8:33 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Order please. Today of course we have with us the Hon. Stockwell Day. First of all, as you've been here before, Mr. Day, we're less formal than the normal House and we'd like to offer you some time, whatever it takes. You're probably the most important member of the government that comes before this committee, a sort of Daddy Warbucks as it would be. As far as this committee is concerned, we've set aside some of the usual rhetoric. We'd like to offer you time to explain your position as it relates to the findings of the Auditor General, as well as your report. Then we'll go on to further introductions.

First of all, I'd like to have approval of the agenda if I might.

MR. ZWOZDESKY: So moved.

THE CHAIRMAN: Is it agreed? Carried.

An approval of the minutes of February 11. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried.

Mr. Day, whenever you're ready.

MR. DAY: Thank you, Mr. Chairman. I think I can say on behalf of all members that I appreciate the good job that's done by this committee and by yourself, sir, as chair, and I appreciate your comments on the high level of importance in which you hold this office. I hold it in the same level of importance. I'll try and fulfill my duties diligently along with good input and advice from my caucus colleagues and, I might add, from time to time your caucus colleagues, believe it or not.

I have with me today Mr. Jim Peters, our director of budget office management and control, and all the tough questions he's going to help me with. The easy ones can be handled by Mr. Zwozdesky.

It's good to see the Auditor General here also with his staff. I understand, as you've indicated, Mr. Chairman, there'll be some introductions on his part in a few moments.

There's no question the work of this committee is, I believe, critically important in holding the government accountable for its results – just the very act of coming in here and subjecting ourselves not just to questions but in fact there are always good suggestions, I find, that come forward that are helpful in the ongoing reporting and management process.

I'll take the opportunity now, if I may, to just thank the Auditor General for his good work in helping the government always improve its accountability to Albertans. It's a critically important role that is played by the Auditor General and his staff. I can tell you that we take very seriously the comments and observations in his annual report and the everyday work they do to keep us open and keep us accountable.

I do think, though it may sound biased – and I'll run that risk – that the government is making good progress on improving accountability. You'll note on page 204 and page 205 of the Auditor General's report that though there are many recommendations and areas of improvement, which we take very seriously, the report does note that we continue to provide the earliest reporting in Canada and also quality consolidated financial statements. There's also a note that the inclusion of the budget information in the consolidated statement of operation allows an immediate comparison of budget to actuals. That just, once again, increases the accountability. The Auditor General may want to comment further.

I think we are still unique in Canada in terms of the three-year business plan process. I'm not sure if in this last year others have adopted that or not, but certainly we have set the trend there, and that's because of the input from citizens in general and others who look at what we do. I believe we've worked hard in developing these department and ministry financial statements. Again, no other jurisdiction in Canada takes what I believe is this unique approach. On page 18 of the Auditor General's report the Auditor General acknowledges the government on the progress made and indicates that, as a result of this type of process, the province does have better information than last year, and we'll continue to work on that. The ongoing improving of our performance measures and our ministry annual reports are something which each minister takes seriously and each caucus member takes seriously in terms of making sure the minister is getting all the advice, encouragement, and sometimes admonishment needed to make sure we press on to attain those goals.

I won't go on at great length talking about '96-97, other than it was definitely a strong year financially. The surplus, which we are very happy about, as you know goes towards our debt as required by the Balanced Budget and Debt Retirement Act. For the year ended March '97 we saw a $2.5 billion payment on that debt, and we saw the net financial debt reduced from $8.3 billion, which it was in '93-94, down to $3.7 billion at the end of March '97. Though it's not an element for this report, we project by the end of this March that net debt being $1.5 billion. I realize it's not part of this actual budget year that we're talking about.

I think this speaks clearly to what happens and the fruits of the efforts when you maintain a process of prudent revenue forecasting, which we do. Sometimes, as I said in the budget speech last week, we're criticized for that, but with oil prices being what they have been for the last few months, it shows the wisdom of taking that prudent approach. I think today's or yesterday's posting on oil was $15.63, so certainly we do want to see that move upward.

THE CHAIRMAN: Mr. Minister, it's my job to restrict these people from asking questions about anything other than that which is before us, and a little reciprocity would be in order. If you could restrict your comments to that which is before us, it would make it a lot easier for me to hold them back.

MR. DAY: Thank you, Mr. Chairman. Thank you for helping to . . .

MR. ZWOZDESKY: Unanimous consent to waive that rule.

MR. DAY: No, we won't be waiving that rule.

Thank you for helping me to keep in check my unbridled enthusiasm. I'll be guided by your remarks.

These are the results of paying down the debt and keeping spending on target, under control. We continue to maintain that process and will do that.

What else can I say without being ruled as overly exuberant? In the Measuring Up document I think you'll see that the good financial results are only part of the picture. Taxpayers need to know the results we're achieving from these dollars, and that's something we are constantly, I guess, tossing back to our critics. In terms of when we're encouraged just to simply spend more, we like to remind people that we want to know what we're buying and that we measure the results of that. In the Measuring Up document I think you'll see that reflection. It's important for all of us to be open and accountable. I believe we're doing that, and I believe the Auditor General has reflected that, albeit with the recommendations for improvement he's given to us.

With those opening remarks, Mr. Chairman, I'd be happy to entertain questions and suggestions on how we can make Alberta an even better place.

THE CHAIRMAN: Just before we get into questions, I'd like the Auditor General to introduce his staff, if he would.

MR. VALENTINE: Thank you, Mr. Chairman. On my left is Merwan Saher, who is an Assistant Auditor General with responsibility for professional practice and quality control in the office. On my immediate right is Ken Hoffman, Assistant Auditor General with responsibilities in the performance measurement area, and on his right, Lawrence Taylor, a principal who has responsibilities in a variety of departments, ministries, including Education, Social Services, and some matters relating to Treasury. In addition, there are eight of my colleagues in the public gallery, and I'd like to acknowledge their presence this morning.

THE CHAIRMAN: Thank you kindly, sir.

Mr. Zwozdesky, to start off some questions. Overexuberance is not going to be ruled out of order, although questions other than the '96-97 budget year will be.

MR. ZWOZDESKY: We shall attempt to stay within the rules as always, Mr. Chairman, and thank you for this opportunity. Good morning, Mr. Treasurer and your staff. And Mr. Auditor General, good morning to you and to all your colleagues here.

Mr. Treasurer, the Al-Pac loan continues to be a point of great interest, I'm sure, to yourself and to all Albertans. I'm interested in comments made in volume 2, note (d) on page 205, wherein the Al-Pac loan is referenced as part of the heritage fund financial statements for the year in question. I note the issue cited, that being paragraph (d): "based on historical operating results and the latest industry forecasts of pulp prices over the long term." You indicate in the notes that "there is reasonable certainty that the loan principal and all accrued interest will be repaid by 2010," based on current cash flow projections for the Al-Pac project.

My first question to you is: can you indicate what the cash flow projections were for the Al-Pac project for the period 1997 through to 2010 that were utilized by your department, Alberta Treasury, to predict there would be this reasonable certainty that the loan principal and all the interest would be paid in full by 2010?

