that. The write-off in '94-95, the actual sale to CIC Canola, took place and was effective about May of 1995, so it was during the '94-95 year. That \$13.5 million that you see as a write-off there is almost entirely Northern Lite Canola. Then the provision for '94-95 is a reversal of previous provisions of \$2.5 million. It actually was taking something that was put into expenses

in previous years and reversing those expenses. So it was actually a plus for the province and a plus for the corporation on its provision during the year.

The resulting allowance is related to assets other than Northern Lite Canola, the \$250,000 that was left at the end of that year. That has since been reduced to zero. We had no losses on what we were providing for.

9:04

THE CHAIRMAN: Thank you. Thank you, Debby.
Julius Yankowsky.

MR. YANKOWSKY: Thank you, Madam Chairman. Good morning, hon. minister, Auditor General, and staff. I have some questions that are found on page 50, the revenue page for the department, in volume 2 of the public accounts. Under the heading of fees, permits, and licences, I see that brand registration fees increased from \$285,000 in 1994 to \$1,872,000 in 1995. This is an unprecedented increase of over 550 percent. My question is: what are these fees, why have they increased so much from the previous year, and do you expect the increased revenue trend to continue?

MR. PASZKOWSKI: Okay; that's the one where we changed the whole process of selling brands. We used to have a process where we resold the brand. I think it was \$25 – was it not? – for four years. It was revolving over a period. Every four years you had to update your brands. I think the cost was either \$20 or \$25 for four years. Because of the heavy administrative costs involved – and there were substantive administrative costs in doing it that way – it was decided to sell the brand once and for all. For \$225 you are able to buy your brand for life. If you choose, you can resell your brand once you've got it. But that's where the substantive change really took place. I can't remember the number of brands that were sold, but there were a lot. It was a substantive number, so there was quite a substantive change as a result of that. That's the major change. There was some minor change in the shelterbelt program. Those would have been the two major areas.

THE CHAIRMAN: Supplementary, Julius.

MR. YANKOWSKY: Thank you, Madam Chairman. I think, hon. minister, you started answering my second question. Shelterbelt program fees, food processing centre fees, and shelterbelt application fees seem to also all of a sudden be generating revenue. My second question: could the minister explain what has changed to generate this revenue?

MR. PASZKOWSKI: That was reclassification, quite frankly. There are no new revenues as far as the program was concerned; 1993-94 was reclassification. For example, in '94-95 the shelterbelt program fees were classified as sale of assets in '93-94. So generally it just reflected a reclassification of the same category.

THE CHAIRMAN: Thank you.
Terry Kirkland.

MR. KIRKLAND: Thank you, Madam Chairman. Good morning, Auditor General, Mr. Minister, and staff. I take you to page 46 of volume 2, line item 4.4.3, grazing reserves. When I look at that particular line item and look at the expense . . .

MR. PASZKOWSKI: What is the line number on that?

MR. KIRKLAND: I'm sorry; 4.4.3. I'm looking at two figures there,

Mr. Minister. Under grazing reserves: under expended, \$3.89 million and under revenue, \$3.42 million. That quickly suggests to me that there's approximately a \$450,000 deficit between what is actually accrued as revenue and what is expended by the department. Is there a reason why we would run a deficit in that particular component?

MR. LYSTER: The grazing reserve program at that time was operating with small deficits, which have subsequently been eliminated. At that time the dedicated revenue of \$3.4 million was somewhat short of the total expenditures and required a vote of about \$744,000. Since then this has been eliminated. In fact, the grazing reserve program is now in a revolving fund and breaks even.

MR. PASZKOWSKI: We're in the process of privatizing the whole grazing reserve program in that we are now allowing patrons to manage and operate, with participation of our department as well. So they are going to have to be on a break-even because they're going to be part of the management team. We're part of the management team as well as far as the grazing reserves are concerned. We're looking at having that completed within a couple of years when the whole province is going to be privatized as far as the grazing reserve program is concerned. At that time there was still one major reserve under irrigation that was having some substantial deficit. Again, we've dealt with that as well. But much of that came from that one particular reserve.

