



Legislative Assembly of Alberta

The 27th Legislature
First Session

Standing Committee
on
Public Accounts

ATB Financial
Livingstone Range School Division No. 68

Wednesday, October 8, 2008
10:01 a.m.

Transcript No. 27-1-9

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First Session**

Standing Committee on Public Accounts

MacDonald, Hugh, Edmonton-Gold Bar (L), Chair
Griffiths, Doug, Battle River-Wainwright (PC), Deputy Chair

Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
Chase, Harry B., Calgary-Varsity (L)
Dallas, Cal, Red Deer-South (PC)
Denis, Jonathan, Calgary-Egmont (PC)
Drysdale, Wayne, Grande Prairie-Wapiti (PC)
Fawcett, Kyle, Calgary-North Hill (PC)
Jacobs, Broyce, Cardston-Taber-Warner (PC)
Johnson, Jeff, Athabasca-Redwater (PC)
Kang, Darshan S., Calgary-McCall (L)
Mason, Brian, Edmonton-Highlands-Norwood (NDP)
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Standing Committee on Public Accounts

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Vice-President, Corporate Communications
and Stakeholder Relations

Brian McCook

Chair, Audit Committee

Jim McKillop

Chief Financial Officer

Dave Mowat

President and Chief Executive Officer

Bob Splane

Board Chairman

Livingstone Range School Division No. 68

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Stephen Harris

Associate Superintendent, Education Services

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Associate Superintendent, Business Services

10:01 a.m.**Wednesday, October 8, 2008**

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. If I could please call this meeting of the Standing Committee on Public Accounts to order. I would appreciate it if everyone who is interested could take their seats, and we can get started.

Now, I would like first off to note and welcome to the committee today Diana McQueen, the hon. Member for Drayton Valley-Calmar.

Mrs. McQueen: Thank you, Mr. Chair.

The Chair: Could I please have an approval of the agenda that was circulated? Thank you. Moved by Teresa Woo-Paw that the agenda for the October 8, 2008, meeting of the Standing Committee on Public Accounts be approved as circulated. All those in favour? Opposed? Seeing none, thank you.

Now this is, of course, our meeting with the officials from Alberta Treasury Branches, ATB Financial. I would like on behalf of the entire committee to welcome the officials from ATB Financial this morning. We look forward to discussing your 2007-08 financial statements, and we appreciate the material that you provided to us in advance of the meeting. I would like to note to you that you do not need to touch the microphones. Our *Hansard* staff will turn them on and off for you. I would also like to advise that the legislative committee meetings are now being audiostreamed for listening on the Internet.

Perhaps we can quickly go around the table and introduce ourselves, starting with the vice-chair.

Mr. Griffiths: Good morning. Doug Griffiths, MLA for Battle River-Wainwright.

Dr. Massolin: Good morning. I'm Philip Massolin. I'm the committee research co-ordinator, Legislative Assembly Office.

Mr. Dallas: Good morning. Cal Dallas, Red Deer-South.

Mr. Jacobs: Broyce Jacobs, Cardston-Taber-Warner.

Mr. Vandermeer: Tony Vandermeer, Edmonton-Beverly-Clareview.

Mr. Chase: Harry Chase, Calgary-Varsity.

Mr. Mason: Brian Mason, Edmonton-Highlands-Norwood.

Mr. McCook: Brian McCook, director of ATB.

Mr. Splane: Bob Splane, chair of ATB.

Mr. Mowat: Dave Mowat, CEO at ATB.

Mr. McKillop: Jim McKillop, chief financial officer of ATB.

Ms Garritty: Peggy Garritty, senior vice-president of communications at ATB.

Mr. Saher: Merwan Saher, office of the Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Denis: Jonathan Denis, MLA for Calgary-Egmont.

Mr. Quest: Dave Quest, MLA, Strathcona.

Mr. Sandhu: Peter Sandhu, MLA, Edmonton-Manning.

Mr. Drysdale: Wayne Drysdale, MLA, Grande Prairie-Wapiti.

Mrs. McQueen: Good morning. Diana McQueen, MLA, Drayton Valley-Calmar.

Ms Woo-Paw: Good morning. Teresa Woo-Paw, Calgary-Mackay.

Mr. Fawcett: Hello. Kyle Fawcett, MLA, Calgary-North Hill.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Hugh MacDonald, Edmonton-Gold Bar.

I understand that you have a brief opening statement. Is it Mr. Mowat that's going to provide a brief overview of the operations or Mr. Splane?

Mr. Splane: I'll start with an introduction if I may, Mr. Chair, and then Mr. Mowat would follow with a presentation.

The Chair: Please proceed.

ATB Financial

Mr. Splane: Thank you very much, Mr. Chairman. It's been my privilege to serve for the past two years on the ATB board and as chair for those two years. As chair of the board of ATB I'm pleased to be here today along with a number of our people from ATB.

Brian McCook, on my left, is chair of our board's Audit Committee, is a chartered accountant, and hails from Lloydminster. Dave Mowat is our president and CEO. I've been used to introducing him as our new president and CEO. He's now got better than a year under his belt, so I won't do that. Jim McKillop is our chief financial officer. Peggy Garritty is senior vice-president of communications and corporate responsibility. Bob Ascah is vice-president of government relations, research, and analysis.

I want to begin by thanking Kyle Fawcett, the MLA for Calgary-North Hill, for suggesting back in May that it would be a good idea for the Public Accounts Committee to hear from ATB. To my knowledge this is the first time that ATB has appeared before the Public Accounts Committee, and we certainly welcome the opportunity to share the ATB story with all of you and to answer any questions that you may have.

As chair my responsibility is to lead a board that oversees the policy and direction for ATB. We operate at an arm's length from government under a memorandum of understanding with the Minister of Finance and Enterprise. Our board has the same duties as you would find with a corporate board in the private sector. As board members we bring a diverse mix of backgrounds and experience to our responsibilities, but we certainly share one common goal: we believe strongly in ATB and its future as an Alberta-based and an Alberta-focused financial institution.

Speaking of those diverse backgrounds, my background has been in finance and in agriculture. I do apologize for my harvest voice. I've actually been doing some of that, and I have the harvest dust residue.

With that, I would like to turn it over to Dave Mowat to provide a brief presentation and then take questions.

Mr. Mowat: Great. Thanks very much, Bob. As Bob said, I've been back in Alberta for a little more than a year now. Coming back, one thing that is abundantly clear is that we're different here in Alberta. I was born here. I was raised here. I've worked in a lot of places, and I choose to live here and to work here because of those differences, and I'm proud of that.

As a province we have a lot of differences. We have oil and gas deposits that are world class. We have a tourism industry and natural attractions that are second to no place in the world, and we've got agriculture that leads the world in many ways. We hear a lot about a labour shortage in Alberta, and it's certainly true, but what all of those differences have done is bring an amazing collection of talent here to Alberta. The people, whether it's our doctors, our dentists, our entrepreneurs, our tradespeople, that are working in those sectors are bringing a tremendous contribution to Alberta.

The other thing that's different about Alberta is that we've got ATB Financial. You know, really, to be great at anything, whether it's building cars or running a restaurant or raising cattle or writing a newspaper column, you have to be and you want to be different. Being different has worked for Alberta for an awful long time, and I'm certain that those differences and a good measure of Alberta pride are going to take us through in the future.

What we hope to do is make a little progress today but, certainly, in the years to come to make every working day of ours one where you can be proud of ATB Financial.

If you go back to just a little history, back to 1995, it was actually Don Mazankowski and a number of people who wrote a report for the government on the future of ATB. A number of people worked on that report, and they saw all those things that make Alberta different, and they knew just how valuable those things would become for the province. He also saw that in order to optimize the development of every part of this province and every sector, we need to be a little bit different on financial services as well. Having a professionally run financial institution that would exclusively focus on the needs of Albertans throughout the province through all the economic cycles would make us different, and they thought that could be a huge asset for the province. So today, you know, either answering your questions or talking to you now, we're living up to that dream that Don Mazankowski and others had.

Can we get better as an organization? Absolutely. But do we get what Alberta is about and what we need to do to work alongside Albertans to help them be successful? Absolutely. After a year and a half of being with ATB and back in Alberta, even more inspiring is that I think we're just scratching the surface on what we can do as a province and as an organization.

10:10

As Bob talked about, this year is ATB's 70th anniversary in Alberta, and from our first six branches around the province we've become a \$24 billion company with \$1.8 billion in retained earnings. Those are impressive numbers, particularly the \$1.8 billion in retained earnings. About 12 years ago we had zero, and without a penny of equity from the province being put in, the organization has built its equity to a very sound capitalization of \$1.8 billion. These are also impressive numbers because what they translate to is a strong and resilient financial institution.

But the numbers I really love are the fact that we have 162 branches all around Alberta, and if that's not good enough, we have another 130 agencies around the province. So if you look at it, we're actually in the 244 biggest communities in Alberta. We also have over 660,000 customers, so one out of every five Albertans does business with ATB. Probably our strongest number, but not a number at all, is the fact that 4,800 people work every day in ATB

whether it's serving people in our branches or working in our treasury department or working in our marketing department. What really sets these people apart is woven into their DNA, a desire to use their banking skills to try and get the best deal for the people that we deal with, and that is different as a financial institution goes.

Do we get it right every single time? No. I wish we did, and if I told you we did, you wouldn't believe me. But what comes from the attitude of those people is the pride that you can see when we are hitting on all cylinders. It creates a bias in the organization to really try and do just that for our customers as often as we can.

We'll quickly make a few key points this morning, and we will certainly be looking forward to your questions. I'll touch on a few things. Firstly, the marketplace: I don't think we could come here today and not talk about the financial marketplace. Second is our year-end results. Thirdly, I'll comment very briefly on the Auditor General's recent report on our treasury systems. I'd be most happy to talk about our variable pay program at ATB, and I'll just close with where I think the future can take us as an organization.

The marketplace. There's no doubt that these are uncertain times, you know, predominately from the turmoil in the United States. We're just seeing how that spreads around the world. I'm sure you're hearing it from your constituents. We're hearing it, definitely, from our customers. People are worried. People who don't take an interest in the financial markets per se are wondering, you know: how does this problem in the United States affect my investments, my deposits, my retirement plans? They're seeing it affect their future. Certainly, our message to our customers, as difficult as it is right now, is to stay calm.

For these last couple of weeks particularly and probably the next couple of months, we're sitting in the eye of a storm, and what appear to be fundamentals seem to be discarded daily. So this is a confused market trying to find its legs again. We've rocked people's confidence in everything financial. Things that they just believed they could know as they are have changed. But ultimately when we see the dust settling – and it will – the fundamentals of the Alberta economy will continue to be strong. You know, the housing market is certainly off its peak from last year, but people are still buying homes, and people are still looking for mortgages. While the economy won't see the strength that it saw last year, the truth is that we'll still outperform most jurisdictions throughout North America this year.

I think the other key point that we talk about a lot is that the U.S. financial system and, particularly, the banking industry is different in Canada. Canada has maintained a discipline that we haven't seen around the United States. Loan to value ratios, income criteria are ingrained in both the regulatory aspects of our system and the management of our banks. Another subtle but important point is that almost all or a very high percentage of the mortgages in Canada that are made are actually retained by the bank. That's very different in the United States, where banks simply source them and sell them off to someone else. So what you get is that just the way you have pride of ownership in a home, you get pride of ownership in the mortgage. What you'd source, you're going to live with and administer. It's a subtle but important difference in the marketplace.

Fundamentally, the whole financial system runs on confidence. People will make investments if they're confident they'll get a decent return, and people will place their trust in financial institutions like ATB or any of our financial institutions in the province if they believe the organization is well managed and it's safe and it's well run. In the past few weeks we've seen that that confidence is a fragile thing. Overall, I think we're going to continue to see this turmoil for a while, but it's important for us and others to reassure Albertans – and we're doing that – that there are probably few better

places in the world to ride out this storm. It's definitely a storm, but this is a good place to be.

The second point on our results. You've received our annual report for last year. You know, looking back on that year, which was certainly my first one, it's almost out of a Charles Dickens line that it's the best of times and the worst of times. On one hand, 2007-2008 was really the best operating year ATB has ever had in its history, and that turned out to be a good thing because those best-ever operating results were really required to weather the storm caused by asset-backed commercial paper. Bob oftentimes asked me how I like my job. I love my job. If I'd never heard of asset-backed commercial paper, I'd love it a little more. But contrary to some of the media reports, ATB has not ever recorded a loss in recent years and not last year. We ended the year with \$30 million of profit despite taking a \$253 million provision for potential losses on investments in asset-backed commercial paper.

Asset-backed commercial paper is a complicated thing, but it's worth talking about, not at length, but I can make a few points for you. I sat around Purdy Crawford's table at the actual renegotiation of this paper and made that trip to Toronto too many times last fall, but we've ended up with something that is a great agreement and is being looked at around the world as a model in some of the restructuring.

The first point is that hindsight, just like in anything, is 20/20. Looking back, people see these investments as being risky. At the time they were viewed as solid, conservative investments with a triple-A rating, the same rating that's given to the very top risks in the marketplace.

Secondly, ATB, just like most others banks, learned some really tough lessons from this experience around a market failure for this asset-backed commercial paper. Those lessons have been retained by us. We reported them to our board of directors, and ATB has been consistently open and transparent about this whole issue both within our organization, with our staff, with our customers. Ultimately, consistently ATB has been one of the first organizations to report publicly as to what progress was done, what our holdings are, and so on and so forth. You know, I think that a lot of the issues we have have become the lack of transparency in financial services, so we're proud of the fact that we've done that.

Third, we've become a much more sophisticated organization than we were two years ago. We took action immediately in this situation, and like all of the other financial institutions we've done internal and external reviews. We've had the benefit of the Auditor General giving us a third set of eyes, and we have new policies and procedures in place. In fact, we've even added a chief risk officer to really take a strategic view not only of the day-to-day risks but how they come together to give a strategic view of the organization.

The last piece, as I talked about, is that we're proud of the role that we played here in Canada. As a result of the Supreme Court's decision not to hear an appeal on this, we're moving quickly to close this deal. One of the voices that we had strongly on that committee was to find a way to get all of the investors – institutional investors are one thing, but the smaller investors were another. In the deal, the restructuring, that we've been able to come up, all of the smaller investors – and that's designed as people with holdings of a million dollars or less – get a hundred cents on their dollar and every bit of interest that they're due, and they have no costs deducted from any of the proceeds. So it's a very strong deal both to get it done and to have a good result for the individual consumers.