8:43

MR. DAY: Well, it's a complex formula that was derived and arrived at in the initial stages of this particular agreement. It could be argued that any of us would have liked to have had a business arrangement of the likes of this order, especially given certain paybacks that wouldn't have to happen until certain cash flow projections were attained and also certain costs factored in.

At the heritage savings trust fund meeting of about a month ago I tabled the detail and elements of that particular agreement which we were able to do. I don't have that here fully, and some of the evaluation analysis is subject to a lot of different factors. So, Mr. Chairman, I guess to be as brief as possible, I could commit that the fairly detailed minutiae related to that loan which was tabled could be sent also to this committee. Quite honestly, I don't have that all before me, and it was the result of a lot of work of accountants, lawyers, and business analysts on both sides of the agreement at the time it was structured.

In its broadest terms, as I think the member is aware, if certain projection levels are not attained, then in fact payments do not have to be forthcoming. The absolute stop-dead payment deadline would be the year 2006, at which point, if there have been no payments at all, a process of five annual payments for the total amount of principal and interest must begin, which then leads to a culmination, as you've already referenced, in the year 2010.

An important point to note is that as this whole operation is valued and accorded on the books, sometimes when, for instance, interesting terms like interest reversal and accrual – when interest is not forthcoming and a degree of risk begins to enter into the equation, then in the interest of openness about a possible liability we have to record if there's a reversal of interest. In fact, if it doesn't come in, the risk factor and the value of the loan would even be recorded as a possible contingent liability. But that in no way – in no way – absolves the entity, the organization from any payment either in principal or in interest. So even if these cost factors which you're referencing are not attained and the payments not forthcoming as we move through each successive year, all the money, the principal and interest, is still owing. If worse comes to worst, if we call it that, by the year 2006 the five annual payments have to begin. Things may be written down in terms of value, but written off they are not, and they are still required to be fully paid.

MR. ZWOZDESKY: Thank you.

A brief supplemental. The tabling you referenced: did that include the valuations or sensitivity analyses that were conducted by Treasury during '96-97? If it didn't, could you then undertake to release those valuations and sensitivity analyses which, taken together, would have been what you based your prediction of full recovery on?

MR. DAY: Once negotiations began, which actually would not be in the budget year we're presently dealing with, there were evaluations that were done, and those – I think I've indicated in the House here that if a deal is to be completed other than the payout to the year 2010, then we will endeavour to table everything we can as far as that appraisal or any appraisals that were done. I think the member can understand and appreciate that in the middle of negotiations where one side may have the eventual intent of, let's say, going to a public offering or maybe one partner is selling out to another, anything to do with valuation would be premature and I think poor business on their part if they were to release it. It's up to them if they wanted to. So we have to respect that part of the negotiating process in terms of where our own valuations are, because that's part of our negotiating process. If we have an evaluation that tells us the entity is worth X number of dollars, it may not be the best business negotiating practice to let the other side know where the evaluation falls. But in fact if a deal is completed along the lines of what's been discussed openly here in this Legislature, then we will make elements of that valuation known, how the valuation was arrived at and other elements to do with that.

MR. ZWOZDESKY: Well, I'm with you all the way on collecting the full amount, so good luck with that.

MR. DAY: Actually, I think it should be on the record, and I appreciate you saying . . .

THE CHAIRMAN: Debate we don't need here. It's questions, and that was two questions.

Mr. Stevens, Ms Blakeman, and Mr. Ducharme.

MR. STEVENS: Thanks, Mr. Chairman, and good morning, Mr. Provincial Treasurer. Recommendations 25 and 26 of the Auditor General's report recommend that government ministry and department financial statements be prepared in accordance with generally accepted accounting principles. On pages 16 and 17 of the

Auditor General's report, he explains why he reserved his opinions on ministry and departmental financial statements. Could you please explain what the government's position is on these recommendations and on those comments?

MR. DAY: Clearly, we feel the comments are valid, as we do with all the Auditor General's recommendations. I think it's important to remember that these ministry and department financial statements are a first in Canada, so there are no clear-cut accounting standards to be followed when in some way we're charting new waters here. We've tried to use our best judgment – we draw from a variety of what we believe are valid sources – in terms of what we believe should be the best accounting policies for ministry and department statements. The Auditor General also believes there are some areas where we can even further improve accounting policies both in the department and the ministry financial statements. We've looked at and already accepted a number of suggestions which have already been accepted and reflected in Budget '98 and will be reflected, actually, in the '97-98 ministry financial statements.

In direct reference to your question, all of these revenues, including the corporate income taxes, will be recorded on an accrual basis. The allocation of the vacation pay entitlements was definitely something that was brought forward, and the allocation of those entitlements to ministries rather than recording them in Treasury is something that will be followed through. There were several valuation adjustments to ministries rather than recording those in Treasury also.

The other suggestions the Auditor General and his office had made are being looked at. We've put in place interministry working groups there that report to the Controller and report to the ministry senior financial officers. So those two are under consideration. I think it's fair to say that any further changes normally would be reflected in the budget first. That strengthens the accountability by making sure that the budgets and the actuals are on the same basis. That's how we're approaching it. We hope that will satisfy the good concerns the Auditor General has brought forward.

Did you want further discussion related to any of the other matters there in those recommendations, or did that cover it?

MR. STEVENS: Well, there was one specific concern, which was that the government doesn't consolidate the results of schools, postsecondary institutions, and regional health authorities in the government statements. I was wondering if you could elaborate on what the government's position is on that particular recommendation.

8:53

MR. DAY: That's one that we really looked at aggressively and with considerable interest. Expanding the government reporting entity – and this is a sort of key area that I would like you to focus on, because we took seriously these recommendations and gave them a full vetting – has significant implications not just from a government policy perspective but also from a practical perspective. On the practical side, of course, just managing to get the timely information from all these organizations so that we could stay on track on a June 30th deadline for the province's financial statements would be a significant if not insurmountable challenge, because we're relying on the other organizations as far as that information. I think an even bigger challenge would be to obtain the timely budget information to prepare our budget. But though significant, those aren't insurmountable.

Managing our fiscal plan with these organizations included would actually cause us to make some fundamental and significant changes in the very working relationships that we have with these organizations on their business planning activities, including, I might add, the consolidated budget. We would then be seen to be approving the individual budgets of these entities, and if you've dealt with them, whether it's postsecondary institutions or regional health authorities, you'll know they quite rightly insist on a degree of autonomy, not autonomy in terms of being accountable for what they're doing but in terms of the provincial government being the ones actually approving the individual budgets.

In most cases we've always made a clear distinction between what the government's role is here, which is to set the policy direction, to set those performance expectations – absolutely to set those – to provide the funding, and the role of the entities, then, is to deliver those specific services. So before we embark on a change of that significance, we'd have to be sure it was the right thing to do, and would it in fact provide better information to MLAs and Albertans? As you know, all those entities are required to have their own annual reporting process. And should we be involved with them on an approval basis to that degree?

