

**Title: Wednesday, March 12, 2003 Public Accounts Committee**

Date: 03/03/12

[Mr. MacDonald in the chair]

**The Chair:** I would like to now call this meeting to order, please, and welcome, certainly, the Hon. Mrs. Pat Nelson and her staff.

First, the approval of the agenda, please. It's been circulated.

**Mr. Goudreau:** So moved.

**The Chair:** Thank you very much.

The next item is approval of minutes of the March 5, 2003, Public Accounts Committee meeting. Are there any questions or concerns?

**Ms Blakeman:** I move approval.

**The Chair:** Okay. Ms Blakeman, you move approval?

**Ms Blakeman:** Happy to.

**The Chair:** Thank you.

Now, I would like to on behalf of the committee welcome, again, the Hon. Pat Nelson, but perhaps first we will introduce ourselves, and it's the tradition now to start with the Member for Edmonton-Centre.

[The following members introduced themselves: Ms Blakeman, Ms DeLong, Mr. Goudreau, Mr. Ouellette, and Dr. Taft]

**The Chair:** My name is Hugh MacDonald, from Edmonton-Gold Bar. This is Corinne Dacyshyn, committee clerk.

[The following staff of the Auditor General's office introduced themselves: Mr. Dunn, Mr. Lain, Mrs. Hayes, and Mr. Saher]

**Mrs. Nelson:** Pat Nelson, Calgary-Foothills.

[The following departmental support staff introduced themselves: Ms Blair, Mr. Jaffer, Mr. Kastendieck, Mr. Kruselnicki, Mrs. Lovelace, Mr. Lyle, Ms Paull, Mr. Wade, and Mr. Wiles]

**The Chair:** Mrs. Nelson, if any of your other staff at the back . . .

**Mrs. Nelson:** Well, I think that we've got staff from the department, but this will be the main focus of our answering, right here at the table, if that's fine with you.

**The Chair:** Oh, that is certainly fine. If any of your additional staff would like to supplement an answer, there's a microphone, and they're quite welcome to supplement.

**Mrs. Nelson:** We'll just call them up. How would that be?

**The Chair:** That's excellent. Yes.

For the record, we're now joined by Mr. Gary Masyk from Edmonton-Norwood.

It has been the tradition at the committee for the hon. minister to give a brief overview before questions to the ministry and also a brief overview from the Auditor General in regard to the respective ministerial report in the Auditor General's last annual report. So perhaps this morning we will start with the Auditor General. Or

would the hon. minister prefer to start?

**Mrs. Nelson:** Well, we're in your hands, sir.

**The Chair:** Let's have the Auditor General start, giving the opportunity to get a coffee.

**Mr. Dunn:** Okay. Mr. Chairman and committee members, I expect that you all have our annual report from 2002 with you. Our comments related to the Finance ministry are contained on pages 89 through 107 of that annual report. In that report we have four numbered and one unnumbered recommendations. Three of the numbered and the one unnumbered recommendations relate to ATB Financial. Recommendation 15 on page 94 is a comprehensive recommendation relating to corporate government accounting policies. This recommendation has been accepted in principle in the government's response to the Public Accounts Committee, dated January 15, 2003. Our recommendation 15 encompasses the Financial Management Commission's report recommendations 21, 22, and 23, which was responded to by the government on September 26, 2002.

I also draw the committee's attention to recommendation 3 on page 27 of our annual report under Cross-Government, relating to the development of "comprehensive standards for preparing ministry business plans." We also include in our annual report follow-up comments on a number of matters that have been satisfactorily resolved in the last year, and those include preparation of interim financial statements by ministries, enhancing the results analysis in Measuring Up, and internal controls testing by internal audit at ATB Financial.

On page 98 of our report we also comment on the work done by our office and the conclusion reached regarding the CCRA accounting practices that resulted in tax overpayments in some provinces.

Those, Mr. Chairman, are my opening comments, and I and my staff will answer any questions that are addressed to us during the course of this meeting. Thank you.

**The Chair:** Thank you very much.

Mrs. Nelson.

**Mrs. Nelson:** Thank you very much. Looking back is always an interesting adventure, to go back and see what actually happened from what you thought was going to happen, and looking back to the year that we're addressing at this forum was quite interesting. Today we're looking at potential war in the Mid East, not knowing where that's going, and a huge labour unrest in Venezuela, and it'll be interesting to look back a year and a half from now and see what actually transpired in all of this, with the uncertainty that it brings and presents to us, particularly in the Ministry of Finance.

Looking back, 2001-02 was a year filled with turmoil and uncertainty for our province. We experienced an unanticipated dramatic downward trend in economic growth in the United States, which had an impact on the whole North American continent. Closer to home, our farmers experienced huge problems with drought, far worse than they had anticipated, not as bad as this last year but still very, very bad, and energy prices plummeted and fell much more rapidly than anyone had expected. In fact, for the first time in almost a decade our revenue came in lower than budgeted, which was a huge downward trend. In fact, it was 2.8 percent, or \$646 million, below our actual budgeted number.

In the fall of 2001, to ensure that our budget remained balanced and core programs and services were protected, we had to make

some adjustments. The end result was that we took \$735 million in infrastructure projects and deferred them. We put a hiring freeze in place, and we put a hold on all discretionary spending within departments. Some of the projects that were put on hold were later given the go-ahead as the fourth quarter strengthened up, but the uncertainty within the marketplace was fierce. The volatility was fierce. No one knew from month to month where it was going to rest. The bottom line: total revenue for 2001-02 was \$646 million lower than budgeted. Spending was, however, \$601 million, also lower than budgeted, including the net change in capital assets that were affecting our operations.

Our accumulated debt less the cash set aside for future debt repayment was reduced to \$5.3 billion. Natural gas prices fell from an average of \$6.08 per cubic foot in 2000-2001 to an average of \$3.94 in 2001-02. This was \$1.09 lower than the budget estimates. Oil prices declined from an average of \$30.20 U.S. a barrel in 2000-2001 to \$24.17 a year later. Total spending was \$21.3 billion in '01-02, which was \$2 billion, or 10.7 percent, higher than the previous fiscal year.

**8:40**

I'm pleased with the way the government was able to respond to some difficult times in that fiscal year. We were in a fortunate position here in Alberta. Other governments did not have the ability to respond and not have major disruptions within core programs such as health and education and our social safety networks. We were able to do that in this province, and that came from a lot of support from various departments but also from the people that recognized that those programs were key. Even though it meant that many projects had to go on the deferred or delayed list, they co-operated. So we were in a financially positive position, probably the most positive position of any jurisdiction in this country. To be able to make that move was very helpful to us, and I think the road of clearing off debt costs – and I call them interest expense on outstanding debt – has freed up those dollars so they can go to those core programs that must be offered with as little disruption as possible.

So I think that all in all, with the downward trend and the concerns and the issues that came at us in that fiscal year, we were able to accommodate the volatility and the vulnerability, the total fluctuations within the system in an overall positive fashion. Our year ended up not being as bad as it may very well have been, but it reminded us that we do sit on a huge bubble of vulnerability.

So with that, Mr. Chairman, I will leave it so we have lots of time for questions, and I look forward next year to looking back over this year. Thank you.

**The Chair:** Thank you very much.

Ms Blakeman to start us off with our questioning this morning, please.