10:20

For the first quarter of this year we've recorded a \$57 million profit. We're seeing continuing growth in our loans and our deposits

and our operating revenue. But, certainly, just like any financial institution in Canada right now, we're very conscious of the impact in the marketplace of lower interest rates and just the general uncertainty. We're managing the organization conservatively from a management point of view, but we're very much open for business, and we're not changing one bit of criteria we have for our customers.

The third piece is the Auditor General's report. We support all of the Auditor General's recommendations. As is acknowledged in the report, work is either well under way to get them done or they've actually been implemented. In fact, his recommendations were very helpful and very consistent with what we heard from a third-party review and what we saw of the organization ourselves. Certainly, if there's any more detailed information we can provide, we'd be pleased to share that. Some of the media coverage of whether we incurred a loss: we are working to correct that. But fundamentally we accept all of the recommendations, and we'll bring them forward quickly.

Which brings us to the whole variable pay piece at ATB. Press reports are always a little more sensational than the facts that they actually report on, and I think that fits that category this week. A few key points there are that we have 4,800 people who work at ATB and during the last year they produced the strongest year of volumes and results the organization has ever seen. You need to remember that when we're talking about variable pay, this is the Kirstens in our Edmonton Killarney branch, or it's the Chrisses who work in our IT area. It's not fat cat bankers. Any number you've ever seen, 90 per cent of this is to people that aren't executives of the organization. It isn't an executive bonus thing that you see. It is the variable pay that we use to reward the contribution that everybody makes in the organization. Every person in the organization is part of that pool.

The trouble with the asset-backed commercial paper, which reduced our earnings, is that it wasn't the fault of the Kirstens who work in Killarney, and it wasn't Chris's fault in IT. You know, banks across Canada and across the world learned some lessons there. Even when we look inside the asset-backed commercial paper, we have some people who understand it now the most. We actually ended up with one of the cleanest portfolios across the country of any of the institutional investors simply because we had done our homework. The provision that we took, the \$253 million, is just that. It's an accounting charge that provides for future circumstances. In fact, as we restructure these over a period of seven to nine years, we expect to get virtually all of our money back that we have invested in asset-backed commercial paper.

What do you do with 4,800 people whose performance was exceptional? All of them have their own specific objectives. They are accountable for their performance. You've got an organization that has not just performed well; it's performed to the best level in its history. Then we have an accounting charge. To be clear, it remains a provision. We've got 660,000 customers who rely on our 4,800 associates to be there every day for them.

What our board did was thoughtful, took a lot of courage, and I would recommend it again here today. We kept our variable pay program in place for our associates, and we excluded the impact of the accounting provision. This was a market failure that these people had no influence on. They still remained accountable for their performance, so the variable pay that they received was determined by their performance and the performance in their communities. For executives we set the bar higher, and we ended up with an accountability that stands up to good governance, good business sense, and fairness. Being fair to our associates, those 4,800 people, is ultimately the test of whether we did the right thing, and we did the right thing as an organization.

I'm sure you have several questions about this or the Auditor General's report, but I'll just close quickly.

The Chair: If you could conclude quickly, I would appreciate it. We have a lot of interest from the members in addressing questions to you and your delegation, sir.

Mr. Mowat: I sure will. As I talked about at the outset, Alberta is different, and for a province to have a financial institution squarely focused on our Alberta economy is certainly different and different in a positive way. Our goal is to understand Alberta better than anyone else, and we understand the volatility. We know that a small business can have a cash issue one month and be completely viable from there on forward. Our brand talks to where there is a way. In the simplest terms that means us trying to find solutions for our customers so that they can continue to put their trust in us.

The other banks operate great organizations from office towers in Toronto. They can't see all the subtleties of the Alberta economy and our Alberta customers, so our goal is to be there. We know Alberta. We only do business with Albertans, and we're determined to grow that business in every part of the province.

Thank you.

The Chair: Thank you.

Before we get to Mr. Dunn's comments, I would like to recognize Mr. Benito from Edmonton-Mill Woods and Mr. Johnson from Athabasca-Redwater. Good morning.

Mr. Dunn: Mr. Saher will briefly read in our opening comments.

Mr. Saher: Thank you. On page 383 of our latest public report, dated October 2008, we have listed outstanding recommendations made to ATB. Of the six recommendations outstanding, management has told us that they are ready for our follow-up audit on four. The remaining two concern enterprise risk management and an information technology control framework. We believe that progress on the IT control framework is satisfactory. Regarding risk management, we would want to see progress in relation to our recent recommendations on treasury management.

Our latest public report, dated October 2008, includes a major audit report on treasury management. This starts on page 109 and contains 15 recommendations. The recommendations numbered 12 and 15 we believe are key.

There are an additional six recommendations starting on page 274 that arose from our examination of systems as part of our auditing of ATB's financial statements.

Thank you.

The Chair: Thank you very much.

We'll now proceed to questions from the members. There's quite a list. We'll start with Mr. Chase, followed by Mr. Griffiths, please.

Mr. Chase: Thank you very much. A proud Albertan for over 50 years, I sought public office because I believe in the potential of this province. However, I'd like to very quickly look at the micro and the macro.

The micro. The Auditor General pointed out questionable management on the part of the ATB internally. He also pointed out a lack of oversight by the Ministry of Finance, which he is going to follow up with further auditing.

The macro you touched on: a \$700 billion bailout in the United States, a series of bank collapses around the world. My question to you is: what leads you to believe that Alberta and the ATB in particular are insulated from financial risk?

Mr. Mowat: Our portfolio is exclusively in Alberta. We lend money to Albertans, and we take deposits from Albertans, so we understand Alberta. That's the number one rule in banking. I think we actually learned that a little bit in asset-backed commercial paper. That's an investment. It was intended to be our most conservative pool of investments, and I think the world got to things that they didn't completely understand. I think that as bankers we may have lost some credibility as an industry, but for ATB, we understand Alberta. We've got 160 branches around the province with full-time staff. How you can be successful in managing risk is to understand exactly what we were doing, and we see our customers every day.

The Chair: Thank you.

Mr. Chase.

10:30

Mr. Chase: Thank you. My second question. Auditor Dunn, please feel free to add to this. The initials ATB could very well stand for Alberta taxpayers' bank, and you've indicated the importance of the bank to Alberta. What risk are Alberta taxpayers facing in terms of backing up or supporting Alberta Treasury Branches? What monetary risk, if any, do Alberta taxpayers face?

Mr. Dunn: You first.

Mr. Mowat: Okay. ATB is very well capitalized. As a financial institution we all are required to maintain capital adequacy ratios. It's strong at ATB. We have \$1.8 billion worth of equity in the organization. Probably one of the things that ATB does the very best is manage its credit portfolio. If you charted out all of the provisions for loss in the credit portfolios of any of the banks and for ATB, we would have the strongest provisions, so we would be well provided for. We're conservatively managed. We would actually have the lowest delinquencies in the province. So in terms of a financial institution, we're well capitalized. The risk is well understood: 90 per cent of our business risk-wise is the loans that we have on the street in Alberta, and those are extremely well managed. We have an excellent core of people doing that.

Mr. Dunn: If your question to me was Alberta taxpayers, the ATB is owned by the province of Alberta on behalf of the taxpayers of Alberta.

The Chair: Thank you.

Mr. Chase: The risk was what I was asking for.

The Chair: Mr. Griffiths, please, followed by Mr. Mason.

Mr. Griffiths: Thank you very much. The asset-backed commercial paper issue is going to be a big one today, I think, and inspire a lot of questions. I do understand that not everybody sitting at the table down there was around to deal with the issue and that some people came along to have to deal with it after the fact.

The Auditor General had made recommendations on enterprise risk management back in 2002-2003. I'm wondering why it took so long to implement and why it's still in progress, if there's somebody that can answer that, and if you believe that would have helped to prevent the investment in asset-backed commercial paper for the mistake that it was.

Mr. Mowat: I can't exactly speak to 2002. Jim, our CFO.

Mr. McKillop: Thank you for the question. We appreciated the recommendations from the Auditor General back then around the enterprise risk management, and we've made continuous improvement in terms of managing risk over that very time period. Implementing the enterprise risk management is a very broad and complex area. Again, we have made continuous improvement over that very time period. Then we made a major decision quite recently when we appointed a chief risk officer for the organization. That is a role that is consistent with major financial institutions. Bob Mann, who is the executive in charge of that, is in the process of taking us to the next level with respect to risk management.

Mr. Dunn: I'll just supplement. Mr. Griffiths, the question was anchored on this document that was supplied yesterday. It's called Status Report on Public Management Letter Points. I believe that's where you picked it up, point 5, risk management. It talks about a date of recommendation, 2002-2003, and it says, "Management agrees." It actually is a 2001-2002 original recommendation, repeated in 2002-2003, and in that recommendation I did share with the committee – it talked about credit risk, market risk, all those sorts of things. Your response on the current action plan is that it's in progress. Really, what I think Mr. Griffiths is asking is: why is it after six years still in progress?

Mr. Griffiths: That's what I asked, yes.

Mr. Mowat: This is something you can always improve on, so to say it's in progress really means that we are addressing it specifically. Two years from now and three years from now will we be trying to make it better? Absolutely. I think we've seen over the last year an improvement in the enterprise risk management in all of the financial institutions. We had KPMG helping us. They've just finished jobs with three of the major banks in Canada. So everybody is looking to improve in this regard. We have sound systems. I think the Auditor General has pointed out where they can be improved, and that's certainly improvement we're trying to make.

Mr. Griffiths: My second question. On March 31, 2007, ATB held \$1.2 billion of its investment portfolio in asset-backed commercial paper. Because it recognized the U.S. subprime mortgage issue, it had backed off to \$1.2 billion, but a year later it had grown back up to 60 per cent of the \$3 billion asset pool, the cash which you're investing. Why was the decision made to ramp it back up when it was recognized that there was a subprime mortgage issue and you had to pull out?

Mr. Mowat: Actually, there's some consistency of numbers there. We held – well, you'd use round numbers – approximately \$900,000 in our treasury and approximately \$300,000 in our money market mutual fund. So when we talk about the fact that we had \$1.2 billion in our treasury and we backed it off to \$900,000, we didn't increase it back up. We had \$1.2 billion in our treasury. We backed it off to \$900 million, and that's where it stayed. The remaining part that makes it add up was money that we held in our money market mutual fund.

Mr. McKillop: Maybe one more point for clarification, if I may. The 60 per cent you refer to is the board limit for investments in asset-backed commercial paper. We at no time held right up to the level of our board limit.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Denis.

Mr. Mason: Thanks very much, Mr. Chairman. Thank you very much for coming today to answer our questions. I want to preface my question by saying that, you know, I'm a strong supporter of the Alberta Treasury Branches. I think it gives a real advantage to Alberta's small businesses, to our farmers. The ATB is present in inner-city low-income communities in our province that were abandoned long ago by the banks. So I just want to start by saying that.

You've got a \$253 million provision, but as I understand the presentation that we've had from our Auditor General, there's essentially a billion dollars of liquidity that's frozen for a considerable period of time, and therefore it's not available to help Albertans at a time when they really need it. This is a time when there's a real tight credit market. Alberta businesses and farmers and individuals really need credit at this time. They really need some liquidity, which is now frozen. I'd like to ask whether or not you're prepared to take accountability for that. This is a very unfortunate development. This is when the people of Alberta need the ATB, and now we're a billion dollars short.

Mr. Mowat: We certainly take accountability for that. One of the strengths of the ATB is that its balance sheet – you're right; we're not happy with having to set that billion dollars and get it back over seven to nine years, but we had sufficient liquidity in the organization that that hasn't stopped us from making one dollar of loan to our customers. We have not changed our credit criteria. We haven't rationed our loans, by any stretch. There hasn't been a customer that we wanted to serve that we haven't served.

Mr. Mason: Do you anticipate that there's going to be an increased demand for loans which you may not be able to meet?

Mr. Mowat: No. You know, this is where ATB will shine. Our only business is Alberta. We can't pull up stakes and go somewhere else. Most importantly, we're not going to change our criteria that we use for loans. Is pricing going to go up and down with the market? Yes. I think we're going to hear some stories of how credit – already yesterday there were some mortgage rates that went up. I think we're going to hear those stories. It's impossible to predict exactly what demand will come, how the other banks will react. That's what ultimately will create an openness of demand. ATB is well capitalized, and from what we see we see the ability to meet the demand coming forward.

10:40

The Chair: Thank you.

Mr. Denis, please, followed by Mr. Chase.

Mr. Denis: Thank you, Mr. Chair, and thank you to all members of ATB for attending before our committee today. Being a former banker myself I know that there's a large variety of mortgage products that are available. One that's become more popular over the last five or 10 years is the variable-rate mortgage. I'm sure you're aware of the announcement of the rate cut this morning, which could place some variable-rate mortgages below 3 and a half per cent annual interest. I'm wondering what safeguards ATB has in place to ensure that ATB does not lose money on these mortgages given the almost record-low interest rates we're seeing.

Mr. Mowat: Right. From a treasury standpoint we run quite a conservative treasury, so we work hard at matching our different maturities. If we have a floating-rate loan, we'll be looking to match it with a floating-rate or short-term deposit on the other side. It's

never a perfect match when you're running \$24 billion, but we run quite a conservative position there, so there's a large match between our deposits and the assets that we have. The assets are our loans.

The other thing, in particular, is that for these variable-rate mortgages we make sure we qualify people. We take a look at what would happen if they had to fix the rate. We take a look at that in terms of their ability to cover those expenses. One part is the treasury part – and we run a good match in our organization – and the second part of the strength of those mortgages and their profitability is people's ability to pay them back. We have a conservative method of qualifying people.

Mr. Denis: Just one more, Mr. Chair. You may have to take this away with you, but I'd like to know how much in variable-rate mortgages ATB currently holds.

Mr. Mowat: Thanks. We will do that.

Mr. Denis: Okay. Thank you.

The Chair: And if you could reply in writing, sir, through the clerk to all the committee members, we would be very grateful.

Mr. Mowat: Thank you.

The Chair: We'll now proceed to Mr. Chase, followed by Mr. Sandhu, please.

Mr. Chase: Thank you. Page 149 of the October 2008 edition of the AG's report references section 29 of the Alberta Treasury Branches regulation, which requires that ATB keep unencumbered liquid assets available according to specific guidelines, yet page 128 states that the "ATB's liquidity level fell below the minimum guideline" and that the mistake was only reported in March 2008. What were the consequences of this potentially illegal mistake?

Mr. Mowat: We're just catching up to the reference.