I can say that we're going to continue to work with the ministries that are affected by these considerations and have told the Auditor General we'll continue to work with him and his staff to look at the best way to reflect each of these activities in the entities themselves and maybe even some form of sectoral reporting to be able to get supplemental information within the respective ministry annual reports. We could add that as a supplemental. But it becomes, I think, that very dangerous area of moving from policy into what might be seen as minutiae to us though it's big numbers with these entities. It's a line we're very reluctant to cross in terms of the actual approval basis, but certainly from the point of view of supplemental information and accurate information and timely information, we'll work closely with the entities and with the Auditor General in seeing what we can do to improve that.

MR. STEVENS: Thank you.

THE CHAIRMAN: Ms Blakeman, followed by Mr. Ducharme and Ms Olsen.

MS BLAKEMAN: Thank you, Mr. Chairman. Good morning.

MR. DAY: Good morning.

Could I just add, too, that it's probably interesting to note on that question that British Columbia – not that we would follow the plans of the British Columbia government – actually stopped that process of consolidating schools, hospitals, colleges only a year after they brought them into their reporting entity. It largely had to do with concerns over the validity and the appropriateness of the expanded reporting entity. So it's not that we have made this decision without also looking at the experience of other jurisdictions. Again, it's not that we're guided by things the British Columbia government would do in every case.

MR. VALENTINE: I think I should make a comment on that point. The situation in British Columbia is that the SUCH sector was included for one year and has been taken out in the current year. There is a proceeding before the Public Accounts Committee in British Columbia to review that matter, and that unfortunately is not proceeding very quickly due to the illness of the chair. Now, I was only yesterday with the Auditor General in B.C., and his view continues to be the same as mine, that those entities ought to be consolidated. So in fairness I think I should tell you where the Auditor is in B. C.

MS BLAKEMAN: Good morning everyone. I'll try this again. I'm actually following up on Mr. Stevens' question around including the

MASH in the consolidated reports. To use a term often put forward by the Treasurer, this is representing some $4 billion worth of sweat-soaked loonies.

MR. DAY: I love that, love that.

MS BLAKEMAN: Uh-huh. So given those sweat-soaked loonies and I think a desire certainly on behalf of this committee to be able to monitor that at least or to have a better idea of how we can be helpful to the Treasurer and the Auditor General, as one of my questions has already been brought forward, I'll just follow up with the question: what is the impact that the consolidation of these entities would have on your consolidated surplus and net debt of the province as of March 31, 1997? For a reference, I'm going off recommendation 26 on page 206 of the Auditor General's report.

MR. DAY: Well, it's a good question. Let's note and make sure we understand that the government currently provides the full formal results of these organizations, their final statements being included in volume 4 of the public accounts. If let's say a postsecondary institution does some form of debenture issue even on a short term, the question we ask ourselves is: is it appropriate, then, that that would be included and affect our provincial debt and deficit picture? When we look at that, does that then begin to affect what we would call our net debt, our gross debt? I don't know that that would be appropriate. If they were to do a debenture of some kind, that would certainly be reflected not only in their statements but also in our formal results. But should that in fact be something that is reported? Or if they have a surplus, if a number of institutions in showing good management were to reflect a surplus and, let's say, we as a provincial government weren't doing that well managementwise, would it be right for us to then muddy the waters a bit? Let's say we were in a break-even position or a slight deficit but the U of A and the U of C had some phenomenal years – maybe private donations, who knows what? – and were in a surplus position. Then we take their surplus and report it on our consolidated basis and say: "Hey, aren't we wonderful? We actually have a surplus this year." I don't think that would be an appropriate means of reporting on a consolidated basis.

So though it's not reported on a consolidated basis with, let's say, our own debt or surplus picture, I appreciate where the concern is coming from. Is it somewhat comforting for the member to know that these full formal results do still have to be reported by the organizations themselves and we include them in our financial statements for the world to see? But I don't think it would be fair for us to assume either their surplus or their debt picture and cause it to reflect ours.

MS BLAKEMAN: Okay. My supplementary then. I sense a resistance or concerns expressed about consolidating this. Is there any commitment to move towards this consolidation?

MR. DAY: I'd say, as I said earlier on the question of the Member for Calgary-Glenmore, that we're working closely with the Auditor General and his staff in terms of saying: "Okay, we hear the concern. How can we address it without actually assuming either their debt or surplus on our consolidated picture?" So it's not something we've just walked away from, closed the book and said that we're not doing it. We're saying, you know, "Help us to understand and help us to do everything we can to make sure the transparency is there, the openness is there, and the accountability is there for good management without actually having to take that step." We continue to work with the Auditor General and his staff on that process. So it's not single-minded resistance. You know, we're looking at it carefully.

THE CHAIRMAN: Thank you kindly.

9:03

MR. DAY: Mr. Chairman, I'd just remind the member in terms of our consolidated reporting at this point: from what we report in terms of costs in the MUSH sector, upwards of three-quarters, 70 to 75 percent, of those costs are already included somewhere in various aspects of our consolidated numbers just through the grant process, our grants to those entities. So that's already a factor in terms of our consolidated picture.

THE CHAIRMAN: Thank you.

MR. DUCHARME: Good morning, everyone. My question to the hon. Provincial Treasurer deals with Treasury revenue. Specifically in volume 2, page 113, it deals with the royalty tax credit. I note that the tax credits fell by $52 million. Could you explain the decrease?

MR. DAY: I sure can. The member may be aware that that particular tax credit is actually estimated on a quarterly basis, and it's based on that blended reference price for oil and natural gas. When you take that blended reference price and determine that for each calendar quarter by the Minister of Energy through the Ministry of Energy's officials and in terms of their view and review of all the analysts and the analyses that are going on, the royalty tax credit rate itself falls. That will go down as the oil and natural gas prices rise. In 1996-97 those oil and gas prices rose by 27 percent, which is a significant gain obviously, but then that results in a corresponding decline in the actual royalty tax credit rate. That's why the value of the actual RTC fell by 18 percent.

MR. DUCHARME: On the same page I also see zero income for the Alberta Liquor Control Board and the lottery fund. Could you explain why there was no income from these two entities?

MR. DAY: Well, the whole process of consolidated budgeting requires that the reporting of these revenues and expenditures is done from an entity reporting to a minister, whichever the applicable ministry would be. So in 1996-97 the revenue at that point came from that newly formed Alberta Gaming and Liquor Commission, which actually includes the former ALCB, and that's reported in Economic Development. In a similar fashion '96-97 lottery fund revenue is shown as the revenue of Economic Development. So it's strictly on that reporting basis that that happened.

THE CHAIRMAN: Ms Olsen, followed by Mr. Jonson, followed by Dr. Pannu.

MS OLSEN: Thank you. My questions are going to revolve around the Al-Pac loan. Referring to the Auditor General's report, page 216, the Auditor General "recommended that the measurement uncertainty relating to the value of the loans to Al-Pac . . . be disclosed" in the consolidated statements – that's the second and third paragraphs there – including "the nature of the uncertainty," the sensitivity of the loans "to changes in key assumptions," and "significant factors that would impact the amount that might be realized upon disposition" of the loans under current economic conditions. If you go to public accounts, volume 2, note (d), page 205, the same as my colleague had referred to, in the notes to the heritage fund financial statements as of March 31, 1997, Treasury management indicates the value of the Al-Pac loans "are highly sensitive to changes in future pulp prices." At the time management estimated that

> a 1% change in pulp prices forecast over the long term could change the overall security of the value by approximately $30 million.