MR. LYSTER: That's correct, Mr. Minister. As well, I might point out that we had initially planned a \$744,000 deficit because of some of the concerns the minister mentioned. However, you'll note that revenue was better and we were able to reduce expenditures, so we actually ended up with a somewhat better year than originally planned, nonetheless still a shortfall at that time.

MR. KIRKLAND: Mr. Minister, I'll just stay on that same line for a minute for some clarification, if I might. When I look at that dedicated revenue of \$3.42 million there, is that inclusive of mineral rights and surface rights payments to the department?

MR. LYSTER: The revenue would be from grazing and would include some small amounts for access for seismic but would not include in that line the revenue for access for oil and gas.

THE CHAIRMAN: Barry McFarland.

MR. McFARLAND: Thank you, Madam Chairman, and good morning, everyone, Auditor General. I'd like to make an observation. Forty or 80 years ago probably most of the people in here would have been directly from a farm. I think it's interesting that today there are two providing the same support in terms of foodstuffs and production. It's a kind of neat observation, I think.

Mr. Minister, I'm on page 46 of volume 2. I know you alluded to the reference in your opening remarks on 5.2.1, the Crow benefit offset program. I heard you when you said that there were more applicants than you had anticipated in the certificates, but could you give me some idea about the degree of the overexpenditure in terms of 91 percent over the budgeted amount of \$13 million turning into an expenditure of \$24.841 million, please?

9:14

THE CHAIRMAN: Hon. minister.

MR. PASZKOWSKI: Yes, thank you. Certainly, this is something that was not anticipated when the budget was put together. I can

remember spending a fair amount of time in discussion when we were drawing that particular element up, and frankly at the time we thought we were being on the conservative side with the number we'd used in the budget. But it's something that you can't foresee with an ongoing program where you don't have cutoffs at each year. This was an open-ended program that carried forward, and once the cutoff date was announced, of course, any backlog was allowed to be presented. We were surprised as well with the amount of certificates that came forward with applications for payment. However, remembering that this program started in 1989 and carried forward until it came to its conclusion, there was a lot of backlog in the applications for certificates. You're right. The total amount spent was something like \$24 million, and we thought \$13 million was going to be on the conservative side.

THE CHAIRMAN: Supplementary, Barry.

MR. McFARLAND: Thank you, Madam Chairman. Could I get an indication of how many producers would have received assistance from this program, and if there is any backlog, do you have the number on those that might have been cut off and not eligible for turning in their certificate?

MR. PASZKOWSKI: Well, there were 28,700 and some odd that received benefits from the program, and that of course is quite a substantial number. There were those that applied after the cutoff date. Really, the cutoff date was the final date, so there were no exceptions made as to allowing it to carry on past the cutoff date. There were actually quite a few. I don't know if we have an accurate number as to those that applied and were deemed ineligible because their application came in after the cutoff date. If indeed there ever is a similar program developed, there probably should be application dates put in each year so that you don't get this backlog that comes back.

THE CHAIRMAN: Thank you, hon. minister.
Peter Sekulic.

MR. SEKULIC: Thank you, Madam Chairman. Good morning. My question comes from volume 3 of the public accounts, page 7, and it pertains to the Agriculture Financial Services Corporation. My specific question pertains to the change in assets and liabilities relating to operations, which is the second category there and, within that category, the second last and third last items. I'll start with the third last item where it indicates a decrease in estimated indemnities payable, and then it has in brackets \$49,569,250. That's actually a negative negative, which means that there was an increase in estimated indemnities payable. Although I see that it was a decrease over the previous year by about \$15 million, I'm still curious as to what are the sources of these indemnities payable.