Mr. Chase: You surpassed your liquidity levels, your own internal regulatory levels.

Mr. Mowat: We'll give you that once we find that actual reference.

When we manage our liquidity, if there was an incorrect calculation, it would have been a matter of days. We manage the liquidity of the organization very closely. We watch it every day, and we certainly report it every month. We wouldn't be in breach of those on a continuing basis.

We'll provide you with more details for sure, Mr. Chase.

Mr. Chase: Thank you. I'd appreciate that.

Mr. Saher: Perhaps I could just supplement. The member was asking his question from the bottom of page 127, top of page 128, where we reported a finding that during certain days of the month technically the liquidity guideline was breached. That was identified by ATB to be an error and rectified. All parties with an interest in that were informed immediately.

Mr. Chase: My second follow-up question – and you partially answered it – is: when did the liquidity level fall, and what was the response by the department of finance and the board when made aware of the situation? Like, for what length of time did it go unreported, and then how was it responded to and corrected?

Mr. Mowat: I was looking at the wrong page.

We make a detailed calculation of our liquidity, and we include certain assets. This must have been that some of the asset-backed commercial paper that wasn't in fact liquid got included in error. We will give you a much more detailed answer, but we run a surplus liquidity position, so we wouldn't have fallen to a dangerous level or anything like that. It would have been an error in a calculation where we just simply had the wrong number on the page.

Mr. Chase: Thank you.

The Chair: Thank you.

Mr. Sandhu, please, followed by Mr. Mason.

Mr. Sandhu: Thank you, Chairman. Thank you, all ATB board members. I'm going back to the risk management that the Auditor General pointed out in the 2002-2003 recommendations. Why is it taking so long to correct that? Like, five years. I understand, you know, that it takes time, but it's five years. We need to correct this. This bank belongs to Albertans. Albertans want action. Why are we taking five years to do this? You've got to get this done.

Mr. McKillop: Just to respond to that, Mr. Sandhu. Thank you. Enterprise risk management is a very complex and comprehensive framework composed primarily of credit risk, market risk, and operating risk, which are three of the major factors. We have been very strong for credit risk specifically for five or 10 years. We made significant progress over that period of time on the operating risk component. We had made progress over that period of time on building the framework. We, in fact, were assessed by the Auditor General over that period of time as making satisfactory progress in the various reports that were produced. The major step that we did take was the implementation of a chief risk officer and the accountability of a specific executive on enterprise risk.

Again, it's a very comprehensive program. We did make progress ever since the Auditor General pointed that out. That was assessed as satisfactory progress, and we will continue to work on enterprise risk management for the rest of our careers at ATB. That's really part of the business we're in and part of the service that we are required to manage.

Mr. Sandhu: Thank you.

The Chair: Do you have another, additional question at this time, Mr. Sandhu?

Mr. Sandhu: A second question. You said 244 Alberta communities. Could you define that? Like, what are the 244 Alberta communities you're serving?

Mr. Mowat: We have 163 branches and 133 agencies. We have two branches in Fort McMurray, for example. Fort McMurray is one community. When you put them together on a map, that's why it doesn't exactly add up.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Vandermeer.

Mr. Mason: Thanks very much, Mr. Chairman. As I've watched the news unfold on TV over the last few weeks, the question I felt like asking people like Goldman Sachs and Merrill Lynch and so on is a question I'm going to ask you, and it is why you didn't you see the risk inherent in this asset-backed commercial paper.

As I understand it, what happened in the United States was that they sold mortgages to people who couldn't afford them, and they got them in by lowering the interest rate for the first period and then jacked them up, and then they bundled them and sold them as investments. When people buy investments, they should be able to analyze those investments in a way that they can determine whether or not they're a good investment or a bad investment, yet it seems that right across North America senior, highly knowledgeable bankers were unable to determine accurately the risk that was built into these investments, which are really ticking time bombs. My question to you is: why couldn't you see the risk inherent in this asset-backed commercial paper based on subprime mortgages?

10:50

Mr. Mowat: Right. It's a great question, and it's one, you know, the whole financial industry is scratching their heads over. I sat at the table with some of the smartest minds running some of the biggest pools of capital in Canada as we tried to unravel what turned out to be a bit of a mess. There are many, many reasons. I'll just point out two.

One of them is that we looked at this from a credit risk point of view. This is something the Auditor General is encouraging us to expand our view on. So if you actually take a look at the analysis that we did on asset-backed paper, it's amongst the best in Canada. We didn't own more than a certain percentage of a trust. We wouldn't go into a trust unless it was of a certain size. We made sure all the trusts were unrelated. We took a look at the industry coverage. You know, you want to diversify a portfolio. So we did all the classical right things from a credit perspective. What wasn't looked at is what happens if the market for these things ceases to trade.

It'd be kind of like you and me setting up a portfolio on the TSX. We want to make sure we have some in transportation, some in minerals, and we have nicely diversified, different kinds of companies – small cap, big cap – and we just missed the fact: what if the TSX doesn't operate tomorrow, and there's no place to trade it? So we completely missed a spot. All the institutional investors missed that. You know, I think that's something that all of us are putting into – you have to look at more than the credit risk. You have to look at various risks that can add together to create a newer risk.

The second piece is that, you know, you can get to build things. If we build this glass, this looks pretty solid sitting there on the table. Then if we add this to it, you can see that's not going to fall off right now, and we add something to it and something to it. So if I look at this and I look at that, it's sound and it makes sense, but when you start adding too many of them together, you don't really understand how all the bits relate to each other. But one thing that you can absolutely say is: is that more stable than that? Simple is better than way too complex. The marketplace got to engineered products.

I think the other thing is that as bankers we relied too heavily on the bond rating agencies. You know, at the end of the day you've got to be accountable for what you invest in. I think the Auditor General has said that, and it's good advice. You can't just say: well, we relied on the bond rating agencies. So that is one of the changes. We have requirements now for ratings from different professional rating agencies, but we also have our own people who are accountable to our board of directors to report on all those counterparties.

Mr. Mason: It's interesting that you mention bond rating agencies. Is it not the case that most bond rating services refuse to rate Canadian ABCP?

Mr. Mowat: There was only one rating agency that was doing it. In hindsight there's another flag. I think all of the institutions in Canada now have another criterion in their ALCO policies that require – we do for sure – two ratings. So there's another piece.

Mr. Mason: But the bond rating agencies wouldn't even rate Canadian asset-backed paper. Is that a correct statement?

Mr. Mowat: I'm not sure. I couldn't answer that for all. They didn't rate them. We have DBRS, who was the Canadian specialist in this. It was a fact that it was only rated by one agency.

Mr. Mason: Thank you.

The Chair: Thank you.

Mr. Vandermeer, please, followed by Mr. Chase.

Mr. Vandermeer: Thank you. I'll try to keep this as simple as possible. My understanding is that you've got the ATB up here – right? – and then you've got, let's say, just for a number, 10 different funds here. I can invest \$100,000 in this one at very low risk, and my reward would be very low as well, say 1 per cent, but I don't take any chances; I'm not going to lose anything. Or I could put my money in an asset-backed commercial fund, whatever that fund would be called, over here, and my risk would be high; I could gain 20 per cent, or I could lose 20 per cent, right? Now, my understanding is that the losses all became a part of the parent group. Is that correct? The ones that put money in the high risk didn't lose as much as they should've lost, but it was spread out over other funds from the bank.

Mr. Mowat: This is a very low risk. I mean, put that in quotation marks. The pool of capital we're talking about there are very low-returning assets. This was the safest pool of money we have at ATB. This is the money we reserve for our liquidity. This was bankers' acceptances plus 10 or 15 per cent, so today that might be 3 per cent or something like it. It's not a high interest. We were an investor of this, and so there wasn't a prospect of a big return. Our management policies stipulated that we could only invest our liquidity in things that are rated triple A or double A and so on and so forth. So it isn't a pool of money we try and take risk on. It's a pool of money we try and manage well within a clearly defined risk parameter, and that is low risk. It didn't turn out that way, and we have readjusted how we define the type of investments that are eligible, but this is a pool of money where we're not trying to take a lot of risk. We're not trying to take risk on; we're trying to just simply manage it well and keep it in reserve for our liquidity.

Mr. Vandermeer: But shouldn't the losses in that pool of money have stayed with that pool of money and not been transferred to making losses in other pools?

Mr. Mowat: We had \$900 million in ATB. It's in the corporate entity. There was roughly \$250 million in our money market funds which would have gone offside when they became liquid, so we transferred it all into ATB.

Mr. Vandermeer: Did any of the directors or officers have money in that one pool of funds that were then redirected to the head pool?

Mr. Mowat: I think we have looked at that closely, and the answer is no.

Mr. McKillop: There were some investments by officers in the pool of the subsidiary. There were two or three officers, I believe, who had investment in the investor services money market funds.

The Chair: Thank you.

Mr. Chase, followed by Mr. Fawcett.

Mr. Chase: Thank you. Your basic premise is that somehow Alberta is insulated or immune to what's happening outside our borders, yet Alberta has the most volatile dependency on nonrenewable resources, gas and oil. When our second greatest revenue generator to conventional oil is casinos, slots, and lottery profits, I would suggest that we're in a risk circumstance. However, referencing page 281: why did the ATB complete a \$250 million securitization transaction without having board-approved policy or business rules in place?

Mr. Mowat: Securitization is one of the ways a financial institution finances its operation. We have a policy in place, so it's not like it went ahead without any direction. That policy hadn't been properly approved by the board of directors. That's simply a fact. We had a policy; it just hadn't got to the final approval rate. CMHC does their securitizations on a schedule. It's a very conventional piece of work, and it's ground that is worked by CMHC and all the other major banks, but it's on a schedule. So we simply didn't have that approved by our board of directors. It was a busy time when we were changing other policies in the organization.

The Chair: And that for the record is on page 281 of Mr. Dunn's October 2008 report.

Mr. Dunn: May I just supplement for a second? This is a new program with ATB. It had only just started in about March of 2008. I believe it's the second tranche, the second group that's out there. So it was a very new product, and you're absolutely right, Mr. Chase. It was \$250 million, but it was a new product in which they were taking pools, packages of mortgages, originated in Alberta and that would be sold to other holders.

Mr. Chase: Thank you.

My second question is based on the fact that so far we've heard that these have been a series of one-offs, singular accounting errors, single mistakes, biblical references: the sins of the fathers have been visited on the sons. I'm a little bit concerned about how the sons are doing. What steps have been taken to implement a comprehensive securitization policy and business rules, and why is it only now that one is being developed?

11:00

Mr. McKillop: We have, as Mr. Mowat said, the draft securitization policy in place. We are targeting to have that policy completed and approved by the board by the end of our fiscal year-end, which is March 2009.

Mr. Chase: Thank you.

The Chair: Mr. Fawcett, please, followed by Mr. Mason.

Mr. Fawcett: Thank you, Mr. Chair. You made some comments in your opening statement about asset-backed commercial paper and that hindsight is 20/20. It's funny; last spring when I suggested that maybe we take a look at having you here before the committee, that was before the Auditor General released his report as well as before we truly saw the whole fallout of some of the subprime mortgage stuff in the United States.

One of the questions that I wanted to ask, I believe, has taken on new meaning with a lot of this. We just saw that the British government is nationalizing some of its banks. They've announced that today. There is a large amount of debate on a bailout program in the United States, and the debate is, you know, the difference between Wall Street and main street. What value does ATB provide Alberta taxpayers at this point in time, knowing that a lot of these discussions are talking about backing some of these financial institutions with taxpayers' money because of bad decisions that were made? What value does Alberta have in having the Alberta Treasury Branches as it currently exists?

Mr. Mowat: You know, I think that goes to our very purpose, particularly in the strong times of the province. Our singular purpose is to understand Alberta and to be able to provide financial services in every nook and cranny in the province, whether it's rural or urban or seniors or youth or small business or big business. That's all we do, and that is important to the growth of our economy. Just the way I think it's widely agreed that Alberta's economy has been constrained by having enough people over the last couple of years, it can also be constrained by not having the right financial tools. We definitely provide a knowledgeable banking source for Alberta.

Secondly, we know we're a cyclical economy. We have ups and we have downs as a province. You know, I think ATB really shows its colours. We don't go anywhere; we stay here. We have no business other than to work through. If times are tough, our job isn't to pull up stakes; our job is to work with our customers. That's exactly what we do.

The Chair: Thank you.

A second?

Mr. Fawcett: Yeah. My follow-up question would be, I guess, that as bad news as the issue around asset-backed commercial papers is, I think it has been masked, so to speak, as a result of some of the economic progress that we've made in the province over the last five years. As a result I think that there's a lot more liquidity within the Alberta Treasury Branch than there might have been. So that's sort of masked the issue that there is now \$1.1 billion that is not liquid. However, knowing that we're going into tougher financial times, can you speak to what is in place to ensure that there is not a mistake made again, knowing that we're probably not going to have that flexibility over the next several years to have those mistakes made?

Mr. Mowat: It's a great question. We have a professional group of managers and executives at ATB. We have a very vigilant board of directors that is constantly looking for information on our operations. And we have an Auditor General that takes a strong look at our financial statements and periodically reviews us. I don't think any of those things are guarantees, but what I can tell you is that I personally believe that strong risk management and some of the things that Mr. Sandhu was asking about makes you a better financial institution. I think it makes you better for your customers. We take this very seriously. We are very proud of the organization. We know Albertans rely on us, and we're going to run it in a way that is very professional and sound.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Dallas.

Mr. Mason: Thanks very much, Mr. Chairman. Well, I'd like to just put the question generally to the Auditor General. Mr. Auditor General, in your view what led to the current situation with respect

to asset-backed commercial paper, and can you summarize your recommendations to make sure that it doesn't happen again?

Mr. Dunn: I'm not so sure I can quickly summarize this. Certainly, ATB was successful in acquiring deposits that provided ATB with the liquidity to do its business as described by Mr. Mowat. In investing its liquid assets, it looked into instruments which were commercially acceptable and commercially supported but, I believe, as in the description of the glass with glasses on top of it, did not see through the veils as to what really was underlying those assets.

It had done some due diligence. It had gone back to look at asset-backed commercial paper from one perspective, subprime mortgages. It had looked at that one perspective and tried to remove that attribute from the commercial paper consideration. That was what Mr. Griffiths was asking. It removed the subprime out of it, but it did not remove the other problems. It did not remove certain of the synthetic instruments and did not remove or see through the different layers of some of the derivatives in leveraged products that were in there.