**Ms Blakeman:** Thanks very much. Thanks to the minister and her staff and the Auditor General and the staff from that office.

Do we have any sports fans here, fun seekers for Public Accounts?

**Mrs. Nelson:** I like fun.

**Ms Blakeman:** Welcome, if you are there somewhere.

The minister was talking about uncertainty, but in my review of the Auditor General's comments and what's appearing in the report, there's an area where the minister could have provided certainty and has chosen not to, and I'd like to explore that. This is around recommendation 15, which appears on page 94 of the Auditor

General's report. The Auditor General again recommends that "the Department of Finance change the corporate government accounting policies to improve accountability." I note that this is the sixth year that this recommendation has been brought forward by the Auditor General. It is picking up particularly on the Alberta Financial Management Commission's recommendations, which have now been made.

So a number of different financial auditing, accounting, management, forward-thinking bodies are all recommending to the minister and to the government that, in fact, they change the way your statements, your accounting policies are put forward. I mean, in the report here it's going over six issues that need to be resolved as a result of this. Reporting entities that have been excluded, assets – that's an ongoing issue that continues to be raised where assets of less than \$15,000 are recorded in the year – liabilities under motor vehicle accidents and victims of crime fund, ministries' revenue and expenses, discontinued operations, and related party transactions are what are specifically appearing this year.

So my question is: why does the minister not want to do this? Why is this not being accepted? It's been brought forward repeatedly. It's been accepted in principle repeatedly. No action. No change. Why?

**Mrs. Nelson:** Well, you mentioned in your opening comments the Financial Management Commission. One of their recommendations was to move to the Public Sector Accounting Board's policy recommendations for governments, and certainly for a good number of those we will be the lead government to accept those in this new structure that you'll see when we bring the budget down on April 8 of this year.

So we're moving in that direction, and our goal, of course, is to have openness and accountability and to have Albertans feel comfortable with how we are managing their financial situation and making sure that they're aware of what that picture looks like. We have made a huge move to change our accounting presentation, and we will be actually booking a balance sheet that will recognize assets and liabilities in this new structure and new budget plan that will come out on April 8. You'll actually see a capital plan – that was another recommendation within this budget – which we haven't had, so those will be subsequent to this particular fiscal year that we're dealing with.

**Mr. Kruselnicki:** If I could just supplement. I mean, some of the recommendations here – and I think we have been working very closely with the Auditor General's office and the provinces plus the standard setters. It's important to understand that it's not just the standards themselves but how you're going to implement those standards – that's equally important – so that there's some consistency across the country, and that's something we're working on with the Auditor General and the standard setters right now. The reporting entity is a good case in point. It's a very complex matter. It's not easy, and there are a lot of differing methods across the country, so we're trying to work with those groups to get some consistency across the country and also have a system that we can actually implement. That's one of the things we've been working on.

As far as accounting policies go, again, we've worked, I think, very co-operatively with the Auditor General. We want to make sure we understand what the effects of those recommendations are, as does the Auditor General, and the Controller and his staff have been working diligently to make sure that we understand those effects. So it's not just a matter of accepting the recommendations but also understanding what the effects of accepting those recommendations

are, and that's what we've been working with the Auditor General on very, very, I guess, closely over the past few years.

**Ms Blakeman:** You're drawing breath in. Are you adding to this?

**Mr. Dunn:** No.

**Ms Blakeman:** Okay.

I appreciate those comments, and I'm glad, if I'm understanding what I'm hearing, that some of this, like the capital plan, will in fact be going forward. Now, I understand that the government was seeking a delay in implementing this.

**Mrs. Nelson:** Beg your pardon?

**Ms Blakeman:** I understand the government was seeking a delay in the implementation date that was put forward; is that not the truth?

**Mrs. Nelson:** Implementing what?

**Ms Blakeman:** Of what's coming forward from the Public Sector Accounting Board.

**Mrs. Nelson:** No.

**Ms Blakeman:** It's issued draft guidance, has as its latest implementation date April 1, 2005. You're on schedule for that?

**Mrs. Nelson:** Tim will answer that.

**Mr. Wiles:** There are a number of things that are happening with the Public Sector Accounting Board. One of them is the new reporting model, which is a move to a balance sheet. Those recommendations are effective for the years starting April 1, 2005. We will be implementing that in advance of that date, basically starting with the coming budget and the financial statements that follow. Where it's not clear whether we'll be delayed or not is on the reporting entity. The standards are still evolving on that particular topic with the standard setter. The draft information they have presented on part of their standard has a proposed date of April 1, 2005, as well. Our current plan would be behind that date because we're planning to implement the expanded reporting entity by budget 2006. But that standard is still in draft form, and no one is sure at this point what it's going to look like or when the implementation date will be.

**Mrs. Nelson:** You have to appreciate that making this quantum leap move – a lot of governments don't have even this beginning of consolidated financial statements – is a huge change. Like, once every 35 years is probably not bad to really look at how you report things to the people, the shareholders, the taxpayers. A lot of governments don't do this, so they drag and drag and drag. We're going to lead on this. We're stepping out of the chute way ahead of everybody, as we did on the quarterly reports, so we're breaking new ground for governments. Nothing new for the private sector but for governments. They just haven't done this. It's a highly recommended move that I'm sure our Auditor General will be just delighted with, and we're supportive of it. But some are going to go kicking and screaming; I can tell you that.

8:50

**The Chair:** Thank you.

Before we get to Mr. Hector Goudreau, I would like to welcome on the record Mr. Drew Hutton and Mr. Wayne Cao this morning.

Mr. Goudreau.

**Mr. Goudreau:** Thank you very much, Mr. Chairman. I'm looking at the annual report of the Auditor General of Alberta on page 27. We've just talked about the accounting policies, but I want to focus a little bit on the ministry business plans. The Auditor General over the past few years made a number of recommendations to improve the ministry business plans. What standards are being used, then, to prepare ministry business plans?

**Mrs. Nelson:** Well, we did approve standards for ministry business plans this fall and tried to tighten them up as we went through this process, so I think you'll see a better presentation in this budget coming in the springtime. We've recognized that there had to be a change, so I think you'll be pleased with the outcome.

**Mr. Wiles:** If I could supplement. We went through an exercise over the course of the fall where we really codified a number of the practices that had evolved over the years in our business plans, and we've provided a document to ministries. It's also somewhat related to the recommendations of the Financial Management Commission that suggested that our business plans have become a little bit too operational and that we're not as strategically focused. So I think in the upcoming budget this will be a bit of a transition year as ministries start to work with these standards, but they are now in place.

**Mr. Goudreau:** So what kinds of different standards are you looking at incorporating into those business plans?

**Mr. Wiles:** Basically, they will sort of standardize some of the formats so that, you know, every business plan will use common definitions for things like "mission," "vision," "goals." In the past some ministries had a little different interpretation of some of those things, so we've provided common definitions of things. The components will be standardized. We proposed a standard ordering of business plans. Because this year the standards were issued sort of during the process as the draft business plans were being developed, there may not be full compliance with those standards for the upcoming plan, but we expect that by the following year they'll be accepted and implemented.