MR. SCHURMAN: The indemnities payable: there are various insurance programs. There's the revenue insurance program, the crop insurance program, and then there are some smaller amounts for the wildlife damage compensation program. The biggest two are revenue protection, or GRIP as it's sometimes well known, and the crop insurance. The indemnities that are accrued at the end of the year for a particular program – in the revenue protection program, for instance, there's a substantial amount accrued at the end of each year because the final payment for the crop year doesn't occur until the following January. At the end of March 1994, for instance, we would have accrued what we estimated would be payable in January of 1995. So when those payments are subsequently made, then the amount of accrual would be reduced because we would pay the

money out of that accrual.

What happens when you get to the final payment? It's based on prices at the time the final payment is made. If the final prices are less than what was estimated in the March before, then the final payments are lower and you would have some money coming back from the accrual. If it's the other way around, if the price goes the other way and the indemnity payments are higher, than there would be money going the other way.

So these changes you're seeing here really reflect the changes in our cash position during the year. When you see a change in assets and liabilities, if the payable goes down in a year, which is what's happening in these two cases, it means we're actually paying out cash for indemnities. In the 1994 year it was \$67 million and then \$49 million in the '95 year. It simply reflects the fact that one year indemnities might have been higher than another. If you look at our income statement on the previous page, you'll see the same sorts of things. The total indemnities, not just the ones that are accrued at the end of the year, were substantially higher in 1993-94 than they were in '94-95. That's the reason it went from \$67 million down to \$49 million.

MR. PASZKOWSKI: If I may as well, the prices are set in March because that's when the producers have to decide whether they're going to participate in the programs. March is before the crop is even planted. The product is then marketed from August to August of the following year. Really what's happening here is that there's almost 18 months of anticipation as to what the price is going to be, for example, and there may be a variance in the price in the GRIP program. Depending on what happens with world production, depending on what crops do in the world determines an awful lot what the ultimate price is going to be. So there is a fair amount of anticipation as to the price-setting process.

Probably more than anything else, what this does indicate is that '93-94 was a tough crop year, particularly in the southern part of the province where there were some difficulties, and '94-95 was a much better crop year. That's a pretty good indicator of what's happened out in the production area as well.

MR. VALENTINE: With respect, hon. minister, this is the change in the balance sheet liabilities, and I would refer members to page 5. At the end of the 1995 fiscal year there was an obligation estimated to be \$12.4 million. That same obligation, as it was measured at the end of 1994, was \$62 million. The difference is the \$49 million that the hon. member of the committee has inquired about. It's merely a timing of when you write cheques.

THE CHAIRMAN: Thank you.

MR. SEKULIC: My second question flows along the same vein. It's the second last item in the change in assets and liabilities relating to operations where there is an increase in government payables. We see over the previous year that there's a net change of roughly \$70 million, where in 1995 the government payable is \$57,878,513. Does the same explanation then flow, as in the previous answer: it's a matter of the timing of the cheques being written.

9:24

MR. VALENTINE: If you go back to the balance sheet again and look at the due to the various entities of government, to the province of Alberta and the government of Canada – and by the way, the balances have more additional information in notes 7 and 8 – the change in those obligations is the change we're attempting to display in the statement of changes in financial position so that the reader of the financial statement can understand the cash flow from operations

including the changes in balances, the cash flow from investing activities, and the cash flow from financing activities. You'll see that the net cash utilized by operations which includes the changes in receivables and payables is \$188 million. At the same time, cash was acquired from investing activities in the amount of \$38 million and \$58 million from financing activities. So at the end of the day the net cash utilized by the three activities of the entity was \$92 million at the bottom of the page.

That's what the purpose of this display is: to tell you how cash was consumed or provided for rather than – I think you're wanting to take the number and say, "Why is there a difference from last year to this year?" Well, the operations of the entity occur within the statement of revenue and expenditure. The balances are explained in the statement of changes in financial position. Do I make myself clear?

MR. SEKULIC: If I could just . . .

THE CHAIRMAN: As long as it's clarification.