In not understanding those products, it was at risk that the return that you were looking at did not match the risk. The return started to decrease. I believe Mr. Mowat mentioned 15 basis points. We talk of a spread of eight to 18 basis points. The rate of return was starting to decrease on these instruments that were not as well understood as I believe they will be in the future, and it left them exposed to higher risk, lower return instruments.

Have they analyzed this? Yes, they have. Have they learned their lessons? I believe they have. They have spent a lot of time going back and looking at what they could have done better. At that time they relied on one external rating agency. I don't believe they had the sophistication in their treasury management group that they will have in the future. They didn't have the credit risk officer in place, which they do now.

If I am rambling on and not summarizing, the lesson that was learned is that they had to do their due diligence, and they were not doing it.

Mr. Mason: Okay. Thank you.

Mr. Mowat, do you want to comment on that?

Mr. Mowat: It was a great summary. We're completely accountable to doing that better. Misery loves company is absolutely no excuse. Fred talks about that a lot, and we get that. We understand. We own this.

You just have to go back. There was a billion dollars of this stuff trading every single day in Canada. All of the biggest pension plans in Canada, all of the biggest universities, all of the smartest treasurers in Canada, not all of them, but a high percentage of them, own this. I think that's exactly what Fred is saying, that you've just got to not get swept up with what everyone else is doing; you've got to do your own due diligence. We sure learned that.

Mr. Mason: Okay. Well, you sure have plenty of company.

The Chair: Thank you.

We'll move on to Mr. Dallas, please, followed by Mr. Chase.

Mr. Dallas: Thank you, Mr. Chair. I think we've got a handle on the picture here: a little over a billion dollars of capital that would have provided a service and benefit to Albertans is tied up for a long period of time, a writedown of a little over \$250 million, an organization with a large book, \$24 billion. You can absorb this.

Ultimately, I guess I'm left with some observations that I'm having trouble meshing. You talk about implementing recommenda-

tions, processes, internal controls as a broad and complex issue, and I believe you. I guess my question is that as opposed to speaking in terms of, "This takes time; we'll get it over a period of time," specifically, do you have a written plan? Do you have timelines attached to that plan? Has the board approved that plan? Do you have a budget for its implementation? You know, if there are resources that are missing over a period of seven years to implement the internal controls that have been recommended, what are they, and when are you going to get them?

11:10

Mr. Mowat: Right in the middle there is: do we have a plan, do we have a budget, and are we moving ahead on this? The answer is yes. The very specifics of the Auditor General's recommendation: yes, we have timelines to put that all into place. I just want to contextualize it a bit. I think to read this, you'd think that ATB runs without controls or something. Absolutely not. We could walk you over, and you would be very impressed with what's there. I think what the Auditor General brings to us is that sometimes when you're running the organization, you're not looking every day to see how you can change it. So this is a fresh set of eyes. A new kind of world condition is coming to us. There are some very good recommendations. Yes, we have a plan. Yes, we have the budget, and it's funded out of our operations. We are going to get the specifics of that done.

I think what Jim was talking about is even broader than that. Two years from now there'll be new things that we can do and new things that we will learn in the risk management area. What we're putting in place is not ducking. Are we going to get the specifics done? Yes, we are. We're actually putting a stronger umbrella over the organization. Bob Mann, our chief risk officer, is a 35-year banker, and now his job is to oversee the organization and to look for things that we should be doing better.

Mr. Dallas: My supplement to this is that in a publicly traded company, corporations that would through this type of loss provision write down about 90 per cent of an annual net profit, shareholders would demand accountability and likely would receive it. Specifically, with respect to changes in the audit committee at the board level, at the senior management level, what accountability has transpired? I recognize this was difficult to see coming, but there still is an accountability with this. What has transpired?

Mr. Mowat: Immediately upon it happening, the board asked us for some immediate changes, and that we did. Then during the last fiscal year the board asked us to be accountable for a completely new credit risk policy and a completely new investment policy. Those have been done with the benefit of expert resources who deal with some of the largest banks in the world. Those policies have been rewritten, updated to kind of current best practices, and are now in place in the organization. As management we're accountable to report and manage to those new policies.

The Chair: Thank you.

Mr. Dunn: May I just supplement for a second?

The Chair: Yes.

Mr. Dunn: Although Mr. Mowat is speaking from the mind of management, possibly we could hear from the chair of the board and the chair of the audit committee in response.

Do you mind, Mr. Dallas?

Mr. Dallas: I'd like that.

The Chair: Yes. We do have members present who are on both the board and the audit committee.

Mr. Splane: Yes, and both are board members. I do not serve on the audit committee – that is not an appropriate spot for the chairman of the board – but maybe I can defer to our chairman of the audit committee on what we've asked for. Then I'll supplement that with respect to our credit and risk committee. We have a chair there that I'd like to highlight.

Mr. McCook: Thank you. I would just point out that risk in ATB is allocated to two different committees. One, the audit committee. We're responsible for risk related to regulatory authorities, to technology. The second portion of our risk, which is the credit risk, interest risk, investment risk, is allocated to our credit and risk committee, and they look after many of those things. For those areas that our audit committee is responsible for, every quarter I ask our CFO to talk about the progress that we're making on the Auditor General's recommendations, and we're very insistent on seeing progress happening. So I think you can rest assured that I have got the pulse of management to respond to those recommendations or requests of the Auditor General.

Mr. Splane: At the board we rely on our audit committee and their relationship with our internal auditor because the internal auditor reports to the audit committee. This is an area that, in my view, with the two years that I've been there, has really grown and come into its own. I think there are some areas of catch-up still to be done on the internal audit side, but it's very effective.

On the credit risk management side we have a credit risk management committee of the board, headed by Linda Hohol. Linda was a senior banker in this province and was the president of the Venture Exchange. She's very diligent and works that committee very hard, let me tell you. I'm on the committee. We've made, I think, significant demands on our executive, and policies are being updated. We're moving as quickly as we can into the 21st century. My crystal ball probably isn't any better than any of yours.

Where we don't have broad policies in place, specific decisions are brought to the credit committee and then to the board. Mr. Chase's question with respect to those CMHC mortgages which were packaged and sold off: we approved those at the credit committee and at the board with the view that we would have a broad policy brought into place by the end of the year. It was dealt with on an ad hoc basis, but I think we got answers to all of our questions.

The Chair: Thank you.

Mr. Chase: I'm again pursuing the notion that Alberta isn't an island despite Prime Minister Stephen Harper's declaration of a firewall. So far we haven't been able to insulate ourselves nor should we insulate ourselves from the rest of the nation and the rest of the world. I'm concerned about our potential vulnerability, but I'll be specific. I am back on mistakes made.

The Chair: Question please, Mr. Chase.

Mr. Chase: Referencing pages 275 and 276, why did ATB's internal control system not find a \$4 million valuation error that was identified by the Auditor General, who calculated that these errors can lead to a considerable risk of misstating financial results?

Mr. McKillop: Mr. Chase, we were flipping pages. If you can just repeat the question, please.

Mr. Chase: Oh, yes. I'm on pages 275 and 276. I must have had a sharper pencil than the individuals at ATB. A \$4 million risk found by the Auditor General.

Mr. McKillop: Mr. Chase, these are very complex calculations and very sophisticated models. You know, the error happened. We were pleased that the Auditor General pointed it out, and we have improved the controls to make sure it doesn't happen again.

11:20

Mr. Chase: Thank you.

My follow-up question basically asks about those new controls. What steps have been taken to improve ATB's internal control systems to ensure that million dollar valuation errors do not continue to occur?

Mr. McKillop: Well, we look at this, really, every minute of every day as we get more sophisticated and as we end up stepping up to the requirements of our industry. We have a very strong staff, who have all the appropriate designations. We have implemented additional overview procedures, and we are looking at additional systems to make sure that such errors are minimized.

Mr. Chase: Thank you.

The Chair: Mr. Benito, please, followed by Mr. Mason.

Mr. Benito: Thank you very much, Mr. Chair. I have some information about the subprime exposure of ATB, but I just want to hear it directly from the horse's mouth. Can you give a brief comment on the bank's subprime exposure if there is one? If there's any amount of exposure, can you just identify the specific amount? If there's not, I'll be happy to hear it from you.

Mr. Mowat: Right. Who's the horse?

Two really clear points. ATB doesn't do subprime mortgage. We're a conventional lender. That's in our lending book. Then when we talk about these asset-backed commercial papers, they were pools of investments that would have hundreds or thousands of mortgages in them. If you take a look at all of our asset-backed commercial paper investments, less than 2 per cent would be attributed to subprime. We invested in an asset-backed commercial paper note, and then when you look at all the underlying holdings of all of those notes, less than 2 per cent – and this is what was referred to earlier. We went through our portfolio and sought to exclude any vehicles, any people who were selling notes that were full of subprime mortgages.

[Mr. Griffiths in the chair]

Mr. McKillop: Just to add to Mr. Mowat's comment, that 2 per cent equates to about \$17 million, and that was the lowest ratio of subprime exposure of certainly any institution in Canada.

Mr. Benito: Is that \$17 million considered a loss at this point in time or not?

Mr. McKillop: You know, we expect that the opportunity to return that piece will be very small. So yes is the answer.

Mr. Benito: Thank you.

The Deputy Chair: You've done your second question? Thank you.

Mr. Mason.

Mr. Mason: I'll pass.

The Deputy Chair: Then we go on to Mr. Quest.

Mr. Quest: Again, thanks for being here today, gentlemen. It sounds like overall the Treasury Branch is a very well run organization. It's done very well.

Mr. Mowat, just to go back to your opening comments when we were talking about variable pay for employees. Ninety per cent, you said, went to sort of nonexecutive positions. You made reference to, you know, the girl that works in IT, et cetera, et cetera. I'm sorry if I missed it. Did you talk about executive salaries and whether the writedown was taken into consideration in those calculations for bonuses?

Mr. Mowat: Ninety-two per cent actually relates to nonexecutive positions, so there would be 8 per cent of that pool that would be to the executives. What the board of directors did was set the bar higher and make a reduction. There was no reduction to those 92 per cent, to the working people of ATB. To the executive group the board of directors made a deduction from our earnings to reflect some level of accountability for asset-backed commercial paper.

Mr. Quest: Okay. But was the whole amount of the writedown provision taken out of the calculation for bonuses or for the variable portion of the executive management salaries?

Mr. Mowat: No. The \$254 million provision is an estimate and just that. They made a judgment: when all the smoke clears, what do we think we're actually going to be out of pocket? They made an estimate, and they took an amount and reduced our earnings by that amount. It's imperfect. It's not a science because it can't be proven ultimately until all the smoke clears, but the essence was to create an accountability for the executives on what ATB might at the end of the day be actually out of pocket.

Mr. Quest: So we don't think that the . . .

The Deputy Chair: That's your third question.

Mr. Quest: Sorry, Mr. Chair.

The Deputy Chair: I'll put you back on the list.

Mr. Chase, followed by Ms Woo-Paw.

Mr. Chase: Thank you. My questions this time have to do with financial and informational security. Auditor General Dunn has done a wonderful job in taking the Alberta Securities Commission to task with regard to how they conducted themselves in the interests of Alberta's finances.

Within the ATB itself why were new employees, who had access to the personal and financial information of hundreds of thousands of Albertans, allowed to work for a three-week period before a criminal record check, which should only have taken two days?

Mr. Mowat: To the very nub of that question: it should have been done sooner. We hire between 700 and 1,000 people every year. We do criminal checks on people. It's an important part of the

hiring process. There were, I think, 11 out of 15 cases that were looked at by the Auditor General. We hadn't done the criminal check by the time they started. That shouldn't have been the case. All of those people are still with us. There's nothing untoward in their past. But that's a part of our process. You know, in Alberta in hiring people we just got the cart in front of the horse in a few circumstances.

Mr. Chase: Thank you. I taught for the CBE permanently for 32 years. I know, for example, that when I wanted to substitute, I had to go through a criminal check before I could go back as a substitute teacher even though I had a demonstrated 32-year record, a positive one as opposed to a criminal one.

My second question is, again, the correction. How can the board guarantee that information wasn't improperly used – and I gather these people are still employed, so hopefully they've checked out – and that the safety of ATB's clients has not been jeopardized? How do we go forward into the future to ensure that these background checks are done in a timely manner, and what's the new system?

Mr. Mowat: Background checks would be one of the many things that we do to protect our customers' privacy, and that's one that we certainly have brought up to snuff. It was designed to be there. It should have been there. It's a control that's in place, but it wasn't functioning well, so we've made sure that that's important.

I think there's probably a broader piece. We have a code of conduct for all the ATB employees. You know, as a financial institution in the day and age we live in, privacy is a really important thing. We understand that. We have a variety of things that employees, associates at ATB – we talk to them annually, for example, on the code of conduct. So we believe that checks and balances are in place.

We also have a whole series of – I guess in the vernacular they're whistle-blower pieces, and that's a really important thing. We have 4,800 people around the organization, and if we do get somebody that's not doing the right thing, we have several avenues that people can tell us about that because, you know, if something is happening in the office beside you, you're proud of the organization, so you actually do let us know. We encourage people for the good of the organization if things like that are happening, right up to the point where we have a third-party, completely anonymous provision so that people can talk to us. So we think we have a pretty good net spread over the organization.

Mr. Chase: Thank you.

The Deputy Chair: Thank you very much.

Ms Woo-Paw.

Ms Woo-Paw: Thank you, Mr. Chair. I think Albertans are very fortunate to have a very strong institution like ATB. As a strong organization I'm sure that you integrate the concept and practice of continuous improvement in your overall operation. I would like to ask you to highlight some of the policies and procedures that you have put in place so far relative to governance, decision-making, and diversification, the portfolio of securities, in order to minimize the recurrence of incidents caused by asset-backed commercial paper.

11:30

The Deputy Chair: I would like to point out that it's a very complex answer, and if you don't have all the information, you can submit more in writing through the committee clerk to all committee members if you require.

Mr. Mowat: Right. If our risk manager, Bob Mann, was sitting here, he would answer that we have three lines of defence. This is very important. We have a program now; it's teach them to fish as opposed to give them fish. So the 4,800 people in the organization: we're talking to them now about risk. More than ever it's staring them in the face, but we're talking to everyone about our job day in and day out. Whether it's getting ID from someone who comes into the branch so that it's not a money-laundering transaction or something like that, we're talking to them about why that's important and that that's part of their role. You can put all the rules in place, and we all know it around the table: they're rules. It's much stronger if you have people understanding why they're trying to do it and the principles they're trying to work toward. We have a program for all 4,800 people to better understand risk.