**Mrs. Nelson:** This became important not only because of the recommendation, but as you have more cross-ministry initiatives coming forward, you've got to have some common ground for them so you can evaluate performance measures coming out of it. Plus, the shared service concept is very important in this. So we recognized that as we were developing these plans, and that's why part of the new structuring that came forward is that there would be a common base applied all the way across. We may not be quite a hundred percent on that with this first go-round, but if we see some weaknesses, we'll fix them.

**The Chair:** Thank you.

**Mr. Kruselnicki:** If I could just speak on behalf of the deputy ministers.

**The Chair:** Certainly.

**Mr. Kruselnicki:** The deputy ministers have been very engaged in looking at those standards and making sure that we are trying to be much more consistent at applying those standards across our

business plans and making sure our ministers are aware of and engaged in those standards so that as the documents go forward for review and approval, those standards can be considered in the overall review process. So Tim is right. We've sent out all the documentation but equally important is the discussion that goes around and making sure the communication is there to make sure everybody is engaged and aware in adopting those standards.

**The Chair:** Thank you.

Dr. Taft, followed by Mr. Ouellette.

**Dr. Taft:** Thanks, Mr. Chairman. I notice that the Auditor General has made two or three recommendations about ATB too, I guess most specifically 16 and 17, that address issues of risk. I'd be interested in comments from both the Auditor General and the minister, speaking in real terms that we can understand, on: what is the nature of those risks, and what is the scale of the risks that we're talking about?

**Mr. Dunn:** Do you want me to start off?

**Mrs. Nelson:** Sure.

**Mr. Dunn:** We are aware that ATB Financial is now engaged in an enterprise risk management exercise. Dr. Taft, trying to put it in real terms, they're looking at trying to identify the major financial types of risk: credit risk, interest rate risk, currency risk. They're trying to look at that as both a quantification – if there was a problem, how significant would it be? – and a probability. So they're looking at enterprise risk across their whole organization, what I'd see as the classic financial institutions risk, and they're now trying to quantify and put in a probability as to the significance of those risks. Once that is compiled, I understand, they expect that that internal audit, together with their risk management group, will then look to the different operations to determine if they have got in there mitigating strategies and controls. It'll be internal audit's responsibility, once the whole enterprise risk framework is developed, to go in and assess the effectiveness of those internal controls.

This exercise started this fall. We did meet with the head of the risk management group, who is starting that, and gave our thoughts around what should be done, and we understand from our attendance at the quarterly Audit Committee meetings that this exercise is going throughout the whole organization. They're not there yet, but they have heard the recommendation, and they are now trying to address it.

**Mrs. Nelson:** Well, just as a follow-up, I think the Auditor General has given the reasons why we've moved in this direction, but I think one of the things that's really important is that ATB, I think, is looking at putting very professional risk avoidance measures and risk identification in place. This board and management team have done such a tremendous job of having tremendous successes with ATB that they should be applauded for these initiatives. They're following suit, like most of the other financial institutions across Canada, to try and have some of this risk identification and put safeguards in place prior to them becoming difficulties. We're very supportive of the moves they've made. We're pleased that the Auditor General's department was working with them on identifying some of the areas that they should be looking at internally, and they've put a team together to do that. I think it's wise, it's an acceptance of a recommendation, and it's prudent for all financial entities to do that, particularly in today's marketplace.

**Dr. Taft:** Okay. Well, I have no doubt it's wise and prudent, and I'm confident that they'll proceed. But has ATB, for example, lost money as a result of not having adequate risk management controls in place?

**Mrs. Nelson:** I don't believe any more so than anyone else in that business. I can't really get into the details of their portfolio because I'm not intimately involved in the minute details of the portfolios they manage, but their performance record – you just have to look at their report – has been exceptional. I think this team is well aware that they want to continue with that reputation of having an exceptional annual performance and avoid any unnecessary risks.

**Mr. Kruselnicki:** Maybe if I could just supplement as well. I haven't looked at the results lately, but when you look at their loan-loss provisions compared to credit unions or other banks – and maybe the Auditor General's staff are much more up to date on this than I am – I believe their loan-loss provisions are quite low. So when you talk about risk, I think they do have good, effective board governance and operational practices and procedures that they're trying to improve, and that's what I think the Auditor General is getting at. From what we see and the monitoring we do on their financial results through the Auditor General, we feel that the risks are acceptable and the loan-loss provisions low, and they have good board governance practices and procedures in place, along with a management that's committed to improving those practices. So we think that there are good controls in place, and they're improving the controls.

9:00

**Mr. Dunn:** Maybe I can supplement. Certainly they have had some significant losses in prior years. As Mr. Kruselnicki has mentioned, you just had to look at their annual report and you saw that there were some loan-loss provisions and there were some significant losses there.

ATB Financial is challenged differently than other major banks in that it is geographically limited. Quite often one of the risk mitigation strategies is diversification, and ATB does not have diversification outside the geography, which causes it to have slightly different risk profiles than other major financial institutions. They also had, if you look back into the '90s, a tendency to have some concentration of certain loans, and as it turned out, it became troublesome to collect those loans, and they ended up with some significant losses from that. They certainly have a new management team in place, and what I'm pleased to hear is that the new management team is looking at these recommendations and is now prepared to address that whole enterprise risk management requirement.

Maybe I can just turn it over to Patty. You've been involved in ATB for a number of years, and maybe you can supplement if there have been any specific other areas where they've had some losses as a result of not having that enterprise risk management strategy.

**Mrs. Hayes:** Thanks. Well, they've really not had losses beyond, I think, what would be normal for the industry. There's been a lot of change in the way that they do business, so this risk management strategy will help them to ensure that they've got everything sort of controlled and that they understand how all the processes are now working. I think it's just a matter of good practice that they're taking up, as all the financial institutions are. They're really interested in ensuring that they've covered off everything.

**The Chair:** Thank you.

Mr. Ouellette, followed by Mr. Mason, please.

**Mr. Ouellette:** Turning to the performance results in Measuring Up, I see that government expenditures per capita in 2000-2001 was 104 percent of the nine other provinces, not achieving the target to be at 95 percent. Why is that? I'm on page 112 in your annual report, in Measuring Up.

**Mrs. Nelson:** That was mainly because of the energy shielding program that came into play. It moved our per capita up 28 percent.

**Mr. Ouellette:** I'm sorry?

**Mrs. Nelson:** You asked why our expenditures went up?

**Mr. Ouellette:** Yes. Why you didn't meet the 95 percent that you were shooting for.

**Mrs. Nelson:** Because of the energy cost-shielding program that came into place. It was an additional program, so it moved us up above the 95 percent to 104 percent, and that would be an anomaly for that year.

**Mr. Ouellette:** Okay. Alberta's per capita spending has been growing to fund programs for infrastructure, health, education, and social assistance. How does Alberta's government expenditure as a percentage of GDP compare to other provinces?

**Mrs. Nelson:** We were at 14 percent of our GDP – were we the lowest? – close to the lowest amongst the provinces in those areas.

Tim, do you want to comment on what the relationship to other provinces was?

**Mr. Wiles:** I think because our GDP is quite strong relative to our population, we're in a more favourable position than many other provinces. I don't have the details on a province-by-province basis.

**Mrs. Nelson:** We can get that for you, Luke.

**Mr. Ouellette:** Okay.

**The Chair:** Okay. Thank you.

Mr. Mason, followed by Ms Alana DeLong.