MR. SEKULIC: It is clarification. My difficulty is that I'm always attempting to compare two years. Could you guide me as to the best way of comparing two years, then, given these statements?

MR. VALENTINE: Insofar as revenues and expenditures are concerned, that comparison you'll achieve on page 6 in the statement of revenue, expenditure, and surplus. The effect of discharging the liabilities and the obligations of the entity and the collection of its assets and turning them into cash is displayed on the balance sheet, and the changes in those relative positions year over year enter the statement of changes in financial position so that you see where the cash came from and where it was consumed.

THE CHAIRMAN: I think we'll need a workshop one of these days, Auditor General.

MR. SCHURMAN: Perhaps if you would just turn to page 5, the balance sheet. In 1994 there were two large amounts on the assets side as due from the province of Alberta and due from the government of Canada, \$54 million and \$55 million. Then in the 1995 numbers on the balance sheet, the due from the province of Alberta and due from Canada were \$46 million and \$11 million. So there are some substantial differences here. In one year there was over a hundred million dollars that was owing to the corporation from both levels of government, whereas in 1995 there was about 60-odd million dollars due to the two levels of government. The way we draw our funds I think probably will help explain it quite a bit. We draw down whatever we've budgeted for these programs during a particular year, and when we get to the end of March at the end of the fiscal year, if indemnities are really high in a year, then both levels of government, including reinsurance funds by the way, will owe us money, and that's what happened in 1994. In 1995, a relatively low indemnity year, the money we drew down was in excess of what we actually paid out in claims, so we owed it to government and ended up paying it back during the current year. And we actually pay interest on the money we pay back.

THE CHAIRMAN: Thank you very much.

MR. PASZKOWSKI: That goes back to the whole process of trying to anticipate what the year is going to be – it's balls that are up there – and if anyone could do that, I'm sure they'd be very wealthy and they could sell their services throughout the world. But in part, that's the only way we can properly operate.

THE CHAIRMAN: Thank you, hon. minister.
Jocelyn Burgener.

MRS. BURGNER: Thank you, Madam Chairman, and good morning, everyone. I always find the conversation on agriculture very interesting and challenging. I'm probably the only one that is delighted that we have this weather so that I don't have to have the embarrassment of not having a garden for at least a couple more weeks.

Walter, I'd like to look at the Auditor General's report and pick up on a question that Mike was touching on earlier. Page 85, on the Agriculture Financial Services Corporation . . .

THE CHAIRMAN: Is that volume 3, Jocelyn?

MRS. BURGNER: The Auditor General's report.

THE CHAIRMAN: Oh, sorry.

MRS. BURGNER: In that report, and I'll quote, it's mentioned that inadequate accounting systems are still preventing the Corporation from properly accounting for interest accrued on loans, where collection is not reasonably assured.

That's taken from midway down page 85.

The Corporation . . . plans to implement a loan accounting system in 1997.

My question is: what is the present status of the corporation implementing a new accounting system?

MR. PASZKOWSKI: Thanks, Jocelyn. That's a fair question, because the Auditor General has pointed this out. I haven't at this time expressed our appreciation of the work the Auditor General does and the co-operation the Auditor General has provided in making the system work better. I would like to thank the Auditor General for the support that comes forward, because it's important for all of us.

Ultimately, in the year '95-96 the corporation is reworking its accounting system to properly account for the accrual on loans where collection is not reasonably assured. So we are trying to make the adjustments that have been identified as concerns, and we are working on that. Starting in '95-96, hopefully we'll be able to make the adjustments that are required.

Dave, maybe if you want to . . .

MR. SCHURMAN: Okay. I'm fairly pleased to report that within a week I'm pretty sure the Auditor General will have agreed with us that we have made the adjustments. He still has another week to look at things before they finalize their audit, but I'm pretty sure we're there.