However, based on industry forecasts, there was a reasonable certainty that the Al-Pac loan principal and interest would be repaid by 2010. What were the estimates of pulp prices produced by Resource Information Systems Inc. – that's RISI – over the term '97-2010 on which the carrying value of the Al-Pac loans, which was $371 million as of March 31, 1997, was based?

MR. DAY: Mr. Chairman . . .

MS OLSEN: I can shorten the question.

MR. DAY: No, no. I understand the question. I don't have the dollars we're talking about. You know, I appreciate the concern here. We're talking about a reflection of prices and assumptions that would go in and on to the year 2006 and possibly to the conclusion of 2010. Not anticipating that we'd be moving into those years of analysis, I don't have that here. I'll commit to make that available to the member and to this committee even in terms of numbers that we have reflected from private-sector evaluations of what they thought commodity prices would be doing for this particular budget year that we're looking at and the outward years. I can commit to get that information to you, Mr. Chairman.

THE CHAIRMAN: Mr. Minister, would you deliver it through the secretary so that all members can share it?

MR. DAY: Certainly.

MS OLSEN: That was my second question. Would you provide a copy of the September 1996 RISI 20-year pulp price forecast and subsequent RISI forecasts?

THE CHAIRMAN: I think he just said he would. Or was that more specific?

MS OLSEN: That's more specific.

MR. DAY: I'll endeavour to get that. I don't know if there'd be an obstacle. I don't think there would, but I will endeavour to do that.

MR. VALENTINE: I think I should make the point at this juncture that these financial statements are for the period ended March 31, 1997, and as it says in the audit report, management is responsible for the significant estimates that are contained within those financial statements. Now, the process of estimation would have occurred at the year-end, and we would have been concluded by May 30, 1997, which is the date on the auditor's report. So just so it's in perspective, what's reflected in these financial statements is management's estimate made at some time in the closure of the accounts for the year and prior to May 30, 1997. Other estimates may have been made subsequently, which of course are not reflected in these financial statements.

THE CHAIRMAN: Mr. Johnson, followed by Dr. Pannu and Mr. Zwozdesky.

MR. JOHNSON: Thank you, Mr. Chairman. Looking at schedule 1 on page 35 of the annual report of the government of Alberta, revenue was up year over year just about everywhere, but federal transfers were down by about $400 million. Why were they down so much?

MR. DAY: I can tell you, hon. member, that the process of the federal transfer and reduction, how it affected us in the budget year '96-97, has been a frustrating process for us as government in terms of dealing with the federal government. Federal government cuts to the Canada health and social transfer account for almost all of the '96-97 drop in federal transfers. As a matter of fact, the CHST cash transfer to Alberta went from $1.45 billion in '95-96 to $1.156 billion in '96-97. Further to that, just to put perspective on it for you, with the introduction of the CHST federal transfers for provincial health and social programs – and this isn't just to Alberta; this is all over – will fall by $6.8 billion or 35 percent from '94-95 to '98-99. For Alberta the cut in those federal transfers from '94 to '98 is $570 million; that's a drop of 38 percent. I don't want to get into a partisan discussion here, but I'll just leave it and say that's a very significant drop in terms of federal funding to the province. Yet we have continued through that process to maintain a deficit-free environment and, in fact, to continue to post surpluses. Over this period the per capita transfers are going to fall from about $555 to $325 for Albertans. These are very significant reductions.

We recognize that as part of the federal deficit reduction plan transfers to the province had to be cut. We also said, where we get into the disagreement, I guess, in terms of process with the federal government – you know, we've gone through our own restructuring obviously since '93, and certainly there was restructuring going on in '96-97, the budget year we're looking at. We have never argued with the federal government over their need to reduce their deficit. We have had some difficulty in the fact that we've said to the federal government: you should really also reduce your own administrative side spending. The average of that in terms of the federal government's own program spending – reductions there have been about 8 percent, whereas to the provinces, averaging out 35 percent, and to Alberta a reduction of 38 percent. Frankly, we just say that's misguided vision. The CHST accounted for about one-sixth of total program spending and provided almost half of the federal program cuts. So that gives you another perspective on it.

9:13

We also believe – and we've made this very clear – that the CHST is unfairly allocated among provinces and that that allocation actually hurts Alberta. And here's where we have to be careful. There was a question yesterday reflecting on our '96-97 position on this issue here in this House from a party at my far left that suggested we don't support the equalization payment system. That is categorically wrong. The Alberta government does support redistribution as related to federal equalization payments. We understand that. Maybe we don't get excited about that, but we understand there are times when different parts of the country may in fact be hurting and we've got to distribute some of our gains to help our brothers and sisters. But the CHST should not be considered part of that, and it should be done on a per capita basis, because when we become tighter administratively on a program which was receiving CHST funding and therefore because of our administration improvements require less money or save some money, we actually get penalized by a reduction on the CHST.

So that's our position. I hope it makes it clear. We just feel that Albertans should get the same federal support for health and social programs as Canadians in other provinces. We still support totally the separate payment which is federal equalization, but CHST should definitely be per capita. And why are they down so much? As I explained, that was the reduction that was imposed upon us.

MR. JOHNSON: The other decline on the same page is in commercial operations other than lottery operations, in other words miscellaneous. What is this miscellaneous item, and why is it down?

MR. DAY: Well, commercial operations are government entities that are engaged in commercial activities. I suppose the debate on that one is for another day. Examples of those would be the Alberta Gaming and Liquor Commission, the Credit Union Deposit Guarantee Corporation, and Treasury Branches. The reduction posted here in net income from commercial operations mainly is due to the losses of the Alberta Treasury Branches. I think the member will recall that the whole restructuring process of Treasury Branches, which was done last year by policy and by legislation, required the Treasury Branches to evaluate their loans and do their loan loss provisions on the same basis that other financial institutions would do, which means taking a much more harsh – and we would call it realistic – look at their loan loss provisions. A number of banks went through that process about three or four years ago. When you do that as a financial institution, you get very tough on yourself in terms of evaluating the risk of a variety of your portfolio of loans, but we required them to do that, and we knew and they knew this would mean that they would show those loan loss provisions on their books and be accountable for that. That does come and show up as a loss, and that loss was primarily due to the restructuring costs and the provision for these probable loan losses.

MR. JOHNSON: Thank you.

THE CHAIRMAN: Dr. Pannu, followed by Mr. Melchin.

DR. PANNU: Thank you, Mr. Chairman. Mr. Treasurer, may I take you to page 198 of the Auditor General's '96-97 report, recommendation 25 on top of the page? The recommendation says that "departmental and ministry financial statements be prepared in accordance with generally accepted accounting principles." Then the Auditor General goes on to give us a bit of the history of the discussion that took place within the interministry group. He makes this recommendation by suggesting that proper accountability requires that such procedures be adopted. What's the Treasurer's position and the department's position with respect to that recommendation? I ask that question because at our last meeting of the Public Accounts Committee there was a motion, I think, to adopt such procedures and that was perhaps defeated. That would have been our recommendation, but it didn't pass.