**Mr. Mason:** Thanks very much, Mr. Chairman. Auditor General, I'm going to toss you a hot potato here, but you can take the fifth if you want. Oh, I don't mean the fifth; that gives the wrong impression. What I mean is that if you find it too sensitive, then go ahead. There were allegations made by ATB management of bribery in the awarding of loans. What is the Auditor General's role in a case like that? We know that since then there has been a settlement. We don't know what it is, but I'm wondering what your role has been or should be in this instance.

**Mr. Dunn:** Certainly, I can't comment on allegations of bribery. That would be up to a court to decide as a criminal case. What is our role? It is to look at the tone at the top. Indeed, that's what we concentrate on in the whole area around governance, around the ATB and its management. Do they have the right tone at the top? Do they concentrate on integrity? Do they concentrate on ethics? In my time associated with ATB, I'm quite impressed with the quality of both the personnel that are on the board of directors and the Audit Committee. We meet frequently now with the Audit Committee

because we do a quarterly review. They have some very good individuals, businesspeople, but they're also strong in the skeptics area, and they ask some good, tough questions.

So if I look at it and say, "Where is ATB today? – I can't comment on where they were in the mid-90s, but where are they today? – I believe they've got a very good governance structure in place and they've got people who are committed to an ethical practice. I believe – now I'm taking hearsay on this one – there has been quite a change in the management over the last couple of years. There has been quite a change, and what the current management is doing is making sure that they can bring along that quality and integrity and have it move down within the ranks of the organization.

**Mr. Mason:** Thank you.

Mr. Chairman, my supplementary. I think it's clear that the management of the ATB has that integrity because they took action through the courts. My question is whether or not your office was involved or was called in by ATB or by the ministry to assist in this investigation.

**Mr. Dunn:** The one that we were called in on and went public with was the West Edmonton Mall, and I believe that report was produced in 1998, 1999. I believe that there was a comprehensive review that was done on that one, so we were involved and did produce our report at that time. Subsequent to then, we are not aware of any other issues that would give us cause to want to look at that inquiry differently. Maybe that's where I should leave it. I am not aware of any other matters that I believe should be brought to the attention of this committee regarding the granting of those loans. I believe that what was produced and what was included in our report in 1998, 1999 was as comprehensive as our office could obtain.

**Mr. Mason:** Thank you.

**The Chair:** Thank you.

Ms DeLong, followed by Ms Blakeman.

**Ms DeLong:** Thank you very much. When I first came to government, I found it really difficult to be involved in the management when we only had half the information, so I'm really glad to hear that you're making progress in terms of reporting on assets and liabilities. My question has to do with: are we phasing in this change in reporting? I guess it has to do specifically with items that are under \$15,000. Are we going to, first of all, sort of exclude those from the assets and liabilities and then bring them in later, or are we going full bore ahead with all assets and liabilities?

**Mrs. Nelson:** Well, first of all, under the new budget presentation we will be presenting a balance sheet that will have assets and liabilities recorded. Then you get into the question of materiality, as to what the level of reporting in detail must be. That's, I guess, always a debatable number, as to what becomes material in an entity the size of the province of Alberta.

I think our corporate comptroller should answer that question, so I'll ask Tim to give us an answer on that.

**Mr. Wiles:** Thank you, Minister. We've been gathering information and reporting information on our capital assets since about '93-94, and at that time we made the decision to use the \$15,000 threshold. Partly that was a practical decision given the age of some of our assets, and partly it was our assessment of materiality. At that time we were just doing reporting at the general revenue fund level. With the move to individual departmental and ministry

statements, that \$15,000 limit, whether that was material or not, got drawn into question by the office of the Auditor General. We've been having some discussions with them, and I think we're going to be moving that threshold down, probably not with this coming budget cycle but the following budget cycle. But we will have the vast majority of our assets on our books – bridges, dams, highways, buildings, that sort of thing – at a fairly comprehensive level. The Auditor General's report has estimated that they believe that the value of assets that are unrecorded under \$15,000 is at around \$90 million, I believe, on a base of almost \$10 billion. So I think it will be a phased-in approach, but I think we've got the lion's share as we move forward to the new model.

9:10

**Ms DeLong:** Thanks very much.

**The Chair:** Okay. Thank you.

Ms Blakeman, followed by Mr. Cao.

**Ms Blakeman:** Thanks very much. I'm going to explore a little further the development of the comprehensive standards for ministry business plans. It appears as recommendation 3 on page 27 of the Auditor General's report. I note the comments of the Auditor General in the Public Accounts meeting with him of February 26. There's a concern that there is some slippage backwards. "This work is at risk of slipping backwards if it's not cemented in place." In particular they're looking at the need for "clearly defined targets, greater emphasis on the third year of a plan, setting long-term strategies, and information on factors that could affect plans." There's a feeling that the Ministry of Finance has to take the lead in this implementation, and I'm wondering if you can talk a little bit about taking that lead, implementing that plan. I'm going over a bit of the same ground because an earlier question was on the ministry business plans and standards, but I'd like you to talk about taking that lead and the implementation of that.

**Mrs. Nelson:** I think it was a good recommendation, and it was one that was backed by the Financial Management Commission: that we had to focus on our business plans, that they had somewhat shifted their focus. The most important year of a business plan, of course, is the third year in a three-year plan, so you have to stay focused on where you're going beyond the 12-month cycle. That was also the lead-in to the strategic planning process that the FMC focused on. They said that beyond three years we have to be focusing on where we're going to be in five, 10, 15, 20 years – what will the province look like in 15 or 20 years? – and start to gear to a strategic plan not only overall but bring it into the focus of the ministries as to where they fit in that long-term strategic planning process.

So I think you'll be pleased, when we bring in the budget document this year, that those elements have started to really work into that new phase. We accepted those recommendations, and we may have to have some refinement as we go forward, but then any plan that is continuing to grow is one that has to have that. I think we've captured that. We've worked really hard with the ministries to stay focused on that critical business planning process to make sure that we don't micromanage down into specific operations but, in fact, strategically plan the process for the ministry not only for this year but the three years out and even beyond. I think we've captured that, and I guess until I can show you that on April 8, it's going to be hard to envision. But I think we've got probably the vast majority – way up in the 90th percentile, we're there – and you'll just have to wait, unfortunately, until April 8.

**Ms Blakeman:** Okay. I'm really glad to hear that because I've expressed frustration at how fluid the third year seems to get. The closer we get to it, the more it changes.

**Mrs. Nelson:** Well, on that point the key thing to always keep in mind with the recommendation and the change – and I think this is really fundamental – is that the three things I've found with FMC that will provide us as we sit there as legislators are predictability, sustainability, and discipline. Those three elements become critically key when you're delivering these core programs, and that's what came out of that process, as far as I could see, so we didn't have the uncertainty, the vulnerability, the frustration level of the third year, because those three elements are built into this new structure. That, I think, is the fundamental change that meets a lot of the strategic planning process that had to take place for government.

**Ms Blakeman:** Okay. I'm pressing you on the time line. You're starting it this April with this budget plan?

**Mrs. Nelson:** Yeah.

**Ms Blakeman:** Can you talk about the time line for the implementation of your larger plan, the implementation of the whole thing? Do you expect it to be done in three years? You're going to start the process in April.

**Mrs. Nelson:** We're under the new structure April 1. Now, there'll be some of the public-sector accounting principles that are going to come in as they decide on them, and I have no bearing on that, but we're under the new structure April 1.