Essentially what we've developed is a second accounting system for loans to go with the one we had before for the actual accounts with borrowers. The way it works: with the borrowers' accounts we have to account for the interest as we go along – if they owe us money, we have to record it, and if they pay money, we have to record it – whereas for generally accepted accounting principles, essentially what we're looking at is that we don't record the interest on a loan that's considered doubtful because there's quite a bit of doubt about our being able to collect the money. For the individual borrower account we still have to have the record to show the borrower, or to take any actions we might be taking to collect the money, that that interest is indeed outstanding. So in effect it's like having two sets of records on the same loans if they're in arrears. We are now in a position where we basically have those two sets of records in place, and I believe the audit will indicate that they are now auditable and in shape with generally accepted accounting

principles.

THE CHAIRMAN: Supplementary, Jocelyn.

MRS. BURGNER: Yes, thank you. Could we then turn to page 80 in the Auditor General's report, which is recommendation 12? It states that the corporation should

use risk-based techniques to identify which information obtained to determine insurance coverage, premiums and claims needs to be verified.

This follows along the same track then. What has the corporation done to assess the risk associated with relying on information obtained from producers to determine insurance coverage, premiums, and claims?

MR. PASZKOWSKI: For a gardener, that's a pretty solid question. I have to admit that obviously your gardening teaches you techniques it has never taught me, because that's really a pretty solid question and one that is a major concern with the corporation of course. By and large, we've found that the information provided is relatively accurate and is close, but again there has to be some process of monitoring. Anytime you get into a monitoring process, there are huge expenses involved. It becomes a very, very costly process. So what we're trying to do is identify bumps or hiccups in the past performance of a particular client. We're trying to find a process that will be cost-effective and yet monitor the process effectively. We're developing several models, methodology models, that we think will be helpful, that will indeed be cost-effective and yet effective in saying the process isn't abused.

9:34

We've got five or six different things that we're trying to do. We're trying to identify any blips or hiccups in the information provided. Indeed, if there is some sort of radical change from the regular process, we will do on-farm inspections, again pointing out that on-farm inspections are expensive and time consuming. Nevertheless we are developing a structure that we think will be not only effective as far as monitoring the process but effective as far as cost is concerned. So thank you. Good question.

THE CHAIRMAN: Mike Percy.

DR. PERCY: Thank you, Madam Chairman. Mr. Minister, my question is from volume 3, page 26 of the public accounts. It's note 9 on quota exchange. In looking at the reserves of the quota exchange – and I see that as well in terms of the liabilities and retained earnings on page 23, where it's \$21,000 in 1995 and comes in at \$11,000 – given that contingency reserve which is to cover deficiencies in quota transactions, what are the implications, then, of U.S. trade initiatives with regard to tariffication as they relate to that reserve fund?

MR. PASZKOWSKI: Well, I love this question, because that's very much a thrust we in Alberta particularly have initiated with our supply managed industry. This is something particularly close to me, because at the end of the day, whatever that day may be – it's probably five, six years away – I see the next GATT round probably suggesting that supply managed activities will have to be restructured. Our major thrust as far as the supply managed industry is concerned is to restructure the industry so that if indeed supply management is no longer the acceptable process as far as world trade is concerned, they are so efficient, effective, and competitive that really they don't need the protection supply management provides.

At the present time there is a fairly heavy tariffication process in

place, something like 351 percent, I think, in dairy, which of course is fairly heavy tariffication. As a matter of fact, that's now being challenged by the Americans. The dairy industry is becoming very proactive as far as restructuring themselves to become more efficient and more effective as far as competitiveness is concerned. As a comparison, I think it's important that we recognize that our average dairy herd in Alberta is almost twice the size of that of Ontario, and the average dairy animal is 15 percent more productive than the average animal in Ontario. Ontario and Quebec, of course, are the major dairy producing areas of Canada, but we have the most efficient, the most effective dairy herds in Canada right here in Alberta.