[Mr. MacDonald in the chair]

Secondly, we actually do have policies and procedures. As the chair said, it's a long answer, and I won't make it too long. As an example of that, we've passed a new credit policy, and every single year all of our lines of business are now being asked for their credit appetite, their risk appetite. Rather than just take the loans that come in through the door, we're talking to our lines of business about really trying to be smart and strategic about how we put out credit in Alberta. If we're missing expertise, we're building a program to try and build our expertise in a variety of departments. So we have a brand new credit policy.

We also take a look at and monitor the portfolio in terms of all of our concentrations, whether it be by industry or by geographic area of the province, so we really understand the portfolio.

The last piece is board oversight. The board has been, I think, very active in having these policies come to them in a way that they're strategic, that they're having that strategic look.

So there are kind of three levels of defence. I apologize if that wasn't specific, but it gives you a sense of how we're approaching it.

Ms Woo-Paw: Thank you.

The Chair: Thank you.

Okay. We'll move on, please, to Mr. Mason, followed by Mr. Jacobs.

Mr. Mason: Thanks very much, Mr. Chairman. I guess I'd like to give you a chance to say for the record whether or not as a result of this problem there is any risk to the deposits, the loans, the mortgages of Albertans with ATB and to say for the record how you feel about the stability of the organization going forward.

Mr. Mowat: The stability is strong. When you think of a financial institution, you think of its loans portfolio. We've been talking this whole time about asset-backed paper. That's an investment; that isn't our business. So then when you look at the 90-plus per cent of our balance sheet, it's as good as it comes. If you could argue anything about ATB, maybe we're a bit too conservative sometimes. That's where we're trying to get to this risk appetite, to really understand what we're trying to do. When you look at the assets of ATB, they are our loans, and we have one of the squeakiest clean portfolios in the province.

Mr. Mason: Thank you.

Mr. Auditor General, would you concur with that? People's investments, loans, mortgages, and so on: their accounts are very secure. Is that correct?

Mr. Dunn: I fully support that.

Mr. Mason: Thank you.

The Chair: Mr. Jacobs, please, followed by Mr. Chase.

Mr. Jacobs: Thank you, Mr. Chairman. I don't think I can come up with a new question to ask about asset-backed paper. I think, though, that you as management have to understand the concern the committee has about the importance of doing due diligence on your assets and your investments, et cetera. Probably the situation we're in in the world today is due in part to banks not doing due diligence for all loans. Probably what will happen, though, from all of this at the end of the day is that we'll become overreactive and too conservative.

I want to ask follow-up questions to two of my colleagues'. I want to follow up Mr. Quest's question relative to the variable pay schedule. You referred to 92 per cent of the fund going to the everyday guys that work at ATB and 8 per cent going to management. My question is: how much was the average payout to the 8 per cent, and how much was the average payout to the 92 per cent?

Mr. Mowat: We'll get that right, and we'll be happy to supply that to the committee.

Mr. Jacobs: Thank you. My second question, then. I'm going to go back to Mr. Vandermeer's question, originally, where he asked you about the losses that were incurred being absorbed by the Treasury Branches totally instead of going back to the individuals or the investments that had been made. Could you explain to me again how ATB dealt with that issue? Were you selective in the way you managed that risk or managed those payouts?

Mr. Mowat: We held asset-backed commercial paper in our treasury, and we held some in a money-market mutual fund, so we lifted all of the asset-backed paper and put it in our treasury so we could manage it as one group in the organization. We weren't selective. We ran a money-market mutual fund that as part of its requirement needs to have liquid assets in it. These needed to be replaced, so we picked them up and managed them all as a group.

The Chair: Do you have any follow-up to that, Mr. Jacobs?

Mr. Jacobs: Well, I'm not quite satisfied, Mr. Chairman, if you'll allow me one.

The Chair: Please proceed. You have been very patient.

Mr. Jacobs: Was there any discretion in favour of some management or some board members or some vested interest in ATB?

Mr. Mowat: There were no board members, certainly, that held any of that. This is a broad-based money-market fund that would hold tens of different kinds of investments. There were a couple of executives, but there wasn't any preferential treatment. This was about ATB managing this asset-backed commercial paper in an organized way. Financial institutions across the country did very similar things with their mutual funds. There's a very regulatory piece here. By definition the prospectus says that those funds can only hold assets that trade less than a certain very short-term maturity. These were freezing up, so we needed to replace them to manage the fund.

The Chair: Thank you.

Mr. Mowat, if you could please provide the information that was requested by Mr. Jacobs regarding the bonuses and the breakdown, again through the clerk to all members, we would be grateful.

Mr. Mowat: Yes. For sure.

The Chair: We'll now proceed to Mr. Chase, followed by Mr. Griffiths.

Mr. Chase: Thank you. My questions go back to earlier questions based on risk management. What risk management and investment regulations have been changed or implemented in response to the recent market disruptions? It's not business as usual. What's the new business model for risk management?

Mr. Mowat: It comes on two fronts. One would be from a credit perspective. The other would be an investment perspective. The credit policies talk about how we lend money to our customers. The investment policies talk about how we invest our liquidity. Both of those policies have been changed substantially and have added more strategic oversight for the board of directors and a much more detailed review from a management point of view.

For example, specifically, we now have a matrix for when we are investing our liquidity, so we carry a couple of billion dollars of liquidity every day. We would require two bond ratings on any investment over a certain amount. We have maximum amounts for triple A, double A, and so on and so forth. We have a very specific and new process: not just looking at the bond ratings of the counterparties; we have to do our own analysis of everyone who becomes a counterparty for ATB. That's all now embedded in a board-approved policy that we report to.

11:40

Mr. Chase: Thank you. Because the Alberta Treasury Branch is backed by the Alberta taxpayer, my second question is: given that the government provides a deposit guarantee for all ATB depositors, can the board give an approximate estimate of the total amount that the government guarantees? What are taxpayers potentially backstopping in terms of either dollar figures or to get a sense of, you know, the potential for terrific investments and the potential for bailouts?

Mr. McKillop: The total deposit base between personal and business was just under \$18 billion at the end of the year.

Mr. Chase: Thank you.

The Chair: Thank you very much.

Mr. Griffiths, please, followed by Mr. Sandhu.

Mr. Griffiths: Thank you. You know, my grandpa always told me – my colleagues are used to my bringing him up – that you can only call something a mistake, no matter what happens, if you don't learn from it; otherwise, it's experience. I'm glad to see that quite a few of the challenges that are going on in the world's financial markets are experiences and not mistakes. I appreciate that, and I do appreciate all the great work you do in serving Albertans. That's greatly appreciated. I think most provinces are jealous of our institution.

That said, I am still going to pursue the enterprise risk management issue. Now, the reason I used the 2002-2003 recommendation that was followed up from the 2001 recommendation was that your

response was that you were committed to having a framework completed on the operative enterprise risk management process before the end of that fiscal year, and that was 2002-2003. It's still not completed. It's still in progress. You said you'd made progress on risk management. I'm not asking for a response now. What I'm looking for is a written submission that outlines all the progress that you've made since 2002-2003. If you haven't completed the framework, I would like to know in detail all of the other things that you put in place over the years. So I'm not actually asking for a response now.

Mr. Mowat: Okay.

Mr. Griffiths: My second question, then, since I don't require a verbal response to the first, is a follow-up to Mr. Fawcett's question. What processes have you got in place to avoid something like the asset-backed commercial paper process, the experiences, from happening again? You said you've got quite a few in place, and you mentioned a few of them, but I'm wondering if you could also provide a written submission on all the new procedures that you've put in place since March of '07 and that you're working on to ensure in the future that something like that doesn't happen again, what you've learned from the experience. I don't really need a verbal one; I'm looking for some written submissions.

Mr. Mowat: Right. We'd be happy to do that. I think the body of that will be the revised policies that we have.

Mr. Griffiths: Just to emphasize, that's what I'm looking for. If it's not complete now, I'd love to see what the revised policies would be for the future and what you propose. Thank you.

The Chair: Thank you very much. We look forward to that.

Mr. Sandhu, please, followed by Mr. Chase.

Mr. Sandhu: Thank you, Mr. Chairman. Page 280 of the Auditor's report: 15 employees; in 11 cases the criminal record was not checked. Second to that, it states a timeline of between 2 and 57 days. The third one: rehired employees and the ATB did not do a criminal record check on them.

Mr. Mowat: This should be done better. We have a policy and we have a process in place that the criminal checks will happen before people start, and it didn't happen. While there isn't an excuse for that, as I said, during that year I think we hired upwards of 800 people, and it simply should have been done better than that. We do criminal checks on everyone, but some people got to their desks before we had them back. With every single one of those people it all came out well, but that's really no excuse. Our job is to get it done, and that's what we're going to do.

Mr. Sandhu: Second question, page 278. Out of 25 loan applications five were not meeting the approved credit risk rating. Why is that?

Mr. Mowat: That would potentially be an input error. What that's saying is that when we actually put the loan through – we analyze all of our loans from a risk-rating point of view, and when it ultimately got entered into the database, we had the wrong risk rating on it. Those would have certainly been corrected. You know, as a result of a recommendation like this, we would be looking more closely at those.

Mr. McKillop: Just to supplement Mr. Mowat's answer, in the corporate financial services area the finance group, which is independent of the operation, has built a risk framework to manage these sorts of instances and to manage internal controls and compliance within corporate financial services. That is now in place and has been in place for close to a year. As one other member talked about, we're certainly moving through the continuous improvement phase for that, so instances such as this should be minimized.

Mr. Sandhu: Thank you.

The Chair: Thank you.

Mr. Chase, followed by Mr. Dallas.

Mr. Chase: Thank you. At the risk of alienating my fellow members of Public Accounts, there seem to be cards that have more value than others, gold credit ratings and so on. Well, one of the cards that seems to have a tremendous amount of value is a Progressive Conservative membership card. The Auditor General has pointed out very rich bonuses and separation packages for committees that are government appointed. In the Calgary health region I think there was \$82 million worth of parachute. It seems that one of the major qualifications to be on a board is your stated political loyalty. Comes the question: can the board explain why the five recent appointments and reappointments to the board were all card-carrying Conservatives?

Mr. Spiane: This is where the chairman of the board should get involved. We have a policy in place that follows the Premier's guidelines that came as a result of I think three individuals meeting with all of the boards and agencies of the province. Certainly, the question of politics doesn't come up.

In the last case we were looking for a specific individual that would fit our matrix that we needed. We wanted a lawyer. We wanted more diversity on the board. We only had one woman. So we hired a firm to go out and get candidates for us, and they brought us a number of very good candidates. Our board governance committee reviewed the files that we had on hand, and it went over then to the search firm. There was a three-person panel along with the search firm that recommended three women lawyers to the minister, all very well qualified, and the minister chose one of those. That's the process, and I'm sure no one asked about political affiliation of any type or what cards they happened to have in their pocket.

11:50

Mr. Chase: Okay. That partially answers my follow-up question. It had to do with the selection process – you mentioned the importance of having a balance, women and men, and also the legal backgrounds – and you've answered it. If you could go into greater detail. What is the selection process for appointments, including criteria, experience, financial qualifications, and does the board receive any direction from the department of finance during or prior to the selection of a particular candidate? You mentioned that the government had created the criteria. Beyond the criteria what influence does the department of finance have on your decisions?

Mr. Spiane: The panel was made up of myself, the deputy minister, and an independent outside individual, so there was certainly input in terms of the actual interviews and so on. The department was involved to that extent but no direction in terms of individuals and certainly nothing of a political nature involved there.

We do have a matrix that we've put together that indicates minimum numbers that we want in terms of geographic representa-

tion. This diversity issue: we're wanting to raise the awareness in terms of diversity and selection there. We certainly need chartered accountants on our board, people like Mr. McCook. When he retires from the board, we have to make sure we've got a couple of people in place to do that. We'd be happy to share that matrix with the committee.

Mr. Chase: Thank you.

The Chair: Thank you very much. If we could do that through the clerk, we would appreciate it.

We'll move on, please, to Mr. Dallas, followed by Mr. Sandhu.

Mr. Dallas: Thank you, Mr. Chairman. This is the last chance I'll get to ask a question, so I do want to thank the panel for coming this morning and for the answers that they've provided.

I want to just follow up where Mr. Jacobs was. I understand that you created a wealth management division and that in the course of prior to August '07 you had clients on whose behalf you were placing investments in the ABCP and that you covered the entire exposure for your clients. Two questions related to that. One is: was that the area where the officers and directors had exposure and were covered? Then secondly – I'm surprised if you're not because I haven't heard mention of it – many of the banks that I'm familiar with had placed investments in that same paper on behalf of commercial clients. Were you buying back and covering paper on behalf of your commercial clients?

Mr. McKillop: With respect to the exposure for officers, Mr. Dallas, they were in the money market fund. In answer to maybe your alternative question, those people had no input into the decision to buy back the money markets.

In terms of the commercial piece, we may have to get back to you on it.

Mr. Mowat: Yeah. It would be a very small part of this. We might have had some segregated funds which might have held those investments in them. We can get back to you on that for sure.

Mr. Dallas: Okay. Other than the bank's own exposure, though, am I right in concluding that you made it whole for all of your clients?

Mr. McKillop: That's correct.

Mr. Mowat: That's correct. Ultimately in Canada that has been what all the other financial institutions have done, all the investors under a million. These were held in a money market fund, so it's a whole basket of holdings, and we made good on one part of the basket. Ultimately, that has spread throughout the whole industry and is the way it has been. Canaccord was the big one that moved on that.

Mr. Dallas: Can I do a supplemental?

The Chair: You can proceed, yes. In light of the time, you're not going to get another chance.

Mr. Dallas: Okay. I understand the contribution that you made to creating the accord agreement that will see you realizing or being able liquidate that initial over \$1 billion investment some seven to nine years from now at a fixed rate of return. I'm of the understanding that there really is no commercial market to trade that, even

though one should be able to calculate the future value of that investment. If at some point that opportunity arises, first of all, would the board discuss the opportunity to realize whatever the present value of that would be and subsequently take the appropriate writedown or writup of those assets?

Mr. Mowat: Thank you. First, these assets – you're right – will be held for the next seven to nine years. They have maturities all the way up, actually, but the bulk of it will be seven to nine years. We get interest every month on them, so it's not like it's unused money. It doesn't form part of our liquidity because it's a long-term asset, but we get interest every month on them. It is a floating rate of interest, so if interest rates go up, we'll earn more on these investments. We believe – and closing documents are coming in the next couple of weeks – it will be bankers' acceptances plus 30 basis points. That's the way it's denominated. So both up and down we're perfectly matched to a floating rate on these investments.