**Ms Blakeman:** Okay.

**The Chair:** Thank you.

Mr. Cao, followed by Dr. Taft.

**Mr. Cao:** Thank you very much, Mr. Chair. To the minister and the Auditor General: I thank you very much for the documentation you provided for me to look into the performance of our government.

On page 101 of the Auditor General's report – we're talking about Measuring Up – I read that last year the recommendation from the Auditor General's office for the Finance department was to improve on Measuring Up, and it says in here that the results analysis in Measuring Up is better, so I congratulate you on that, Minister. But my question is set here: "The Ministry should continue to improve the . . . results analysis in Measuring Up." So my question is: what progress has been made to address this issue?

**Mrs. Nelson:** The major thing that's important on the Measuring Up document is that the document grew. It got quite large, so we refocused it and brought it into, I think, a tighter document that identified external measures but also identified the internal ones, the ones that we actually had control over, and how they fit into the external pressures and measures that were taking place. This document has to be checked to make sure that it doesn't just have "let's add on and add on and add on" without meaning. There has to be some validity to the performance measures that are put within the document, particularly now as we enter into this new phase. I'm pleased with the progress, but I think it will be a lifelong project to make sure that the Measuring Up document is current and stays focused to the long-term strategic plan of the government and is tied back into that. So we've spent a fair bit of time this last year on it,

trying to refocus and reshape it, and that will continue on every year, Wayne.

**Mr. Cao:** Thank you. My supplemental question is in fact related to page 112 in the government's annual report. Its title is the Cost of Government, and in that it says that the government expenditure per capita has increased, and it's 104 percent of the average, not 5 percent below the nine provincial averages, missing the target, so to speak. I realize that a lot of our government expenditure is funding for salaries, for paying different aspects of the public service in terms of salary either paid directly or funded. My question I raised in the past here is: do we have any comparison between salaries of different professions across the nation with Albertans'? At least as far as my constituents, when they see this increase in expenditure, they like to relate it to the other provinces – for example, for doctors, teachers, nurses, and other public employee categories across the nation – and how we rank ourselves. That seems to be a control mechanism that helps us to see where we can control expenditure in the government.

9:20

**Mrs. Nelson:** We don't have that comparison with us today, Wayne. We can get that information for you. Clearly, salaries are a huge, huge part of the expenditures of the government. In this particular reference you were talking about, not hitting 5 percent below the nine-province average, part of it is salary and the increases in health, in particular health expenditures. Also, the energy shielding program fit into there, which was an anomaly that we didn't have before that drove us up, so our performance on that diminished.

But Peter wanted to add to that on the public-sector salaries.

**Mr. Kruselnicki:** The salaries have a huge impact on the government expenditures. On your question about salary comparisons, we've looked at salary comparisons over the past while, but I caution you because a lot of the costs are not necessarily even in the salaries but in the benefits, depending on what jurisdiction you're comparing to, whether it's B.C. or Ontario or Quebec, so you have to really look at the whole compensation package. The base salary might not tell you the full story, depending on what the other additional compensation costs are. One thing that we've noticed in the recent past is that while the salary level demands appear to be leveling off, the additional compensation costs like insurance, WCB and other long-term disability costs, pension costs, and those types of things are going up dramatically faster than some of the other costs. So I think if you really want an accurate comparison, you have to have the overall compensation package, not just the salary costs. That's sometimes very difficult to compare jurisdiction to jurisdiction, but as the minister has indicated, we can probably get you some high-level information.

**Mr. Cao:** On that thought, I'm not asking for personal numbers. I'd like to see it as kind of a chart in this kind of document, if that could be. Then my constituents could rely on that and make their judgment when things are heating up about salaries here and there.

**Mr. Kruselnicki:** Sure.

**Mr. Cao:** Thank you.

**Dr. Taft:** The Auditor General makes various comments on business planning standards and so on in recommendation 3 and elsewhere. One of the things that really drives me nuts as an MLA is the timing of the budget.

**An Hon. Member:** Are you nuts?

**Dr. Taft:** It drives me nuts as an MLA, the timing of the budget.

To me a budget is a plan, a plan that should be linked to time. When we have a budget being introduced on April 8 this year, for example, which won't be passed until May and then needs to be negotiated with authorities like the regional health authorities and so on, they may not have their business plan settled until the second quarter – this past year in some cases it was the third quarter of the year – which to me is a real weakness in the whole budgeting process. So I guess my first question would be to the Auditor General, and any comments from the minister are welcome as supplementary. What would be the preferred situation? Would it not be that the budget is approved before we enter the fiscal year?

**Mr. Dunn:** Mr. Chairman and committee members, obviously different provinces and different jurisdictions have their own annual budget timing. For the private sector the normal time frame for bringing in the budget for the forthcoming fiscal year would generally be within two months preceding the fiscal year. So if you had a calendar year-end, you would expect that the budget for the next calendar year would be in place and going to the board of directors by an October or November time frame. It clearly is very difficult, when you have a public sector the size of Alberta, to compile all that information and to get it available in a comprehensive and a consolidated fashion capable of being presented to the House in a timely manner.

Maybe, back to the ministry, they can talk about the length of time it takes to gather the information from the different organizations, consolidate it all, and then have it brought in in a comprehensive document.

**Mrs. Nelson:** Well, we're a product of a number of things, and timing is one of those things that we're a product of. We line up also, then, with the federal government budget time frames and their year-ends and their taxation time frames, et cetera, in order for us to get valid numbers to put into our structure. You're right; it is a frustration. I find it a huge frustration to be waiting and to be dependent upon these other things to come forward.

I, like the Auditor General, was used to the private sector, where you did these things in a different fashion. I think we're making quantum leaps right now with this new structure, and I think we've made a quantum leap this year to revamp and restructure in very short order. We've pushed departments right to the limit to get this new restructuring in place for this budget time frame. Considering we didn't get the recommendations from the Financial Management Commission until July, I think the reshaping and redesign has been admirable. It required a lot of work by our standing policy committees but by our department as well.

So I'm pleased with the progress we've made. Can it be better? Always. Always it can be better, Kevin. I think we've pushed the envelope to be ready to bring a budget down with all of the elements and the changes by April 8.

**Dr. Taft:** Well, I think the Auditor General is being too nice to the government on this particular issue. Again, a budget is a plan linked to time, and we have regional health authorities who are into the second half of the fiscal year before their business plans are approved. To me it makes something of a farce of the business planning process. The information has to be compiled. Why in the world the whole thing can't just be rotated back so that it's compiled on time is beyond me. Or else move the deadlines; change the fiscal year. It has been done. Not for many years, but there was a time

when the fiscal year ended on December 31 for the provincial government.

To me, ultimately we need to get the timing of the budget and the business planning process in sync. So my supplemental then would be: how and when are you going to do that?

**Mrs. Nelson:** Well, as I said earlier, changing the rules once every 35 years is probably not a bad idea, and carrying capital forward between year-ends is one of the things that will be in this new structure, which is a big 'shockeroo' that on March 31 at midnight the world didn't end and everything go to zero. We're able to carry projects forward, so we're doing that. I've been going back looking through the rule book to see where some of these decisions were made, to see what we can realistically do in short order.