MR. DAY: I appreciate the question again. I think I addressed it in some detail earlier in our meeting. First, we remind people that these ministry and department financial statements are a first in Canada. We do use our best judgment. We draw from a variety of what are valid sources in terms of best accounting policies for ministry and departments. The Auditor General quite rightly believes there are areas where we can further improve on the accounting policies both for department and ministry financial statements. So to confirm for the member in terms of last year to this year, some of the steps we have taken: we have taken his advice, and it would be reflected in Budget '98. For instance, all revenues, including the corporate income taxes, will be recorded on an accrual basis. We have followed the suggestion related to vacation pay entitlements to ministries, allocating them to ministries rather than recording them in Treasury. I think it's fair to say we had some difference of opinion just on a reporting basis, and we have taken his advice and have done that. There are also several valuation adjustments to ministries that are now allocated there rather than recording them in Treasury. So we followed through on that.

There are remaining suggestions which, in that same process, we are considering. We want to understand the full implications of them. We want to look at the generally accepted accounting principles, the GAAP principles. We've put together some interministry working groups who report to Mr. Peters and also the ministry senior financial officers. So we've accepted these ones and are actively working on the others, and we will report progress. We're required to do that, we want to do that, and we're in communication with the Auditor General and his staff on the progress we're making there.

DR. PANNU: Thank you.

You have obviously mentioned that you have agreed to report on vacation entitlements starting in the 1998 budget. In the same paragraph, at the bottom of page 199, there is reference as well to long-term disability benefits. What action has been taken with respect to that? Again, I raise this question because it came up last night with reference to the Committee of Supply discussion during which I asked the question.

MR. DAY: The LTDI liabilities were reflected in terms of making the final adjustment to bring those to deal with the unfunded element. We dealt with those last night in supplementary estimates. There was an original estimate of – I'm just giving rough figures, but they were recorded last night – $103 million to deal with that unfunded liability, $90.3 million, I think, which was dealt with in previous years, and the balance of that estimate, I think $9.3 million, for the current year. So we have dealt with that through the process of supplementary estimates in terms of dealing with that unfunded liability portion. Also, we will now be doing a regular review on an actuarial basis to make sure we're keeping that in line.

As you know, different things can affect the long-term actuarial projections: the number of people who might be claiming benefit, the number of people who are paying in. So we think we've made the necessary correction there, and we'll be monitoring closely, running those actuarial numbers out to make sure we keep that in line.

DR. PANNU: If I may seek more clarification on it, very briefly, Mr. Chairman. The recommendation or at least the suggestion from the Auditor General, of course, is that the liability be allocated to each department. What's the position on that? I'm referencing the last line on page 199 and the first couple of lines on page 200.

9:23

MR. DAY: Yeah, I think I understand what you're saying. Once we do that through the sup estimate and pay that out, the liability is then gone, and at that point there's nothing to assign to each department. So that deals with the concern the Auditor General had that if it's there, it should be assigned, it should be reflected as in the vacation pay entitlements. In fact cleaning it up and clearing it up with the sup estimate, we don't have to record anything on a department basis because we've effectively dealt with it. It's off their books.

THE CHAIRMAN: Mr. Melchin.

MR. MELCHIN: Thank you, Mr. Chairman. I'd like to reference in the annual report of the Auditor General page 207 and also in public accounts, volume 2, page 111. It has to do with corporate income taxes, following up a little bit on the accrual of the corporate income tax. I just want to know the status at '96-97. It makes it sound as if there are no accruals for corporate income tax, that we work purely on a cash basis at that stage. Then I would follow that through to your corporate tax interest refunds on page 111, public accounts, volume 2. There is about a $3.3 million overexpenditure. I don't know if that's because the estimate is still such that we are unable to estimate the corporate income taxes, or is it also a compounding that we don't know the loss carry forwards? I guess I was surprised to see that we would have more interest refunds when corporate income taxes are going up and the economy is going up. Why are there more corporate tax interest refunds? Also, is it purely a cash basis as of '96 for corporate tax accounting?

MR. DAY: I'm just checking the final number here. On the $3.3 million in terms of the corporate tax interest refund, the refund interest is actually payable on overpaid tax from the initial assessment date to the date of the refund, and that's as per the Alberta Corporate Tax Act. The reassessment is due to a federal or provincial objection possibly, an audit, or maybe a taxpayer adjustment. That can occur as long as the taxation year is not statute barred, and once the overpaid tax is calculated, then the refund interest is calculated from the date of the initial assessment to the date of the refund. The interest rates are quarterly prescribed, and that's again based on the regulations under the Alberta Corporate Tax Act. So the overall amount of interest to be paid out in any given year is difficult to forecast based on those particular elements. There could be uncertainty surrounding the audits; there could be objections; there could be court cases. There might even be taxpayer requests for adjustment. That's why it's difficult to actually peg it down, because we've got some moving targets there on appeals and on assessment dates and reassessments.

Your other question related to the corporate tax that is on a cash basis. If you note 1(c) in the consolidated statements, actually as of March 31, '98, which is the next budget year we're talking about, they will be on an accrual basis.

MR. MELCHIN: As a follow-up, not on this item per se, these aren't large items, but just out of curiosity, when you go down through page 111 of public accounts, I would have thought the Treasurer's department would have been exemplary in trying to lead the way of prudence in overspending or containing its own budgets. Why did the Provincial Treasurer's office and the Deputy Provincial Treasurer's office both overspend their budgets? Not big amounts but symbolically.

MR. DAY: To correct the member, I don't think he meant to say: would lead the way in overexpenditures.

MR. MELCHIN: No, I hope not.

MR. DAY: I understand what you're saying there. I'm just trying to get the exact reference here. In terms of looking at the different program reference numbers, there's a $53,000 overexpenditure. That's due to severance payments of $84,000 to staff from the previous Treasurer, and those are unbudgeted severance payments that cannot always be anticipated. Those are partially offset, I might add, by manpower savings of $30,000.

As far as the Deputy Provincial Treasurer's office, in looking at the amount here, in September the responsibilities of the Deputy Provincial Treasurer, finance review, and the Deputy Provincial Treasurer, management and control, were combined under one Deputy Provincial Treasurer. That resulted in an unbudgeted severance payment that was also offset by some reduced spending on manpower, $36,000; travel, $15,000; and other operating costs of $10,000. So the long term is a saving, but when you make that kind of efficiency in terms of staff and management, there are sometimes some up-front costs that have to be looked at and have to be dealt with.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mr. Amery and Ms Blakeman.

MR. ZWOZDESKY: Thank you, Mr. Chairman. I just want to finish off another aspect of the Al-Pac loan, again referencing public accounts, volume 2, note (d) on page 205. Mr. Treasurer, you will recall that the government capitalized all the interest owing on the Al-Pac loan as at March 1, 1997, effectively stopping one clock but, in effect, starting up a new clock, which then required the payment of about $2.8 million in monthly interest payments on the loan. I know there are some sophisticated, if not complicated, definitions of what the cash flow wording means to the Al-Pac agreement as well as the distribution of cash available. My question to you is: what amount of net cash flow did the Al-Pac joint venture have to generate on a monthly basis as of March 1, 1997, in order to make the $2.8 million in monthly interest payments on the loan?