The last part of your question I'm going to ask you to repeat.

Mr. Dallas: Just whether you would expect that there would be an opportunity to realize or liquidate that at some point in advance of the maturities.

Mr. Mowat: Right. One of the characteristics that allowed us to restructure these in Canada – you hear that lots of restructuring attempts failed in the United States – and enabled us to succeed is that we have a relatively small group of institutional investors who are like minded in this. The Caisse de dépôt, Desjardins, the public service pension plan, Canada Post, ATB Financial: I won't name them all, but there's a relative small group of people that we can get around a table like this. What made it possible to restructure these is that our goal is to get a reasonable rate on these. We're getting BAs plus 30 on them, and we don't have an intention to sell them. There are good underlying assets here. If you have everybody together and you can hold them, you can get virtually all of your money back. That is the plan.

Having said that, the board of directors have given us the very clear accountability that they want to understand what's happening on an ongoing basis. If there is an opportunity, exactly as you said, to do something different than that strategy, we will be reporting regularly on those options.

The Chair: Thank you.

We still have more members with questions. Unfortunately, we're almost out of time. It has been a practice of this committee for the members to read their questions into the record, Mr. Mowat. If your organization could provide a written response in a timely fashion through the clerk to all members, we would be very grateful.

We're going to proceed now with Mr. Benito.

Mr. Benito: Yes, sir. Thank you very much, Mr. Chair. When I go back to my constituency, the people who live there are mostly simple people. When they ask a question, you know, they want me to answer either yes or no or some simple answer. One of the questions I'm sure they will ask is: in this \$1.1 billion investment decision that the ATB made with the term of seven to nine years, was there a lost opportunity, in your opinion, for Albertans, especially considering that today's market is very tight on credit? That's my first question.

Then the second question is: out of this challenge that we met, we hired a person to be responsible to make sure, you know, not to repeat this challenge anymore. Was there any person that was fired?

12:00

The Chair: Thank you.
Mr. Johnson, please.

Mr. Johnson: Thank you, Chair. I just want to say thank you, gentlemen and ma'am, for coming in today and for taking the time to do this. I want to commend your efforts on the restructuring of the deal to try to minimize the pain on this.

I know we've talked a lot about increasing due diligence and risk management and a change in processes that have been driven by ABCP, but I'd like to ask you for a few specific examples, if I could. One is around investments. Now, I'm wondering if this has actually changed the way you look at other investment vehicles. Could you give us any examples of investment vehicles where you're changing the way you're doing business today because of new processes, new due diligence, new risk management? Are there things you're backing away from? Are there things you're adjusting your exposure to? I'd love to hear some examples of that.

The other thing you talked about was the investment side of your business and the lending side of your business. Obviously, it was the investment side of your business that we got exposed to, but it was really driven in some sense by the lending practices or the lending side of business in the U.S. I'm wondering if this has changed the lending side of your business at all. Did you change the way that you do due diligence in your lending? Have you adjusted your lending practices in Alberta because of this? And the changes in your risk management. I'll leave that with you.

The Chair: Thank you.

Mr. Griffiths, followed by Mr. Chase.

Mr. Griffiths: Thank you. One of the most important factors in any economy is public confidence. I'm wondering if ATB has a strategy in place to help explain and communicate to the public, the people who have savings, the people who have invested. I mean, obviously, by the questions here today it's an incredibly complex situation. Is there some plan in place by ATB to communicate to Albertans or to its members what it's doing, to make sure that confidence remains strong?

The Chair: Thank you.

Mr. Chase, please.

Mr. Chase: Thank you very much. Among my other qualifications I'm a grandfather of two young boys living in Calgary. I want to see Alberta prosper, and part of that prospering is going to be through the Alberta Treasury Branch and its positive management.

My question relates to not only the past but to the future. What are the sources of ATB's liquidity in the event of a liquidity disruption, and how would that disruption be managed?

The Chair: Thank you.

Any other questions for the record from members?

Seeing none, I would like on behalf of the committee to thank you, Mr. Mowat, Mr. Splane, and your delegation, for attending our meeting this morning. It certainly was informative.

I would like to also formally thank Mr. Dunn and his staff for their excellent briefing in preparation for this meeting and also Philip Massolin and his research team for the information they provided all members of this committee before this meeting.

I would like to on behalf of the committee wish you all the very best in your endeavours and enterprises in the future and to thank you very much for your time here this morning. We appreciate it.

Mr. Mowat: Thank you. It's been a pleasure.

The Chair: You're very welcome.

This Public Accounts meeting is recessed until 1 o'clock, when we will reconvene in this room to meet with officials from the Livingstone Range school division. Thank you very much.

[The committee adjourned from 12:04 p.m. to 1 p.m.]

The Chair: Good afternoon, everyone. If I could call this portion of our Standing Committee on Public Accounts to order, I would be very grateful. This afternoon from 1 to 3 we are going to be discussing the financial statements of the Livingstone Range school division with their delegation. We certainly look forward to that. I would like to publicly thank the Livingstone Range school division for their timely fashion and their co-operation in providing the committee clerk and the research staff with the information necessary to do this meeting.

I would like to remind all members around the table that we do not need to touch the microphones. Our *Hansard* staff will turn them on and off for us. Also, I would like to advise that the legislative committee meetings are now being audiostreamed for listening on the Internet.

Now if we could quickly go around the table and introduce ourselves. We'll start with the vice-chair.

Mr. Griffiths: Good afternoon. Doug Griffiths, MLA, Battle River-Wainwright.

Dr. Massolin: Hi. I'm Philip Massolin. I'm the committee research co-ordinator from the Legislative Assembly Office.

Mr. Dallas: Good afternoon. Cal Dallas, MLA for Red Deer-South.

Mr. Jacobs: Brocyce Jacobs, Cardston-Taber-Warner.

Mr. Vandermeer: Tony Vandermeer, Edmonton-Beverly-Clareview.

Mr. Chase: Good afternoon. Harry Chase, Calgary-Varsity.

Mr. Mason: Brian Mason, Edmonton-Highlands-Norwood.

Mr. Benito: Carl Benito, Edmonton-Mill Woods.

Mr. Johnson: Jeff Johnson, Athabasca-Redwater.

Mr. Olsen: Don Olsen, Livingstone Range school division.

Mrs. Elliott: Ellie Elliott, Livingstone Range school division.

Mr. Harris: Good afternoon. Stephen Harris, Livingstone Range school division.

Mr. Neid: Al Neid, office of the Auditor General.

Mr. Saher: Merwan Saher, office of the Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Denis: Jonathan Denis, MLA for Calgary-Egmont.

Mr. Quest: Dave Quest, MLA, Strathcona.

Mr. Sandhu: Good afternoon. Peter Sandhu, MLA, Edmonton-Manning.

Mr. Drysdale: Wayne Drysdale, MLA, Grande Prairie-Wapiti.

Mrs. McQueen: Welcome. Diana McQueen, MLA, Drayton Valley-Calmar.

Ms Woo-Paw: Good afternoon. Teresa Woo-Paw, Calgary-Mackay.

Mr. Fawcett: Thanks for coming. Kyle Fawcett, MLA, Calgary-North Hill.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Hugh MacDonald, Edmonton-Gold Bar.

I understand that you have a brief opening statement, including a short PowerPoint presentation. But before we proceed to that, if there are any of your associates who are sitting behind you who would like to participate in the discussions this afternoon, they can feel free to do so, to just go to the microphone provided and identify themselves, and they're quite welcome to assist or supplement an answer.

The chair at this time would also like to recognize Mr. Keray Henke, deputy minister, Alberta Education, who has joined us this afternoon. Welcome, sir.

With that, if you could proceed. Thank you very much.

Livingstone Range School Division

Mrs. Elliott: Thank you very much, and thank you for your invitation to have us join you. I understand that you had two large boards here. We are the delegation of a small rural board. I understand that was your expectation, and that's who you're going to see this afternoon. We haven't been involved in this process before, and we thank your offices for the support that was given to us in preparation for today.

Yes, we will have a look at: who are we anyway as Livingstone Range school division? The map helps. If you look at the map of Alberta there, in the southwest corner down near Waterton park, God's country, that's where we are. Our towns run from Nanton in the north, which is a little more than an hour south of Calgary, to Waterton and then west to the B.C. border. We have eight communities in all. If you think about the distance, it's 180 kilometres from Nanton to Crowsnest Pass. There are eight communities, and the size of the communities varies tremendously, from 234, our smallest community, to 5,749. So we really are rural Alberta.

We have 263 teachers and 275 support staff. In 2007 we had 4,217 K to 12 students. We have a diverse population, with 270 aboriginal students from both the Piikani or the Blood and Peigan reserves. We have 16 schools and 12 colonies, and on those Hutterite colonies we have 223 students. We had at that point two outreach schools. We have one more, that we have just opened this year. When I said that we were rural Alberta, 51 per cent of our students are transported to school by bus. We'll talk a little bit more later about the bus rides.

Now I'm going to ask Don to speak to the financial overview.

Mr. Olsen: Okay. We've got a couple of slides here that demonstrate the revenue received in 2006-2007 as well as the expenditure. It's not going to differ greatly from other school jurisdictions across the province necessarily. The first one deals with the revenue

summary. The great majority of our funds come from the province, Alberta Education, shown there at 84.3 per cent. Because we have approximately 250 students every year attending our schools who come from either of the one or two reserves, we receive funding for those students from the federal government, so 5.6 per cent of our funding in 2006-2007 came from the federal government for those students. In addition, we had funds from Alberta Finance to cover debentures that are still outstanding, school-generated funds, investment income, some other revenues as well, and amortization of capital allocations of 3.9 per cent. So that demonstrates where the revenue that we had for 2006-07 comes from.

The next slide indicates where those revenues were expended. Again, typical to most school jurisdictions, the great majority of our expenditures go to instruction, and 72.8 per cent of our expenditures in 2006-2007 went to instruction. Seven point four per cent of our expenditures related to transportation to get the kids to and from the schools, 15.6 per cent went to plant operations and maintenance expenditures, and 4.3 per cent was tied to board and system administration expenditures.

Mrs. Elliott: In your package you had a copy of the accountability pillar. We basically decided that it might be helpful to you if we summarized strengths and areas for growth. One of the strengths that we have seen over the last number of years when we look at trend data is our high school graduation rate. Our results at the high school level have been strong and remain strong. The transition rate, particularly if we go to four years, moving on to postsecondary is strong. We've had very positive input about our school improvement focus, and it's one of our strengths.

We do have areas for growth. Our provincial achievement tests at grades 6 and 9, particularly in math and science, are areas for growth. We just looked at the results this year and are pleased to see an improvement at the grade 6 level. There is more work to do, in particular at grade 9 math and science. Another indicator of where we could see growth is parental involvement, particularly at the high school level.

When we identify areas of weakness, what is it that we have done to improve our schools? Certainly, the AISI and our three-year plan, which includes school improvement, have narrowed the focus to literacy and assessment. We have a framework, a PD council, that helps shape the professional development within the jurisdiction, and that has made a difference.

In response to student need we have expanded our outreach program from one to three now. A year ago, when we looked at our K to 3 results and our 4 to 6 results, we realized that we were coming up a little short on the distribution of those dollars. We were having trouble meeting the target at K to 3. All of the administrators met together and agreed that we would redistribute some of those class size funding dollars in order to put more in the K to 3, and we've had a reduction in the size of those classes.

1:10

What are the challenges of a rural jurisdiction? I would suggest to you that there are some similarities with the larger boards you saw yesterday, but there are some distinct differences. Certainly, the declining enrolment data is significant. If you look particularly at the bar graph, the second from the right, Crowsnest Pass, when we look at about 10 years ago, in about a decade we've gone from 1,150 students to about 670 in Crowsnest Pass today. That's very significant. It had a significant impact on programming, staffing. There have been many challenges there.

Then the next slide, provided by Alberta Education, shows that the projected enrolment is going to continue to decline over the next 10

years. It does level out, it looks like, at about 2020, but that's significant. Tied to that, of course, is the decline in the number of teachers, the staff.

High school programming is an area of concern as well. We have six small high schools. Our largest high school is just over 300 students, 330. Many of the schools that you heard about, I'm sure, yesterday were significantly larger than that. It is a challenge to offer the full range of programs to a high school that is as small as 73. In 2006 – and these are the numbers from 2006 – when you look at 288 in high schools, again that's still a challenge to provide all programs to students.

One of the reasons that cause these challenges is the limited enrolment. If you have a class of seven or eight, financially it's difficult to offer that course to all students in a school. They may need physics 20 in order to complete their career program plans, so that's a challenge. We need to be thinking about alternate delivery methods.

Teacher expertise is sometimes a challenge, especially when we look at things like welding and shop. Because of the decline in enrolment, we often need a .5 of a position. That's a difficult hire. Difficult to recruit somebody with that expertise for a part-time position.

Equipment requirements. Particularly in our shops, much of the equipment there is 35 or 40 years old. It's a concern.

We have diverse student needs. You saw that our population is diverse. Certainly, the cities have diversity as well, but meeting those needs and student interest is important. When we think about equity to all students, providing transportation to the programs that they need in order to meet their career plans is also a challenge.

The other main area of concern is transportation. I mentioned earlier that 51 per cent of our students are transported by bus. The ride times vary from minutes to well over an hour one way. When we look at the average, the average sometimes distorts how long some students are on the bus. We worry a little bit about ride times, particularly for our youngest students. We know that with the cost of fuel there are increased costs, and that is a concern. As our drivers age and living within regulation, it is a concern in order to be able to get drivers. It was a very real concern this past fall for Pincher Creek in particular. We need to ensure students' access to programs and courses within our geography, so transportation is a concern.

I think this captures the main ideas.

The Chair: Thank you very much.

Mr. Dunn, do you have anything to add?

Mr. Dunn: Mr. Saher will read in the same points that we made yesterday, briefly.

Mr. Saher: Thank you. There are three matters in the Auditor General's public reporting relevant to the committee's meetings with school jurisdictions. First, school board budgeting. Volume 2 of our 2006 annual report contained an examination of school board budgeting processes. We made several recommendations to the Department of Education for improving budgeting and interim financial reporting. These recommendations will assist school boards in strengthening governance and accountability processes related to the jurisdictions' financial affairs.

The second matter is assessing and prioritizing Alberta's infrastructure needs. Volume 1 of our 2007 annual report contained an examination of capital planning. This material is relevant to school boards, particularly in the case of identifying, prioritizing, and remediating deferred maintenance. In our April 2008 report at page

215 we produced a summary of management letter points that had been made to individual school jurisdictions. These recommendations fell into the following three categories: financial reporting and governance, internal control weaknesses, and information technology management.