I think we've made a lot of quantum leaps, Kevin, in this new structure. I think it will satisfy a lot of the concerns, as we go forward, to provide for that predictability so that business planning and planning processes, whether it's in a health region or in a municipality or in a school board, can take place with this new financial structure that we're putting in without getting us out of sync with the federal government reporting relationship.

You know, I'd have some difficulty changing the actual year-end, but I think the new structure provides that predictability so they know that their core programs are going to move forward and they can do their planning without the holdback. I think that's key in this new structure that we're putting in place April 8.

[Mr. Goudreau in the chair]

**Mr. Dunn:** My intention is not to be kind.

9:30

**Dr. Taft:** I know.

**Mr. Dunn:** My intention is to be realistic. Instructions were sent out to the different authorities, and we saw some instructions back in February and, I think, early March. Instructions were sent to the learning institutions as to what to build their business plan on, giving them guidance. I believe that in the ones I just saw for the universities and PSI section, a 2 percent increase was there to build their business plan and their budget around. All budgets, I believe, were to be submitted, if I'm correct, by March 31. All budgets were to be submitted to the departments of health and Learning by March 31.

So there is an attempt, Kevin – it's not being ignored – to try and get some information for planning and some guidance out there. If the question really comes back to if it would be better to have a provincial budget in February rather than on April 8, if that is your intent, well, indeed, instructions could be sent out two months earlier with guidance. But as the minister was saying, this is a year of some change, and I'm listening with some very good interest to the changes that are proposed for this budget, so we'd like to see all those that are going through. It seems like if those changes are to come to pass, that's quite a task that they have undertaken, and if they can do this thing comprehensively this year, we'll be congratulatory in our comments.

**Dr. Taft:** It's just that it is the third year that I've been on this committee and it's the 10th year that this particular government has been in power, this regime, and it's still in April.

**Mrs. Nelson:** That's actually not correct information, Kevin. I think Tim will give you the normal time frame.

**Mr. Wiles:** I think this is the first budget we've had in April for a number of years. They've all been before the year-end.

**Dr. Taft:** In terms of approval, two years ago it was well into April.

**Mrs. Nelson:** Well, we had an election. You know, the event that occurred.

**Dr. Taft:** Last year it wasn't . . .

**The Acting Chair:** Excuse me. Okay. Dr. Taft, you've had more than your supplemental.

Mr. Masyk, followed by Mr. Mason.

**Mr. Masyk:** Thank you very much, Chairman. First of all, I want to thank your department, Madam Minister, for how quickly post-September 11 your department was able to square up and apply fiscal countermeasures. Anyway, I'd like you to pass it on to your department.

However, my question is regarding page 9 in the government's annual report in that investment income fell by over 40 percent in '01-02, and the result has been even worse this year. What are you doing about the dismal performance?

**Mrs. Nelson:** As you know, like most entities that were involved in the marketplace, when the market took a dive down, particularly on the equity side, we were no different from anyone else in our investment portfolio. I believe you've probably got the Minister of Revenue coming in here at some point – I'm sure he's scheduled – and you'll probably want to be focusing on that. But our investment did go down dramatically, and as a result we did not get the revenue that we had expected would come in from those investments. There have even been write-downs of some of the investments in the portfolio mix. So they have been reviewing their strategies to see if there are better ways of investing or better mixes, and through their advisory committee I'm sure we'll be making some recommendations as to what they should do.

**Mr. Masyk:** Thank you.

My first supplemental. On page 41 of the government's report I don't see much change in our pension liabilities. Are there going to be any equity markets affected also?

**Mrs. Nelson:** Well, they also have been affected – there's no question on that – in their investments. The pension boards have been again reviewing their mix as to what they can and cannot do, and they have some tough decisions to make. They may be raising the contribution rates. One option would be to raise the contribution rates to counter the decline in the portfolio because they have to have a sound pension plan, and some will have to make those moves to counter it off. Others have seen a recovery in their equity base in the last three or four months, which has helped dramatically move up the shortfall that they experienced. So it depends on the particular pension plan. The one you see in our books is the teachers' retirement plan, which fits below the line on our financial statements. The others are dealt with by the pension boards themselves, even though we are a trustee for those pensions. We have a good working relationship with them, but they've had a real downward trend too.

**Mr. Masyk:** One more, if I may.

**The Acting Chair:** Very quickly.



**Mr. Masyk:** Very quickly. I just want to follow up on what Mr. Cao was saying regarding the wages that it's costing our government. Out of a dollar on wages spent and the federal income tax portion that's been taken out, how much is returned by the federal government back to us just on that component? Would you be able to have that?

**Mrs. Nelson:** On a dollar spent . . .

**Mr. Masyk:** Yeah. With a dollar spent on wages and the federal income tax deducted, not the provincial but just the federal income tax component, on the transfer back, how much percentage would the return be on that component? Or is that available?

**Mrs. Nelson:** You mean what the federal government gives us back?

**Mr. Masyk:** Yeah.

**Mrs. Nelson:** Zero to none would be appropriate. This year, if you've paid attention to my third quarter report, these guys on this – I'm not going to get started on the federal. CHST funding, which is Canada health and social transfer funding, is one of the silliest things you could imagine. It's not done on a per capita basis. It's not done on need. It's based on the relevance of the economic performance of your province in comparison to others, and how do you measure that other than you penalize someone who does a little bit better. They carved back \$400 million just like that, without even notification or a darn thing – it's just gone - and "Make up the difference; too bad, so sad," for Alberta once again. So this is really a difficult one to say on the transfer side, but there's no rhyme or reason to it, Gary. I can't give you a straight answer on that because it's ludicrous.

**The Acting Chair:** We'll carry on to Mr. Mason, followed by Mr. Hutton.

**Mr. Mason:** Thanks very much, Mr. Chairman. Well, I wanted to follow up with the recommendations around risk management for ATB. I guess I'm wondering, given the events that I referred to in my earlier question to the Auditor General, how the plans of the government measure up to prevent that kind of thing from happening again, specifically the suggestion that officials of the ATB may have been subject to unfortunate and illegal influences in the issuing of loans. What have you done to prevent that from happening again?

**Mrs. Nelson:** Well, let's be very clear on the role we have. There's been a new management team put into ATB. There have been some stringent rules and procedures put in place. I think they've done a tremendous revamping of their internal controls, and there's been legal action taken and followed through, which I'm not prepared to comment on. I will not get into that debate. So the appropriate actions, I believe, have been taken on all fronts, whether they be management controls, internal controls, or legal action. Your question really doesn't pertain to the recommendations from the Auditor General's report. His recommendations are focusing more on internal controls and policies and procedures that needed to be put in place which would be normal in a corporate entity, and that has been followed.

**Mr. Kruselnicki:** If I could supplement.

**The Acting Chair:** Yes, please.

**Mr. Kruselnicki:** On the corporate governance structure of ATB they've got a strong corporate board, they have a credit committee, if I understand that correctly, Fred, and, as well, they've got an Audit Committee. The corporate governance structure, I think, is a model that is followed by other financial institutions. Management has to go through their corporate governance structure to get certain approvals, which they do and they follow, which I believe the Auditor General does take a look at. So they do have very sound corporate governance and reporting and control structures in place.