Through the process of positioning the industry, we are trying to have the industry in a position where indeed even if the quota system is dismantled, they will still be able to carry on in a very effective manner. So the way we're working, this really should not be a concern. We're not just working on the efficiencies. They're developing an export process as well, because remember that 65 percent of everything we produce in agriculture in the province virtually leaves the province. We're looking at substantive growth in all aspects of our agricultural industry because of the many natural advantages we have, many of them God-given: the environment, the grass, the climate, and all. We want to build on that. It really is our responsibility to see that we utilize and maximize the use of the natural advantages we have. But overall, if our industry is positioned properly and effectively, that should not be a concern.

THE CHAIRMAN: Supplementary.

DR. PERCY: Just clarification before my supplementary question. Am I to take it, then, from your answer that this isn't any change in that reserve or decline is not a contingent liability for the province?

MR. PASZKOWSKI: We are trying to develop a structure so that it will not be. That's in the quality.

DR. PERCY: But it currently is.

MR. PASZKOWSKI: Yeah.

DR. PERCY: My supplementary question is: in the experience for this fiscal year, '94-95, was there capitalization of the effects of tariffication in terms of either the lending practices of the chartered banks with regard to quota or the value of quota as traded? In fact, has the market already adjusted to the dismantling by lowering the value of quota, and was that observed during this period?

MR. PASZKOWSKI: I don't think there was any substantive change as far as quota value was concerned in any of the industries. In general, my understanding is that as far as quota value is concerned, it is still on a bit of a general increase.

Barry, would you . . .

MR. MEHR: Generally the banking industry's approach to quota now is just to amortize it over five years, which seems to be the period of time that's the window of change.

MR. PASZKOWSKI: To get to a previous statement I made, the next round of GATT will likely have some substantive changes in that whole area, so the time frame is being shortened as far as lending institutions are concerned. I think it's a direct reflection of that particular element.

MR. RADKE: I might just add a comment specific to the dairy industry. We have been engaged in a co-operative study with the

dairy industry over the last year or year and a half to determine just what the competitive standing between the Alberta dairy industry and U.S. competition might be. It's not quite complete, but preliminary results are looking very good. The Alberta dairy industry can easily compete with the American dairy industry when the time comes.

MR. PASZKOWSKI: But that's the Alberta and not necessarily the Canadian industry. In fairness, I'm very, very pleased with the people we're working with in the dairy industry, because they're extremely proactive. They've recognized that there is a legitimate threat out there if they don't make the adjustments, so they are positioning themselves very strongly and very actively. If you ever have the opportunity, you want to compliment them for the attitude they are bringing forward, because that's not true in all of Canada. We still have very definitive resistance that we're not going to change, that we're going to stay with the existing system and fight to the very end and go down fighting. Our industry in Alberta has decided that we're going to position ourselves, that we really don't give a darn what happens as far as world trade is concerned. We're going to be in a position where we're going to be able to carry on and be as competitive as possible, and in fairness, I think they deserve a pat on the back by adopting that attitude.

THE CHAIRMAN: Hung.

MR. PHAM: Thank you, Madam Chairman. Good morning, ladies and gentlemen. On page 44 of the public accounts, volume 2, reference 1 indicates that there was \$4.2 million in unexpended funds for departmental support services. Did you find it, Mr. Minister?

MR. PASZKOWSKI: Not yet. Page 44 – which line?

MR. PHAM: Volume 2, reference 1. There was about \$4.193 million in unexpended funds for departmental support services. The majority of the unexpended funds appeared to be in reference 1.0.11. This is called the human resource transition. Can you please explain the purpose of this budget and the reason why 76 percent of the budget was unexpended? Were there problems in budgeting here?

9:44

THE CHAIRMAN: Are you making reference to 1.0.6, Hung?

MR. PHAM: The item is 1.0.11 actually.