Thank you.

The Chair: Thank you very much.

We will proceed to questions from the members regarding the presentation today and the financial statements that have been provided. We'll start with Mr. Chase, followed by Mr. Fawcett.

Mr. Chase: Thanks very much. While I've never taught down in your area of the country, I did work for Alberta Gas Trunk Line, based out of Fort Macleod, so I have had an opportunity to drive through a lot of that beautiful country. From 2002 through 2004 I worked in the southeast Kananaskis and Cataract Creek and frequently came into Nanton and other southern areas, so I appreciate the beautiful backdrop you have. My experience has been all urban. I'm very familiar with English as a Second Language and immigrant challenges and opportunities. Could you give us a little bit more of a picture of the challenges associated with the federal-provincial funding of reserves and the overall imbalance in terms of resources between reserves and between Hutterite colonies that you service and how you deal with those opportunities/challenges?

Mrs. Elliott: Yes, and I will ask Don to answer that. He has a long history of working with our reserves.

Mr. Olsen: As we indicated, we deal with two reserves, the Peigan and the Blood reserves. How we deal with them is slightly different, even though they're both covered by the same tuition agreement. We have students coming from the Blood reserve mainly into Fort Macleod. We have students coming from the Peigan reserve into Fort Macleod and/or Pincher Creek. For the students coming from the Blood reserve we receive funding directly from the Blood tribe education, whereas the funding that we get for students coming from the Peigan reserve comes through Indian and Northern Affairs Canada, with slight differences in how those dollars are received and how we access those funds.

I believe that over the years we've had a pretty good working relationship with both the Blood tribe education as well as with INAC regarding Peigan students. Some of the concerns that have been expressed recently, probably by the Blood tribe more than INAC, have been issues related to federal dollars flowing to them and the challenges that they have trying to keep up with costs in Alberta when the funding that they receive is linked to federal averages and standards. We've had some discussions with administration from Kainai board of education over the past year and a little bit regarding that and trying to understand their challenges as well as trying to ensure that the needs of those students attending our schools are met as well. There are some challenges there; there's no question.

The dollars that we received starting in 2007-2008 from the tuition agreement have been reduced slightly for some special education programming. Even though those dollars received from INAC and the Blood tribe are less than what they had previously been, our feeling is that a student is a student, and regardless of how they get to our door, we have an obligation to provide the best opportunities for that student. So we have not reduced the services offered even though the dollars have been reduced. We've taken those out of other dollars within the jurisdiction. I guess there are some challenges there that, hopefully, will be sorted out over time. It's a

difficult one. I know that over the last number of years there have been various committees trying to sort out some of those differences without coming to a real resolution, not yet anyway.

1:20

Mr. Chase: You mentioned that the pupil size was shrinking. I know that in the past there have been difficulties with attendance both from First Nations reserves and also from colonies because quite often the students are needed at home to work. This has been sort of a traditional requirement. The Morley reserve has experienced a very positive reverse problem in the sense that they now have more children attending their school than they can physically handle. I'd be interested in hearing sort of the cultural components and the special initiatives directed at First Nations and Hutterite children within the religious restrictions to keep them a vibrant part of the school community.

Mrs. Elliott: We have an Aboriginal Student Success Committee that has met over the last six years and has developed a plan to address the needs of students. They've identified three priorities. One of the priorities is around professional development and cultural awareness for administrators, teachers, and teacher assistants. They have developed workshops that have been presented at schools upon request. Another is the development of more resources. Certainly, with our social studies curriculum the aboriginal perspective has been built in more, and I think that we will see that more and more as curricula are updated. The parental awareness portion was the third goal in our priorities, and we have had school community dinners in both communities, Pincher Creek and Fort Macleod. I think that has helped open up the feeling of: we are welcome in the school. I think it's important that we get parents involved with the school. Those are some of the efforts that we have made.

We also have a program called STAY that has been put in place this past year. Steve has spearheaded that, so I'll ask Steve to speak to that.

Mr. Harris: Yeah. We have a partnership with Alberta Mental Health, and they've provided funds. STAY stands for supporting transitions and youth. We know that if we can keep aboriginal students within our system, we meet with more success. So the purpose of the STAY staff – and there's one staff member in each of our schools in Fort Macleod – is to really support new students who come into the school, whether they're transitioning from the elementary school to the high school. These staff are really just to work with the families and with the students to keep them within our system and within our schools and offer the kinds of transitional supports they need so that they can be successful. We're just now starting the second year of that project.

Mr. Chase: Thank you.

The Chair: Thank you very much.

Mr. Fawcett, please, followed by Mr. Mason.

Mr. Fawcett: Thank you, Mr. Chair. I want to preface my question by saying that I appreciate all the work that you guys do. I'm looking at the audited financial statements. I was a trustee for the Calgary board of education up until recently and dealing with nearly a billion-dollar operating budget, compared to the 40-some million. We had the Edmonton public board in front of us yesterday, and the variance from what their actual revenue was and what they budgeted for last year was actually just as much as your total annual operating budget.

Seeing some of the challenges that you have with high school programming, I'm wondering if you could talk about some of the challenges of being a small jurisdiction and making sure that there are sufficient resources available for the students within your jurisdiction to access all the opportunities that students in some of the larger urban centres are able to access and if that includes, I guess, interjurisdictional co-operation with other school boards.

Mrs. Elliott: I mentioned earlier about the importance of looking at the delivery because when you have small high schools, you need to be creative in your scheduling. You have to be creative in how you deliver programs. There was a time when distance ed materials were used a great deal. Last year we partnered with a school board in the north to deliver French 20 in Fort Macleod because we didn't have the teacher who could deliver that course. So we did offer French 20 by VC, and the eight students that were involved were all successful.

This year we are – well, I'll just roll back a little bit. Last year when we had the funding announcement for the upgrading of the K to 6 school in Claresholm, we found that we really had to look at high school programming because what we do in Claresholm for the high school impacts the two high schools that are 25 minutes away. So that began a series of meetings with student councils, school councils, administrators, and staff in the schools. We heard from them that they want to work together to deliver as wide a range of programs to students as possible. One of the things we did, then, was move the three high schools in the north-south corridor to a common school day. This semester we have the principal and teacher at F.P. Walshe in Fort Macleod delivering physics 20 in Fort Macleod and Nanton. So 13 students from Nanton and seven students from Fort Macleod together are taking physics 20.

I think it's important to be innovative. It's important that we offer our students a full range of courses. You know, hats off to this principal. Huge risk – right? – to offer a course like physics 20 through VC. Because it's only about 35 minutes away, he's gone up and delivered the course from Nanton and had his class come in. He's also bringing all of his students with the Nanton students tomorrow so that they build some kind of bond. Those are some of the innovative ways that we're trying to address the delivery of programs. We're also considering having a teacher, for instance, from WCCHS in Claresholm maybe teaching art in Claresholm and an art program in Fort Macleod. We're not offering that now. We don't have the expertise in Fort Macleod. So we've generated a lot of ideas that we have begun to implement.

Mr. Fawcett: I don't really have a question, as I think my question was answered. I'm glad to hear that we're trying to break down some of those barriers for students to access those programs.

Probably my next question would be going more into policy, so I'll forgo it.

The Chair: Okay.

Mr. Harris, did you have anything to add at this time?

Mr. Harris: I think that Alberta Education is certainly getting out in front of the whole career and technology studies. Right now, for example, a health care aide program: we're now partnering with other jurisdictions around us to possibly hire a summertime coordinator to work and supervise work experience students over the summer because small jurisdictions such as ours can't really afford to do that, but with the help of Lethbridge public or the Palliser school jurisdiction we can start to share some of those supervisory duties over the summer. So with Careers: the Next Generation and the Chinook health region we're looking at those kinds of partnerships as well.

The Chair: Thank you.

Mr. Mason, followed by Mr. Dallas.

Mr. Mason: Thanks very much, Mr. Chairman. Well, I appreciate very much that you took time to travel to Edmonton today to answer our questions. It's very much appreciated. My questions are along a similar line. I was looking at the size of the schools which you mentioned in your overhead presentation and the very extensive busing. I know it's a complex question, but how do you judge whether or not a school is viable, and how do you measure that against other costs like busing. What sort of factors do you take into account when you have to make those decisions?

1:30

Mrs. Elliott: Thank you. The board of trustees has made some difficult decisions over the last number of years. We have closed some schools, but they have made a commitment that there will be a school in each of our larger communities, each of those eight communities. That is their decision, and that frames our work. You know, in small communities the school is the centre, is the heart of the community, and they have lived that commitment.

Don has a longer history around that. Is there something you would like to add to that?

[Mr. Griffiths in the chair]

Mr. Olsen: What they've indicated is that there would be at least an elementary school in each of those communities, so, as Ellie says, that's sort of what we work from. From the facility standpoint the board adopted a plan in 2000. They looked at each of the communities as opposed to looking at individual schools. They went and said: we need to determine what education is going to look like in each of those communities that we serve. So they developed this plan, and since 2000 they adopted that plan. Since then, that is the plan they have worked from in our capital submissions and in the work that we do in trying to ensure, where we have those schools, that those schools provide the services that will meet those students' needs.

Since that time we have gone through some school closures. Fortunately, when we say that, with the exception of one it has never taken students out of their community. In the one situation junior high kids were moved to adjoining schools that were 15 minutes away. Other than that it has been a consolidation program, so where four schools were consolidated into three schools or three schools consolidated into two schools type scenario, with an attempt to try to keep those kids in their communities. We've gone around the jurisdiction over the last year or so and talked to parents and students. It became quite clear to us that that's what they want to see.

With that, there's no question that there are challenges. Talking about transportation. I mean, the longest bus ride that we have for any student is just under two hours. It's an hour and 54 minutes, a long time, one way. I mean, how do we get that student who lives way out there without sending one bus to pick up one kid? Our average ride time is 28 minutes, so obviously there are a number of students who reside close to those schools. But for those individual students who live way out in the boonies somewhere, it is a challenge in order to accommodate those situations. It's an attempt to try to balance that, recognizing that the program needs of students have to be met. How do we do that without long ride times in order to get them there?

The Deputy Chair: Thank you.

Mr. Mason.

Mr. Mason: Thanks very much, Mr. Chairman. For my supplementary, I'm curious about the attitude of parents towards the same balance of having a school in the community which may not be able to offer the programs and the resources versus having their child travelling on a school bus for an extended period of time. I'm also interested in how you accommodate the parental and community input into decisions when you do decide you have to look at a school closure.

Mr. Olsen: Input from parents is critical to the process. I mean, there's no question that trying to determine what their child needs, they need to be able to provide that input into it. So the board has a school closure process that we follow. Where it's deemed that there may be a need to look at and explore some options for those students residing in that community, we commence with a process that involves public meetings, that involves advertising and trying to receive that input.

Like I say, we've been through a number of school closures over the years. If any of you have ever been to a school closure meeting, they're not ones that one enjoys being at necessarily. But it's important to receive that input, and it's important to be able to provide the information so that they understand what the needs are. So when boards have to make difficult decisions, at least there's some understanding, fortunately, I believe, even though we've gone through some of these closures, and acceptance of the rationale and the reasons behind it, being that it's in the best interest of their student.

We have some situations where we do provide some choice for students. Some of that's historical, where students from one community could receive transportation to a high school in another community as long as they took certain courses that could not be offered within their local community. That has been going on since the late 1960s, recognizing that there are costs associated with that, trying to transport kids. It's a challenge we face, so we're in the process this fall of reviewing our transportation policies and our issues to see whether that's something that we can continue or how we deal with that long-term to meet those needs.

The Deputy Chair: Thank you very much.
Cal Dallas, followed by Mr. Chase.

Mr. Dallas: Thank you, Mr. Chair, and thank you, folks, for coming from one of the most beautiful places in our province to share with us today some of the challenges that you have in operating a rural school division. Certainly, we're more mindful of the kinds of logistical and operational challenges that you're facing that we've been discussing, but I want to discuss another area, and that is around the student populations that I think are a challenge and where you go from here.

Most certainly we're impressed by the high school completion rates that you have. Also, you indicated that your students are showing a great deal of interest in postsecondary. One of the most difficult things about a rural area that perhaps is suffering from some population decline is watching your best and brightest migrate to urban areas or away from your communities that ultimately could stem the erosion in terms of the student population. The question is: do you have partnerships with postsecondary institutions, with business organizations, with other community organizations that are identifying and working with you to provide experiences that would not only encourage participation but also to ultimately create entrepreneurial business opportunities to retain those best and brightest that you're graduating?

Mrs. Elliott: All right. I'll ask Don to speak to the business side of it.

Mr. Olsen: We do have partnerships with various businesses within the communities, so opportunities for students to go out into some of those local businesses for work experience – RAP, registered apprenticeship program – where they can receive some of the training and also receive some of the credit towards their post-secondary degrees. Small communities are wonderful in that they try to support their schools. They try to support their students. They know who the parents are. They know who the kids are oftentimes. So we have good relationships and good opportunities with the local businesses to do some of those things.

Mrs. Elliott: You'll see how we differentiate our different work.
As far as programs are concerned, Steve, do you have anything to add?

Mr. Harris: Yes. We have a very strong relationship with Lethbridge College, and in the past and currently and into the future we work closely with them around career transition studies, particularly in the areas of the trades. They have actually brought instructors out to our school to work with our staff and also plan for equipment changes, classroom design. We've just established an advisory group made up of representatives of the business community, Lethbridge College, Employment and Immigration, as well as parents in the community and students to look at that whole career and transition studies process and what we need to provide for our students in the future and how both community partners and postsecondary partners can support us in trying to deliver all the programs that our students need.

The Deputy Chair: Thank you very much.
Mr. Chase, followed by Mr. Benito.

Mr. Chase: Thank you. You mentioned a problem that a lot of school boards are facing, and that's the aging equipment. Thirty years for shop programs. There's expense associated with the new CTS programs as well in terms of computers and upgrading and software.

Another problem you're facing is the age of your infrastructure, and that's where my question lies. On page 12 of the three-year education plan it states that the division did not receive approval by the government for any of their capital priorities in 2005, and it seems as if only one, the West Meadow school modernization, of 11 listed priorities has been promised funding by the government. What reason was given by the government for not approving funding for the other priorities, and how has this lack of funding impacted the division's ability to provide adequate learning and educational resources for your students?