9:40

[Mr. MacDonald in the chair]

**Mr. Mason:** Just to supplement that then, Mr. Chairman: what specific changes have been made in terms of the model that is now used, the credit committee you mentioned and, as well, the Audit Committee, in order to ensure that all of the financial affairs of the ATB are conducted strictly on a business basis?

**Mrs. Nelson:** They've worked very hard with the Auditor General's office to make sure that policies and procedures and compliance with those are in place within all of their branches and through their management team. They've put in place systems within their branches to ensure, again, that the procedures and policies have been followed and to have risk avoidance, that they haven't. I think those are things that are very important. Again, this management team has been phenomenal in looking at a new way of doing things, and they work very hard with their board. Their governance is very, very effective and I think has put them into a whole new arena where they are now on a footing with other financial institutions and, in fact, probably exceed them. They've done an excellent job, an excellent job.

**Mr. Dunn:** Maybe I can comment on some of that because we do look at it specifically. ATB does have in place today what I would consider to be a normal governance structure for a financial institution. I'm talking, Mr. Mason, about today that they have this. In there, also, they do have code of conduct requirements and confirmation of that. Is it throughout the whole organization at this very moment? No. They're working to push it down from the top. So they've brought the right governance in at the board level, the committee structure level, and now they must push it down to the operations level. As we comment on here, they must understand at the operational level what types of risks there are out there on their lending and that type of thing.

I think, Patty, what we're looking at this year – are there lending policies or lending risks?

At the operational level they're pushing down new criteria about granting loans and that, so they are in the process of making this change. As we comment, they haven't got it through the whole structure right now, but they have started at the right level. They've started at the top, and they're starting to bring it down into the ranks.

They also have, in my opinion, put in place a very strong internal audit group. They did recruit a new head of the internal audit. I've worked with him over the last six months, and certainly I'm quite pleased with the individual's commitment and his knowledge base and the quality of the reports that he produces for the Audit Committee. I have commented on record at the Audit Committee that I felt that they're very, very good quality reports that the internal auditor is producing for them to consider. It goes without saying that they're comprehensive, and there are a number of matters that are identified in there for them to be addressing. At least they're

now getting the awareness at the right level, and they're starting to address those matters.

**The Chair:** Thank you.

Mr. Hutton, please, followed by Ms Blakeman.

**Mr. Hutton:** Thank you, Mr. Chairman. Two years ago today I was elected. This is the third time that this ministry has been before this particular Public Accounts group, and I just wanted to thank the minister and the ministry for spending the time with this committee to allow us to look backwards so that we can make it better for the future of my constituents, in particular. So I appreciate that.

Speaking of constituents, over two years ago one of my constituents I had never seen in a tie, and I have to say that the Controller looks absolutely dapper now, two years down the road.

I know that the government has faced difficult choices. It's been discussed earlier about 9-11 and some of the other things that have happened to make the economy uncertain. But to reach a balanced budget – I've heard from a number of my constituents that good infrastructure keeps our economy growing. My question to the minister: cutting the infrastructure in 2001-2002, wasn't that a little counterproductive?

**Mrs. Nelson:** Cutting the infrastructure? You mean deferring infrastructure projects until such time as . . .

**Mr. Hutton:** Correction of terms, Minister.

**Mrs. Nelson:** Well, when we recognized that the economy in the United States was slipping faster than had been forecast, we started to have some concern in about July or August of that year, 2001. We saw a trend downward. Then, of course, September 11 came, and we saw a huge shift. We were already into a mode of reviewing where we were going to be. Keep in mind that we've been operating under strict regulations, basically on a cash basis, of where you had to fit within the Fiscal Responsibility Act. In order to maintain other programs, we had to make some choices, and one of them was to defer some capital expenditures. Did we enjoy doing that? No. Do you create a different type of deficit? Probably yes, but you defer them until you can afford to pay for them, and if the choice is between keeping the health care system going and expanding roadways, then we had to select keeping the health care system going.

Those are tough choices that have to be made, and we had to make them. Were they the right choices? Absolutely. We honoured our commitment and said that as the fourth quarter came along if things improved, we would put some of those projects back in place. We did, and we got absolutely trashed by those same constituents, as if we were out running around spending money. But we were trying to honour the commitment of the delay and the deferral from the October 18 announcement.

That scenario, quite frankly, was one of the things that prompted me to go to the Premier and say: we need to ask for some help on a better way of doing this. You can't have stop/start, feast/famine. It doesn't work for anybody. It puts chaos into all of the frontline delivery mechanisms of municipalities and school boards and health authorities, et cetera. That's why the Financial Management Commission was asked to come together to give us some advice. Now we're into a new arena, starting this next fiscal year, where you can't take money out of infrastructure. When you have a capital plan, it has to stay there. You have a certain amount of revenue from resource revenue that you're going to be allowed to expend, and that's it. So people can count on it; they know it's there. We believe

we've picked the right number to sustain our programs, and it's a new structure that I hope deals with the vast majority of those problems that come from volatility within marketplaces.

So I think this is a new era – I call it the sustainability era – and I think it's one that will take us out a number of years well beyond the three-year business plan.

**Mr. Hutton:** Well, thank you, Mr. Minister, or Madam Minister.

**Mrs. Nelson:** I'm a girl.

**Mr. Hutton:** Pardon me. There you go. It's early. I haven't even had a cup of coffee.

Thank you, Madam Minister. You are obviously intuitive, too, because you answered my supplemental as well. Thank you.

**Mrs. Nelson:** Oh, okay.

**The Chair:** Thank you very much.

Ms Blakeman.

**Ms Blakeman:** Thanks very much. This is the person-on-the-street question that I'm asked to bring forward to you, Minister, what I would call the barber question or the hairstylist question that you get asked: why does the government, et cetera, et cetera? What I'm looking for is: could you discuss why we see the government so often being so far out between the budget and the actuality?

I've certainly been responsible for budgeting in my time, and you try and get it as tight as possible. Of course, you're going low on revenues and high on expenses so that you don't go over, which you can't do, but there's just such an expanse, particularly with your predecessor, I think, who was, like, hundreds of percents out. [interjection] Well, it's true. I mean, we would be told that there would be, you know, a \$180 million budget surplus, and it came out at billions. Like, what? How can you be that far out? And it can't be all resource revenue affiliated.

So is this new plan of yours going to help you get closer between your budgeting and the final figures on your surplus so that the money you've got is actually available and put into the programs instead of being this monstrous surplus after the fact? Do you think this new plan is going to help you achieve closer numbers there?

9:50

**Mrs. Nelson:** Well, I guess the biggest problem with budgeting in a government where you're reliant upon a commodity is that you're always vulnerable to the volatility of that marketplace. I can tell you, when I was Minister of Energy for five years and had to provide the revenue forecasts to the then Provincial Treasurer, I had a huge amount of advisors that I used to go to and ask for their recommendation on where the price of crude oil was going to be for the next 12 months, and the same with natural gas. You know, the first year they were so far off on what they recommended to me that I might as well have just gone and gazed at the stars and come up with a number. I actually went back 10 years, and this group had never hit it once in the 10 years previous to my taking over the portfolio. So I soon began to learn that I could do probably just as good a guessing game by phoning and seeing what a number of the companies were using for their budget process and not experience the huge expense of hiring all these wonderful economic forecasters that never hit it.