MR. PASZKOWSKI: Just bear with me, please. When we were doing our budget preparations in '94-95, when we were doing the downsizing and restructuring within the department, it was planned that the majority of the staff would qualify for severances. That's what the budgeting was done for. Ultimately, at the end of the day, we were able to find sufficient financial resources to do an awful lot of it within the budget in the department itself – from the previous year, yeah. The breakdown ultimately was: for severances, we spent \$256,000; for staff moving and relocation, we spent \$570,000; and for staff training and redevelopment, which of course is something that's important, \$152,000, for a total of slightly less than \$1 million. We expected the costs would be higher. We were able to do much more of it internally than we had originally expected with that \$4.193 million that you refer to.

MR. PHAM: Does that mean there were less people being laid off than expected, or did you lay off the same number of people?

MR. PASZKOWSKI: Well, in the process there weren't as many

severances as we had anticipated. People were retiring, and that type of process came into place as well.

THE CHAIRMAN: I'll accept that as a clarification. You still have your supplementary, Hung.

MR. RADKE: It wasn't so much a question of whether or not the numbers of severances had changed as it was the timing. We had identified early in the previous fiscal year what reductions would be made in the following fiscal year. Once the budget was accepted, we were able to move on releasing those people prior to the beginning of the new fiscal year. That meant we could pay the severance payments out of the previous fiscal year rather than the one in which we planned to make them. So we had some surplus money in the '93-94 fiscal year, we released people in that fiscal year and paid severances out of those budgets, and that automatically freed up the funds we had budgeted for '94-95.

THE CHAIRMAN: Supplementary, Hung.

MR. PHAM: Thank you. Reference 1.0.12 also has unexpended funds of \$486,000. Could you tell us the purpose of this \$600,000 budget and the reason why 81 percent of it was unexpended?

MR. PASZKOWSKI: Yes. Of course, in the process of budgeting we're projecting that we're going to do these things and bring them to a conclusion, so the cost is going to be borne in that particular year. In this particular case, we were not able to bring some of the programming we had anticipated, the technological programming, to a conclusion. Probably the biggest one, as I understand, was producing the barley program on Internet. Of course, there would be a fairly major expense. We were a little behind as far as developing the program and getting it in place, so ultimately we didn't have the expenditure we had originally anticipated. The money was ultimately spent but in a different year. That's the major reason for that.

THE CHAIRMAN: Debby Carlson.

MS CARLSON: Thank you. I'm in volume 3, loan discounting on page 9. The first statement under loan discounting says that loans made under the Disaster Assistance Programs, Canada-Alberta Partnership on Agri-food Program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements.

Can you explain what significant concessionary elements were involved?

MR. SCHURMAN: The concessionary elements are referring to differences between what market interest rates would be and what actual interest rates are. In the disaster assistance program, for instance, the loans were interest free for a period of time, either two or five years. What we do is actually value those loans at the time we happen to be at in relation to when the discounting period is over. If we were to make a zero interest loan today, for instance, and it was for two years, we would value the amount of interest that would be earned at market rates between now and two years from now, and we would discount the value of the loan to reflect the lack of interest that would be coming forward. The CAPA program, or the Canada/Alberta partnership program, and the disaster programs we had in 1989 and 1990 were both programs with interest free loans, and we discounted those loans to reflect the fact of the discount being in place.

THE CHAIRMAN: Supplementary, Debby.

MS CARLSON: Thank you. On the same page, at the bottom of the page under lending, point (ii) talks about \$2.5 million that was paid out for office accommodation and support costs. Could you explain that in more detail? It seems like a significant amount of dollars to be spent on that.

MR. SCHURMAN: What the \$2.5 million represents: about \$1.6 million of that represents the value of the rent we don't pay for public works buildings in the province. Public works has actually got the money in their budget, and they spend the money and show the expenses in their budget to the extent of about \$1.6 million worth of rental and other office accommodation costs like utilities and maintenance for buildings on our behalf. The balance of that represents the value of services we get from the Department of Agriculture, Food and Rural Development. We share office space in most of our locations with those people and their support people, secretaries, office supplies, all those kinds of costs. The department pays for those on behalf of the staff they're supporting for their organization plus the staff they're supporting in our organization. For the most part, if we have three loans officers in a particular area, we usually require the services of about one secretarial person to support those three loans officers, and the department pays for those. So the balance of the \$2.5 million is represented by those kinds of services.