[Mr. Hlady in the chair]

MR. DAY: Mr. Chairman, how you've changed. I was going to say for the better, but I shouldn't add that.

I don't have the net cash flow requirement. It's reflected in that broader package of assumptions which was tabled with the Heritage Savings Trust Fund Committee and which I've committed to submit also to this committee. So I don't have that right here.

MR. ZWOZDESKY: I'm assuming you'll try to provide it though.

MR. DAY: Yes, absolutely.

MR. ZWOZDESKY: Okay. Because what sort of flows out of my colleague's question on the pulp prices is another question, and perhaps you could table this in conjunction with the previous undertaking. That is: what were the required thresholds for the pulp prices for the volumes of production, volumes of sales, and operating costs required as of March 1 that would have triggered these monthly payments of $2.8 million to be made by Al-Pac?

MR. DAY: Yeah. That's the natural next question on that, and I will try to get all the figures that I can for you on that.

MR. ZWOZDESKY: Thank you.

THE ACTING CHAIRMAN: Mr. Amery.

MR. AMERY: Thank you very much, Mr. Chairman. Mr. Treasurer, you mentioned in your opening statement that 1996-97 was a very strong year financially and you posted a good surplus. On several occasions we have heard you and other members of the government say that spending cuts were over. Page 25 of the government's annual report shows that spending was cut by about $600 million in that year, '96-97, from the levels of previous years. So could you explain that reduction in spending and where it occurred?

9:33

MR. DAY: Yeah. It's interesting that you've picked that up. I need to comment on that. If you look at program spending, it really essentially stayed flat at $12.9 billion when compared with the previous year. There are two factors there in terms of what's attributed to the reduction in total spending, two areas where our results were better than last year. The good-news story, of course, besides our revenue picture, is the fact that savings on debt servicing costs were significant. The debt servicing costs have been reduced with the pay-down of the net debt and the lower interest rate. Those costs actually dropped by almost 14 percent, which equated on 1995-96 to about $200 million. Those are permanent savings which you can project annually and actually redirect into priority areas that Albertans want to see our reinvestment moving into. So there was that area where there was what I think is a positive reduction.

Then in our pension obligations there were a number of factors that moved into place. Where we had anticipated pension obligations were going to increase, they actually declined significantly. Some of that was, of course, a result of restructuring, and there were also some changes made in terms of the investment portfolio and therefore some better gains that were attained on the overall pension fund investment portfolio.

So really those two areas, the debt servicing costs and the pension obligation dropping, show there a reduction. You know, your first point is valid: does it look like we reduced spending? Well, we saved in those key areas so that, in fact, we could increase spending in other areas like health and education. So it's overall; that's where you notice that reduction. But when we said spending cuts are over, we clearly meant that. In terms of program spending we've increased, but we've saved dollars on these other areas, and that's why it shows that reduction.

MR. AMERY: The departments of Health and Transportation and Utilities were the only two departments that overspent their budget by a lot more than what was budgeted. Could you explain what happened to these two ministries that spent over what they were budgeted for?

MR. DAY: Well, I'm sure, Mr. Chairman, that members of the committee would like to get the ministers in those particular areas to come before this committee, and you'll want to probe them more deeply possibly. But I can say that as a result of the November '96 Action on Health – remember when we did that reinvestment announcement? – spending on health increased by over $200 million; I think it was $204 million. That's an over 5 percent increase from '95-96. That was clearly directed at improving access for Albertans to quality health services. We felt that was a reflection of the fact that we were listening to the RHAs, that we were listening to the people being affected, and that was an appropriate increase. We have not nor should we apologize for estimating the effects and the growth pressures on our health care system, so that's why we addressed those in terms of health.

The member, Mr. Chairman, also mentioned Transportation and Utilities and was quite right in noticing that there was $61 million actually over the original budget as a result of supplementary estimates authorizing that spending. The member is quite right in noticing that. If you'll recall, that's largely as a result of the national infrastructure program. That one, if you recall, hon. member, is cost shared between the federal government and the province and municipalities. That really addresses the question of municipal resource roads, their improvement program, and provides assistance to municipalities for maintaining local roads, especially those that are impacted by increased traffic flows, which have been significant from '93 onward.

I think we're estimating an average of an extra 100,000 vehicles per year. Certainly, it's notable visibly just driving up and down highway 2. Not just this budget year but last budget year you can physically see there's more traffic. If you live in Calgary on the Deerfoot raceway – sorry; the Deerfoot Trail – you can actually see the increased traffic flows there. The mayor of Calgary was quite accurate in pointing that out not just this year; he was pointing it out already in the other year. So those increases were made to deal with some of those growth pressures. Then the disaster recovery program – the member may recall there was a situation in Lesser Slave Lake with the flooding up there during that particular fiscal year that had to be addressed with those extra dollars.

THE ACTING CHAIRMAN: Ms Blakeman, followed by Mr. Stevens.

MS BLAKEMAN: Great. Thank you. I'll refer you to the Auditor General's report, page 212, right at the top. The Auditor General is pointing out that "the government already looks beyond the three-year period" in forecasting in a number of areas "for the elimination of net debt and pension obligations," capital assets, et cetera, and has recommended that the province provide "longer-term budget information . . . to supplement the existing three-year view in the annual budget." Would the Treasurer indicate what steps were taken during the '96-97 year by Alberta Treasury to move towards a more long-term fiscal planning horizon in the budget?

MR. DAY: Well, I think a number of areas. First, I'd like to remind people that the existing three-year process is unique. At various times before we embarked on that particular pathway of reporting – I think it's fair to say that when you're talking about municipalities or school boards or hospital districts as they're now constituted, that had some frustration on strictly a year-to-year planning basis. It's a somewhat jerky process just going one year at a time. It's more difficult to project on a three-year basis. It requires more analysis; it also forces greater communication between the parties to try to project what their needs are going to be. But it also takes a lot of the questioning out of it. So it's still on a yearly basis with our yearly budget. Obviously we announce certain items which are of interest to these various entities, but they already know on a broader scale what can be expected.

You know, I can't say in a detailed way: here are all the things we are doing to project even further than the three-year or, as it says here, "to supplement the existing three-year view in the annual budget." Depending on what the issue is, we do look to longer term forecasts. Clearly the discussion related to Al-Pac, for instance, shows that, yes, there are certain longer term things that have to go with those particular portfolios. On the investment side we look at the investment announcements that have come out in that particular budget year which are very significant from industry in terms of new construction, where the different plants are going to be, et cetera. In some cases those are seven-year plans. So we'd look at those and try to then reflect: okay; what's the infrastructure? What's that going to mean for infrastructure needs maybe even beyond three years? So we do it as broadly as we can yet still anticipating or being prepared to anticipate any number of situations that may arise both provincially or nationally or even internationally.