So this year again we've watched the marketplace go up and down like a yo-yo. When we talked prebudget last year, I said: "can somebody give me some numbers? What's the range that we can

look at for forecasting for this last year?" And they said: "well, you know, Pat, as close as we can get it is between \$15 and \$30 a barrel for crude." And I said: "well, gee, that's great. Perfect. We've narrowed that down." By the time we got to New York to meet with the bond-rating and the investment bankers, we said: "can you guys give us a better feel for where the economy is going and where this market is going?" "Oh, yeah. It's anywhere between \$6 and \$60." And I said: "well, perfect." Then when they gave us all the parameters and the assumptions that were attached to them, all were relevant, so that led us to believe that really no one has the ability to really forecast that number.

Then why would you continue to do that? Why would you live on the future strip and say that that's what we're going to build core programs on, health and education, that we have to be able to sustain? Why wouldn't we say that this is the normal number that we believe we can count on in total dollars – and under the Financial Management Commission that became \$3.5 billion – and say that that's the number we require to provide our core programs and be able to deliver them? So while all of this is happening in the marketplace, I'm going to have \$3.5 billion in-year, and that's what we're going to count on. That's the predictability.

So we're going stay with that number, and that's the number that everybody can count on. If it's higher, great. If it's lower, the sustainability fund kicks in. It's \$3.5 billion, and we don't inflict pain by having this up and down on a daily basis, because keep in mind that every 10-cent move in natural gas – 10 cents - is roughly, depending where the Canadian dollar is to the U.S. dollar, a \$140 million swing up or down. Well, if you take that on an hourly or daily basis and then annualize that out, you're like a time bomb waiting to go off. You can't do this. You've got to provide, when you're delivering core social programs, some predictability. That's why the shift to this new structure. You'll never get it right under the old one, so you'll rip yourself apart trying to do that. In all the years, I've never found anyone that could get it right on.

**Mr. Kruselnicki:** Minister, if I could just supplement that briefly. People focus in on the oil and gas sector and the volatility there, but things like the Canadian dollar have an impact on us. The economic growth this year – I can't remember the exact numbers, but the Canada health and social transfer numbers were reduced for Alberta by about \$400 million in-year, and we didn't know that was happening. So, you know, when you get those kinds of in-year shocks, we can't predict. They're driven by formulas that take into account economic growth, and we're doing better than other provinces. Saskatchewan had an effect on their equalization by \$500 million. Quebec had an effect on their equalization by \$800 million in-year. Those things are just not possible to predict earlier on in the fiscal year, and they just evolve as you go along. The effect of every rise or fall of the Canadian dollar by a cent has an effect on our revenues as well, so that just adds complexity to the process.

So it's not just oil and gas, and the transfers from the federal government have been increasing in volatility over the years because of the formulas and the volatility in the past within the economic regions across the country. That's what's making it a lot more difficult to accurately predict at the start of a year, and we're getting a lot more adjustments throughout the year.

**Mrs. Nelson:** But I think one of the other things, Laurie, that's really important – and it was last year that we were talking about – is that with all of that, including September 11, et cetera, we came within \$42 million of actually hitting our budgeted surplus. Now, there were shifts around, up and down, but we actually came within \$42

million. Quite frankly, to stay within that structure meant a lot of co-operation between departments – lapsed dollars, delays, deferrals – but we held the core programs. So I think we were fortunate in Alberta compared to other jurisdictions. Some of the shifts almost bankrupted other provinces. It was very frightening how close it came, and some of that was imposed by changes from the federal government.

There was the situation of an income tax change that came out of the blue, like it was incoming right now. We get a phone call saying: oh, surprise, surprise; in the last 10 years there's been an error in Ottawa, and here's your bill. Well, that bill to provinces like Manitoba almost put them under, because the process was that it took 15 years of errors, and they're clawing it back today. I mean, we had to fight not only for ourselves but for the other provinces; that process could not happen. But these unsuspected things come in all the time, so you're having to continually adjust and amend to deal with them, and, at the same time, you've got core programs that have to be delivered.

**The Chair:** Thank you.

In light of the hour, Ms Blakeman, I'm afraid many of the committee members have other engagements, as I'm sure the staff do, shortly after 10. Auditor General, I'm going to have to cut short your supplementary this morning, please.

On behalf of all members of the committee I would like to thank the hon. minister and her staff for attending this morning and also the Auditor General and his staff for attending this morning and for their comments and their advice. You're always welcome annually to come back to our Public Accounts Committee, Madam Minister.

**Mrs. Nelson:** Oh, we love to come.

**The Chair:** Okay. Thank you.

Now, before we adjourn, there are a couple of items on the agenda left, but I would like to mention now the letter from the Auditor General dated March 10, 2003, in regard to Ms Blakeman's questions on February 26. Would the minister and her staff please respond in writing to the committee through the clerk to any outstanding issues from this morning's meeting. Thank you, and good luck with your budget.

Now, item 6 on the agenda, Other Business. I would like to inform the Public Accounts Committee that there is a Canadian Council of Public Accounts Committees conference this year in Winnipeg, Manitoba. I don't know the precise date; it's mid-September. It's usual that the chair attends, the clerk, and the vice-chair. The chair will not be attending. I would personally like to see this money – and this is a personal view – spent in research or perhaps meeting outside session times, but that's my opinion. I will not be attending, and if any hon. members of the committee would like to attend in my absence, please feel free to put your name forward by next week. I would be very grateful if you could let a guy know by next week. I'll have to let the clerk know too.

Also, the Member for Edmonton-Highlands, Mr. Mason, has an item that he would briefly like to add to the agenda, as well.

**10:00**

**Mr. Mason:** Yes, Mr. Chairman. I wanted to raise a question about some content in Bill 2, which is the Financial Statutes Amendment Act, 2003. There is a section at the end which deals with the definition of what public accounts is, and it does not include the Auditor General's report. This was something that I discussed with you during the session; it just came to mind. Already the bill is out of committee. The concern I have and the answer I'd like to have –

perhaps the Auditor General can help or through your office – is: does this definition of public accounts now change the scope of our committee’s work to in some way exclude the Auditor General’s report as something that we consider? Because it’s not there. It’s not included in the definition of public accounts.

**The Chair:** Mr. Mason, in light of what you said, would it be agreeable to you and to the committee if I initiated through the clerk, hopefully with the co-operation of the Auditor General and Parliamentary Counsel, an opinion regarding this matter and report back?

**Mr. Mason:** If that’s agreeable to the committee.

**The Chair:** Would you be kind enough to give us maybe a couple of weeks to report back to the committee?

**Mr. Mason:** Certainly. The bill, of course, will be through third reading by then.

**Mr. Goudreau:** We’re asking for an opinion at this time and no decision.

**Mr. Mason:** I just want to know if it . . .

**The Chair:** Certainly, but the implications of this are . . .

**Hon. Members:** Agreed.

**The Chair:** Agreed. Okay.

**Dr. Taft:** Is there a motion there? Do we need one?

**Mr. Mason:** Well, sure. I’ll just simply move that the chair obtain an opinion on whether or not the definition of public accounts as it affects this committee’s work has been changed in Bill 2.

**The Chair:** Excellent. Everyone’s agreeable to that? Okay. Thank you very much.

If there’s no further business, could I have an adjournment? From Mr. Masyk. Thank you.

[The committee adjourned at 10:02 a.m.]