MS CARLSON: I have a point of clarification on that.

THE CHAIRMAN: A quick clarification.

MS CARLSON: Yes. In terms of the office costs, those would be operating costs plus the depreciation portion on the building? Is that how they're established?

MR. SCHURMAN: It would represent the rent plus the utilities and the janitorial kinds of services that public works pays for. Public works may own the building, but they turn it into a rental value for our purposes.

THE CHAIRMAN: Thank you very much.

David, you probably have time for your main question.

MR. COUTTS: I do. I have a quick question, Madam Chairman. Thank you.

Mr. Minister, in volume 3 of public accounts, in particular page 19 where we look at activities at the Alberta Agricultural Research Institute, we look at the balance sheet, the statement of revenue and the expenditures and the unexpended funds. I note that under the assets on the balance sheet there is an amount of a quarter of a million dollars that says "Due from the province of Alberta." That's an increase. That amount due is an increase over the previous year's due of \$1,300. My question is: what is that amount represented, and why has it increased over the 1995 fiscal year?

9:54

MR. PASZKOWSKI: The \$240,000, of course, increased in the amount of about \$159,000. It was to do a study regarding sustainable cropping, a sustainable cropping system study that indeed was managed by the Ag Research Institute. This study is a joint venture of Alberta Agriculture, Agriculture and Agri-Food Canada, and the University of Alberta. The study has been ongoing since 1993 and is part of a master agreement between Canada and Alberta regarding sustainable agriculture, and of course has been a

major drive in working towards achieving a sustainable – one that doesn't really deplete the soil, doesn't damage the air, doesn't damage the water. We've had a good working relationship with the federal government in this particular area.

We do have a bit of a concern in that the federal government at the present time has indicated that they are withdrawing in '96-97. This has been such a healthy relationship that we're still trying to encourage the federal government to carry on with this program. It's been a very successful program for us in Alberta where we have a divergence of problems regarding sustainable agriculture. We have such a divergence from the very far south to the very far north where agriculture does participate. In the south, for example, wind erosion is a major problem; in the north, water erosion is more of a problem. That's to do, I understand, with the structure of the soil particles. They are actually structured differently.

So it's been a very successful program, a very good relationship, but unfortunately my understanding at the present time is that it looks like it may be winding down and coming to an end.

THE CHAIRMAN: David, is your supplementary a short one?

MR. COUTTS: Well, the supplementary is a short one, but the answer might be long. I just want to talk about efficiencies and effectiveness of research and how it's conducted by the Agricultural Research Institute. It's difficult to know when to put studies into practical application because of the diversity of the province too. But to make my question really short: is the Agricultural Research Institute the only body that you have in the department to conduct research?

MR. PASZKOWSKI: No, not the only body that conducts research. Very briefly, no.

MR. COUTTS: I'll discuss that with you later.

MR. PASZKOWSKI: Yes. If you'd like some further information as to how the Agricultural Research Institute operates, we can certainly get you that information as well. I think it's critical and important to recognize the steps the Agricultural Research Institute has put in place for the development of research and to develop accredited and creditable research. I think that's very important.

THE CHAIRMAN: Hon. minister, if there is further information, we would appreciate it if you would do it through Diane, please, so that all members get the information.

Thank you very much, hon. minister and your staff and Auditor General, for answering questions in a very full and forthright manner. It's greatly appreciated.

The next meeting is May 15 with the Hon. Ty Lund, Environmental Protection. We look forward to seeing you here next week.

At this time we'll stand adjourned. Thank you.

[The committee adjourned at 9:59 a.m.]