I think one of the most significant steps we've taken in terms of long-range reporting and planning is the move within the Alberta heritage savings trust fund from a transition portfolio to what we call an endowment portfolio, which is much longer term, looking to some initial reductions maybe on the investment side as you change the asset mix and project longer term, a 10-year plan for instance, to move all the dollars in the transition portfolio to the endowment portfolio. We report on those assumptions even though they're beyond the three-year budget plan. So I think in a number of areas we are doing that. Certainly it reflects in our unfunded liabilities and funded liabilities related to our pension plans.

I've commented already on how at one point on certain elements of the public pension plan we were looking at a 45-year end date in terms of being fully funded, and it now looks like we're going to arrive at that date much earlier. So all those assumptions we share openly and report on and share with the Auditor General in terms of what we think and how we do those assessments. I think it's fair to say that the three-year process right now is pretty significant and taxing, if I can use that word not in a monetary sense. So to go beyond that: when we do we report openly, we reflect on that, and we hope we were accurate. Time will tell as we move along on a different annual basis.

9:43

THE ACTING CHAIRMAN: Thank you.
Mr. Stevens, followed by Ms Olsen.

MR. STEVENS: Thanks, Mr. Chairman. My next questions are from volume 3 of public accounts on pages 163 and 164. The first question relates to Alberta Municipal Financing Corporation. I note that the loans to local authorities went down by approximately $276 million, and that's located on page 163. Could you please explain the reason for that decrease?

[Mr. White in the chair]

MR. DAY: Yes. It's nothing that was done in a punitive way in terms of those particular local authorities, and I can assure you we worked closely with them. For members who may be unaware of the Alberta Municipal Financing Corporation and what it does, it's basically a lending house operated by the provincial government at which municipalities, historically at least, were able to get money at a cheaper rate using our particular umbrella rather than through their own process. So the money flows through AMFC to the various local authorities and then is paid back. That's why it shows on our consolidated statements and consolidated reporting. If you can recall, in some of the charts we use in terms of debt liabilities and assets, it shows in a graph under liabilities but also shows in a graph under assets, because it's a liability to us. The money moves to local authorities and then is paid back.

In terms of the actual reduction, prior to April 1, '95, school construction was debenture financed through AMFC, and since then the province has assumed full responsibility for education funding, and school construction is now financed from these annual voted appropriations. Because of that, there were no new construction loans to schools in '96-97. The municipalities, to their credit, are being quite prudent and financing these new projects on a pay-as-you-go basis. That's certainly something Albertans like to see at all levels of government. For that reason, then, the municipal and the school loan repayments were approximately $300 million more than the new loans that were made, and that reflects the decrease there.

MR. STEVENS: Thank you.

On page 164, again dealing with the financial statement of the Alberta Municipal Financing Corporation, the statement shows an interest rate rebate to shareholders of $75 million. That's in the lower part of that page. Could you please explain what that rebate is about?

MR. DAY: In that particular case the board of directors of AMFC made the determination that a portion of that corporation's surplus should actually be distributed to the shareholders. They did that through a cash interest rebate that was paid out to all shareholders, and that was in April of '97. Individually it was based on their level of loan activity over the past 10 years. I can remember even the municipality whose taxpayers I represent in the fair city of Red Deer having some input prior to that in terms of what should be done with that particular mountain and the fact that it would be fair that that be redistributed. In fact, that's what was done, and it was based on loan activity over the past 10 years to reflect the business practices of each local authority. We felt that that would make sure all local authorities were treated equally, and that's how that was distributed.

MR. STEVENS: Thank you.

THE CHAIRMAN: Ms Olsen, followed by Mr. Ducharme, and Dr. Pannu.

MS OLSEN: Thank you. If I can refer you to the Auditor General's report, page 213, I just want to ask a question or two around quarterly budgets. The Auditor General recommends that the Department of Treasury prepare "the Province's annual consolidated budget [and] the planned financial results for each of the four quarters also be included." That's the second time that recommendation was made, and I'm wondering where the department is with that, given that the whole notion of low-volume budgets doesn't allow for good, prudent assumptions and is designed to ensure surpluses. So you want to be able to reconcile your variances at the end of each quarter and know where you're headed. I'm just wondering if you can update us as to what is occurring around that recommendation, and have you taken any steps to improve the accountability and responsiveness to the budget process in that respect?

MR. DAY: Well, I can tell you it's something that we struggle with but not from the point of view of struggling that we don't want to do it. In fact, we do accept in principle recommendations for quarterly budgets and quarterly reports on an accrual basis. We accept that in principle. Having accepted that in principle, the challenge comes in doing it, quite frankly. The process that is required and the accumulation of data is not insignificant, I can tell you, but in accepting it in principle, we then feel that we have to move on that. We constantly review all the implications and some of the practical issues of pulling all that material together on a quarterly basis, and we have in our contact with the Auditor General let him and his office know we accept this. We are responding to that challenge; we're rising to that challenge.

We have in our system the Imagis system. That particular system, which is and will be a technological advancement when it's fully implemented, is something we are fully focused on, getting that up to speed. As that particular computerized system becomes more fully and more practically implemented, I think you will see and I think the Auditor General will be able to report on some significant process. We're just in the whole process now of getting that system on-line to be totally functional and respond to this request of the Auditor General, which we agree with in principle. We now are working on the practice, which is significant in terms of getting it up to speed.

MS OLSEN: Just a short question then. I'm to assume, then, that the software has been configured to allow you to proceed in this respect so that you are going to be able to use that data to meet this requirement under the Auditor General's report?

MR. DAY: I think it's fair to say that we're in the process right now of adapting the budget module to that. We're in that working stage right now. The intent is to have it there. Frankly, we're not there yet. It's a considerable effort that's being made, and that's along with all the other reporting that we're doing and the other massing of information and also dealing with other challenges, not the least of which would be year 2000 compliance-related issues. All of these are significant challenges on our mainframe infrastructure and also new and developing databases. I can only reiterate, Mr. Chairman, that we are committed to do that. We have all of the brains of our operation focused on that, which are significant, and we're going to get there. We're not there yet, but our goal is to get there.

MR. DUCHARME: My question deals with pension liabilities. On page 25 of the government annual report it shows a huge swing in pension obligations from the budget. You budgeted for them to increase by $320 million, and they actually fell by $371 million. My question is: what happened?

MR. DAY: Well, first of all, nobody got fired over that, the fact that we thought there was going to be a considerable increase and in fact there was a decrease. But the member is quite right to question our process of projecting. That is a significant swing, and the member is quite right in duly noting that. In '93 the government reformed the public pension legislation. I commented just briefly on that, and I'll try and do that a little more extensively now. There was an extensive process that took place in terms of consultation with the various boards, the pension boards, and with the stakeholders. We knew that it had to be reformed. There was a problem there related to unfunded liability. The result of that was a long-term legislated plan to eliminate those pre-1992 unfunded liabilities over an extended period of time. So we weren't just as a matter of policy saying we're going to do it; we made it in fact a matter of legislation. When you're dealing with that, the unfunded cost then has to be joint shared between the employees and the employers and government. All pensionable service after '91 also is required to be fully funded.

9:53

We did have some better than expected performance in relation to those pension plan obligations, which actually we were pleased with. At the time, if you recall, we were just beginning our own restructuring process in terms of government and even in terms of the number of employees, and that number has decreased considerably by about 30 percent, give or take a certain small number that's always in a state of flux. You're looking at a government service of the size of approximately 32,000 at the start of the '93 restructuring exercise down to about 22,000 or 21,700 right now. So just as a result of restructuring, you've got some significant changes there in terms of the number of people who took their packages rather than choose other options.

We put different cost-control measurements in place, which also affects performance. We're very happy to see a better than assumed investment performance. We always like to see that. We set certain benchmarks that must be attained, and in fact the investment performance surpassed those. I think the work of the pension boards themselves in terms of giving guidance on the investment plan was significant. When you're doing a long-term projection, say, 45 years out, in terms of when does it tip to funded and unfunded liability, I compare it to a large tanker on the ocean. It takes a lot to start to move it, but once you start even by a few degrees, you start to shift that. You begin to head to a significantly improved position as long as you're working a few degrees at a time. It results in steering that big ship around. And this ship has steered favourably. We will arrive at some of our target marks considerably earlier, and that's reflected in what we thought was going to be an increase. The gains that were made actually resulted in that decrease in terms of pension obligations. So it's favourable performance and restructuring that are the two most significant factors in seeing that improved position.

DR. PANNU: Mr. Treasurer, my question is about the department's performance on its ability to estimate both government revenues and government surpluses. For '96-97 the government's estimate on revenues was off by about $3 billion. It underestimated the revenues to the tune of a little over $3 billion. With respect to government surpluses for the same year, '96-97, the underestimation was to the tune of about $2,875,000,000. My question is twofold. Why such huge errors in estimates there? I can think of three reasons. Lack of competent expertise available in the department I'm willing to dismiss right off the bat. I think you have the best technical expertise available. The other is of course that the tools you use to estimate are blunt, and the third of course is that you as the political head of the department have a great deal to do with why these estimates are the way they are. Now, what's your explanation of these differences?

MR. DAY: I resign, I guess. I hope we can strike that from the record. We're not putting that out to a question, because I might get my own colleagues voting on that one.

I think it's fair to note that in those years and maybe in this upcoming year we join the rest of the world in underestimating the price of oil and corporate income taxes. We join the rest of the private-sector, hard-analyst world in underestimating. In fact, what we do to estimate what's going to be the return on oil and gas revenues and corporate income tax is we consult with and we do a survey of what all the analysts are saying, not just provincially but in fact nationally and internationally. We consult with them all. We say: where do you see the price of oil going this year, and why do you see it going there?

I can send the member some of the surveys that are done which would show quite a change. Goldman Sachs might be way up here and another analyzing entity down here. Actually, I can refer to page 111. Now, this is Budget' 98, so I won't quote the numbers; I'm just showing that the range there is quite significant. So we consult with all of those and then consult with the industry people in our own province on the business side, and after that fairly arduous process, we have to make a decision: who do we think is right?

A few years ago we did an analysis of all the analysts, the companies, whether it's the Conference Board of Canada, CS First Boston, Goldman Sachs, JP Morgan, Lehman Brothers, Peters & Company, RBC Dominion Securities, Petroleum Industry Research Associates. We did a survey going back several years saying: "Who's the best? Who hits it every time?" Frankly, with all due respect to these professionals, none of them do. One year one organization hits it closely; another year, another one does. And quite rightly. If anybody could hit it every year, they would retire as multimillionaires and move to Alberta and enjoy the Alberta advantage with their investments. But it just doesn't happen. Even in the private sector, people spend their lives trying to get it right and trying to get these projections exact. They base their professional careers on it. We go to them. They're all over the place. So we do our best estimates and then have to pick a number. We are required by law to budget prudently. We don't say, "Well, we think it'll be 20; let's peg it at 15 to make sure we have a surplus." We say: "What are all the analysts saying? Now we've got to make a decision." We make that decision, and then we project our spending on it.

In the years prior to '93 we always took the optimistic approach because we wanted to justify large spending. The people of Alberta would say: why are you spending so much? We'd say at the start of a budget year: "Well, we think oil and gas are going to be here; we think corporate income is going to be here. We're going to have that oil money, so no problem." Every year for eight years we guessed too high, and we wound up with a deficit because we'd spent all the money we said we thought was going to come in. It didn't come in, so we had to borrow it.

So now when we budget we take the prudent forecast. We look at all the numbers; we make our decision. We don't low-ball it. We try to get the exact amount. Then we estimate what will come in, based on whatever price it is, in terms of revenues. Only then do we do something that's truly conservative, if you want to call it that. We take 10 percent of what we think will come in and put it over here, and we say: that's our revenue cushion. If the prices don't come in at that level, we'll at least have this little savings account, if you want to call it that, over here which will be a cushion if the prices in fact are lower over the year.

So I agree with the second part of your analysis in that we do have excellent technical people working not just in the Department of Treasury but the Department of Energy from where we get those figures. We take their forecast, analyze it, talk it over, work it through, discuss it with our own colleagues. It's a discussion point in our caucus. Different caucus members hearing things or having certain expertise: it all goes into that process. Then we're stuck with it. We've got to make a decision and go with a certain projection. At the end of each year we sit down with all the analysts, as we did in the last three years and said: “We were all low. Wasn't it wonderful that for different times in the year the oil price was $26?” Not one of these people, not Lehman Brothers, not Peters & Company, not Goldman Sachs said: we think it will be $26. Not one of them.

The gain on that is that we've already dealt with our spending based on what we can afford. We then take the surplus and apply it to the debt and our debt costs go down. So it is not a lack of expertise and not a political decision. It's a very hard-nosed decision based on the harsh realities of the ebb and flow of what goes on around the world in terms of oil and gas. That's how we peg it, a very hard-nosed price, and the only reducing of that is that 10 percent cushion that we put in place. We were required by law to do that.

10:03

I'll just close, Mr. Chairman, by saying that if we miss, if we goof, if we're too optimistic by $1 over the year, we're going to have to look for about $190 million for every dollar we're over. That's something we don't want to do because we're not allowed to have a deficit, I might add. This year we were criticized for being too low as we close out the budget year. We project oil at $18.50. It looks like it will average out for the year at $19.12. We don't want to cut it any closer than that. I think that's pretty dead-on budgeting. As you know, in Budget '98, which we're not talking about this year, we're going to $17.50 based on the hard analysis nationally and internationally.

THE CHAIRMAN: Good. Thank you very kindly.

We are well past the hour. We have a couple of announcements. Next week we have the Minister of Municipal Affairs. I've asked that she come a half hour later than usual in order to deal with all those amendments and motions real quick. You should make note that there is a much more recent schedule out that is on a pink sheet. Have a look at it; there are some additions and changes that have been delivered to your office.

I'd like to thank you for the fullness and completeness of the answers, and we should accept a motion to adjourn.

MR. ZWOZDESKY: I move to adjourn.

THE CHAIRMAN: Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried. Thank you kindly.

[The committee adjourned at 10:05 a.m.]