1:40

Mr. Olsen: I think part of that, again, goes back to the jurisdictional plan. The board accepted that plan back in 2000. It looked at each of our communities, which, then, thereby covers each of our schools. Of all those priorities that were there, each of our communities has been identified in some fashion, excepting those who have received modernizations and/or new schools over the last four or five years.

We appreciate the work and efforts of both Alberta Infrastructure and Alberta Education in supporting our plan. Recognizing that there are limited dollars province-wide in order to meet facility needs, we believe, working cooperatively with both Infrastructure and Alberta Education, that they understand our needs and that our

priorities will be put in perspective relative to other priorities across the province.

Mr. Chase: Thank you. I'm definitely not trying to put you on the spot. Having deep faith, I'm sure, is absolutely necessary in all divisions. But has there been any recent commitment by Alberta Education to fund any of your listed priorities? If not, how has the board creatively reallocated funds for other initiatives in order to make due with what you've got kind of thing?

Mr. Olsen: In August of 2007 we received approval for modernization of West Meadow school, which is currently a grades 4 through 8 school in Claresholm. That school was part of a consolidation plan within the town of Claresholm to go from three schools to two schools. The board has already gone through a school closure motion related to that four or five years ago. Once we get modernization of that school and then are able to turn it into a K to 6 school, we also need modernization of the high school in order to be able to take the current elementary school out of our needs. In 2006-07 that process began with, you know, \$10.4 million approved for West Meadow school. We just finished going to tenders, and that went through CRC approval, my understanding, last Wednesday with Alberta Infrastructure, so the process continues on.

The Deputy Chair: Thank you very much.
Mr. Benito, followed by Mr. Mason.

Mr. Benito: Thank you very much, Mr. Chair. I'm just interested: on the 12 Hutterite colony schools there are 223 students there. I'm just curious: how do they perform? Where are the schools located? How do you administer it?

Mrs. Elliott: There are 12 colony schools. Each one has a teacher-principal, and many of them also have a classroom assistant, a teacher assistant in the school. They are located right on the colonies. The teachers come to the colony and teach there. This year we have moved to a half-time colony principal. In the past Steve and I each supervised six of those colony schools. Given our geography, we spent a lot of time on the road to spend time in those schools, so we have a half-time principal who works with all of those schools. He would then have 12 teachers and about five TAs and operate it as if it was one school. Each of the teachers is responsible for all the programming in grades 1 to 8.

The Deputy Chair: A follow-up question, Mr. Benito?

Mr. Benito: I have a follow-up question. I'm just curious also: if there is a school closure, I know what happens to the schools here in Edmonton, but in your area what happens to those sites?

Mrs. Elliott: Don, will you speak to that?

Mr. Olsen: We work closely with the municipalities in situations of recent school closures. In Pincher Creek we closed a K to 3 school. We also had a K to 6 school in Pincher Creek. When we closed that school, working with the municipality, the town of Pincher Creek had an interest in that site to transform that school into a town office, so that school was sold to the town for a dollar.

In Crowsnest Pass four years ago we consolidated from four schools to three schools, again working with the municipality. The municipality had an interest in that site, so again that school was turned over to the municipality for a dollar, recognizing that for us to dispose of some of those sites would require – there was discus-

sion yesterday relative to the whole asbestos issue. The cost associated to the school board of undertaking that sort of got passed on to the municipality because, obviously, when they're going to do those modernizations and whatever transformations, they're going to have to deal with those costs. That's historically how we've dealt with it.

Within the town of Claresholm, as I say, we've gone through the school closure process. The town of Claresholm also has expressed an interest in taking over the school once it is no longer needed within our inventory to use as a town office, other offices within the community.

Basically, that's how the board has looked at it. If the town has an interest in it, then they would have that opportunity.

The Deputy Chair: Thank you.
Mr. Mason.

[Mr. MacDonald in the chair]

Mr. Mason: Thanks very much. This is not really an issue that's sort of top of mind, but it's something I've been interested in for some time. It has to do with the whole question of home-schooling. It seems to be something that's growing, at least in some of the larger urban jurisdictions. I'm curious to know whether it is a common thing in your school jurisdiction, whether there are changes over time to the number of children that are being home-schooled.

Mrs. Elliott: I'll respond to that. We have very few students who are being home-schooled. To think back to the number in that year, it's somewhere between two and six. I think it was two. But we do notice that in the towns of Fort Macleod and Nanton, for instance – Fort Macleod is close to Lethbridge; Nanton is closer to Calgary – sometimes we would have students maybe take other options to go to another school that's close enough outside the jurisdiction. But not many are home-schooled.

Mr. Mason: Okay. Do you track how they do relative to students that stay within the system?

Mrs. Elliott: A student that goes to another system?

Mr. Mason: No, no. Home-schooled.

Mrs. Elliott: Yes, absolutely. They're monitored by their school.

Mr. Mason: How do they compare?

Mrs. Elliott: I would have to go back and look at those two students that year. I don't have that in my hands. Sorry.

Mr. Mason: Just two. Okay. Thanks very much.

The Chair: Thank you.
Mr. Griffiths, please, followed by Mr. Chase.

Mr. Griffiths: Thank you very much. Where am I going to start? Looking at performance measures on diploma examinations, they're very consistent. They seem to meet provincial targets or exceed provincial targets in all categories, and that's very impressive. I'm proud of that.

On the grades 3, 6, and 9 provincial achievements tests they seem to be consistently a bit below average. Now, I'm not being critical. If everybody met the provincial average, there would be no provincial average. It would be higher. There's always room for improvement. What I'm wondering is what protocols, what process you

have in place to maybe evaluate why the averages are a little bit lower and what you can do to help the students improve them.

Mrs. Elliott: I'll ask Steve to speak to that because he has the lead on school improvement for our jurisdiction.

Mr. Griffiths: Sure.

Mr. Harris: A great deal of time has been put into analyzing all the data that we take in, everything from provincial achievement tests to course completion rates, teacher awarded marks. That data has all been torn apart to look at: where do we seem to be falling down? We do that in total and absolute collaboration with our classroom teachers.

Certainly, one of the issues around grade 9 literacy rates, for example, was: do the teachers who teach a grade 9 science course teach literacy within the context of that course program? The same with math or social studies. So for the past two years one of our major initiatives is to get classroom teachers to learn some literacy skills and to see themselves as reading teachers to try to address some of the reading issues that some of these students are encountering within their classroom. I mean, the real theme is that all teachers are reading teachers.

1:50

Certainly, literacy has been a very big focus, so ensuring that teachers are using the current research around effective reading instruction: a great deal of time has been put into professional development in those areas. Enhancing our learning support services: you may know that as special education, but really working as teams within schools so that teachers don't work in isolation to meet student needs but, rather, work as a member of a team to support students in their learning.

We're certainly starting to see our literacy rates go up in language arts in 3 and 6. We're starting to see some changes as well in math.

Mr. Griffiths: I have to say it's one of the most impressive comments I've ever heard. I pointed out that when I was in university taking organic chemistry, it wasn't so much learning how to do the chemistry; learning what the professors were talking about was three quarters of the battle. Very impressive.

In your presentation you had presented that you measure parent involvement and work on improving that. Besides a satisfaction survey between the teachers and the parents, how exactly do you measure parent involvement? Do you have some output measures or outcome measures that show how parents are engaged and how much they participate, or is it a perception survey?

Mrs. Elliott: We do have a Livingstone Range satisfaction survey that is conducted. Initially it was conducted biannually with parents, annually with teachers and support staff, and biannually with students. We've moved to an annual satisfaction survey. The province conducts a satisfaction survey as well. We certainly make an effort to engage parents at the school council level and at regional school councils.

Mr. Griffiths: Can I follow up on that?

The Chair: Sure.

Mr. Griffiths: Do you have some way of measuring whether parents are getting more engaged, or is it the satisfaction survey where teachers say: yeah, parents are engaged enough? Do you have some qualitative measure?

Mrs. Elliott: We ask the parents directly about their engagement and their level of satisfaction with engagement in the school, and the parents have indicated to us and we showed earlier that that is an area of concern. Parents, particularly of students from about grade 7 and older, have indicated that they feel they aren't as involved in their child's education as they would like to be.

Mr. Griffiths: Well, that's not just your jurisdiction. That's everywhere.

Mrs. Elliott: I don't know that some of the students aren't unhappy about that.

The Chair: Thank you.

Mr. Chase: Just in terms of keeping students involved and healthy mentally and physically, we'll continue to push the concept of the Andy Russell I'tai Sah Kòp park idea. I think that would be a benefit for all southern Albertans, all Albertans, and the world. That was the infomercial.

In the first schools in Alberta we had one-room schools. You know, you rode your horse or you got a ride on the wagon or whatever. In terms of this distance, the two-hour potential trips, has there been any idea of revisiting the modular new version? I'm not talking about P3 financing; I'm talking about a satellite school where you have a core and you have attachable/detachable. Yesterday, for example, when we talked to Calgary Catholic, they talked about the fact that they had 600 portables which, before they aged, they were actually able to shift back and forth. Have you had any success with that satellite school idea in terms of potentially getting kids off buses or at least on shorter bus rides?

Mr. Olsen: Currently we don't have any modulars or portables in our system at all. We had eight at one of those schools in Crownsnest Pass that was part of that consolidation where we took away one school, and the eight portables attached to another school were taken off that school as well.

We haven't really looked at putting modulars out in the rural areas. I don't want to leave the impression that we have a number of students who are riding the bus for an hour and 54 minutes. That's the longest one. We obviously have a number of students who ride the bus an hour, but there's not a number of them that are out there for almost two hours.

No, we haven't looked at adding additional sites.

Mr. Chase: It's extremely important – and I know this as a teacher and as a parent and a grandparent – to keep siblings together. So the K to 8 type of school is an opportune size kind of thing so that the little ones have somebody to ride with on the bus and, you know, keep track of them. Has that been tried out? I know that when you've had to consolidate, you've probably gone that route, but do you have the sort of K to 8 and then to attract the need for the CTS and the high school, put potentially junior high and senior high together in a building so that you can maximize the option in the CTS instructions?

Mrs. Elliott: We have a real mixture of schools. In Stavely our smallest school is K to 6. Granum is K to 9. Claresholm will have a K to 6 and then a 7 to 12. Yes, in many instances we have either K to 6, K to 7, and then the junior high, high school together.

Mr. Chase: Thank you.

The Chair: Thank you very much.

Mr. Jacobs, please.

Mr. Jacobs: Thank you, Mr. Chairman. A couple of questions, the first one relating to native students. How many native students of the number you mentioned actually live on one of the reservations? Of those, does the federal funding you receive for those native students go to the band, or does it come direct to the school board?

Mr. Olsen: Of those approximately 270 students that we talked about, they are all students residing on reserve. In addition to those, we have other students who reside in town for one reason or another. Relative to the funding for those 270 students, if those students reside on the Blood reserve, we receive the money from the Kainai board of education. So they receive the money from the federal government, and then they, in turn, pass the funding along to us for those students who we school and educate.

Mr. Jacobs: Is that amount consistent with what it should be, or is it less because it goes through the band?

Mr. Olsen: It's based on a tuition agreement. In our situation those tuition agreements – I mean, similar to what happens in Cardston. Those tuition agreements are old agreements and somewhat outdated in terminology, but the essence of it is that they're based upon an average cost per student jurisdictionally. When calculating that average cost per student, certain costs are taken out of that such as transportation because both the Peigan band as well as the Blood tribe are responsible for getting those students to our door. We do not transport their students, so transportation costs are taken out when determining what the average cost per student is. In essence that's how the calculation of the tuition rate is determined as an average cost per student for all of our 4,000 kids.

Mr. Jacobs: Thank you. The second question relates to declining enrolment. You already stated that you're trying hard as a board not to close any more schools than necessary or any more schools. Given that the cost of educating students, you know, is still important and still there, how do you budget for the fact that you're going to maintain small schools which may have not very many students per teacher? As a board, if you're going to continue to do that, how do you consistently budget for that?

Mr. Olsen: We receive funding to the school board. The school board then determines how the allocations to individual schools are going to be made. We have formulas that we use to allocate those funds out to the various schools. For the most part our schools are site based. The schools are responsible to pay for the costs of salaries for teachers, support staff, et cetera, so part of the allocations go to cover those costs.

We have formulas. We have an allocation formula that the board has asked us to revisit every second year, in essence, to see whether it is working and meeting the needs of all of our schools. We have a committee made up of representation from the various schools so that their views and their needs can be brought into play. Fortunately, even though they have their own interests, the schools recognize the interests of all students within Livingstone Range school division, so they have come up with a formula that is deemed to be equitable to all schools and recognizes the needs of the small school, whether that be Stavely with 68 kids, whether that be our biggest school, that has 400 kids. There's an interest from all schools and administrators, and as this committee goes through its work, input is also sought from school councils from all those

communities as well. There's an interest from all schools to try to maintain some sort of equitable programming, recognizing that may mean some school gets more per student than another school gets.

2:00

Mr. Jacobs: Thank you.

The Chair: You don't have any additional questions?

Mr. Jacobs: Well, I guess the additional follow-up would be that, you know, my experience in this situation in schools across the river is that in some communities, when they get down to the point where they don't have enough students to really justify the number of teachers they want, even though the board continues to try to keep the school open, sometimes you have two teachers dealing with 50 students. That's a budgeting problem for the board, and I understand that, but it sounds like you work through that in a collaborative way and that you've satisfied all that and that as a board you rely on that public input to balance it. Would that be fair?

Mr. Olsen: Yeah. I think that's an important part of it. Obviously, all schools, whether that be staff or people within the community, would like as much money as they can get, recognizing that the pot is limited and there's a need to be fair and equitable to that in order to meet their needs. Again, in Stavely's situation with their 68 kids those parents, I guess, would have the option if they want, if they don't feel that their needs are being met there, to transport their kids themselves to another community. For the most part they don't do that because a small community is supportive of their school, and they want to see their school maintained as long as those students are getting their needs met, and I think that they feel that they are.

Mr. Jacobs: Thank you, Mr. Chairman.

The Chair: Thanks.

Teresa Woo-Paw, please, followed by Mr. Chase.

Ms Woo-Paw: Thank you, Mr. Chair. I'm interested to know what contributes to the \$900,000 to a million under Other Sales and Services for the past two years as well as the substantial increase in investment income for 2007.

Mr. Olsen: There are a number of factors involved related to other sales and services. One of those would be a wind power project that Livingstone Range school division is involved in along with two other boards in the south. That program started in 2006-2007 based upon a need to deal with long-term energy costs for the board and to try to come up with some sort of budget certainty for the board to deal with those situations. In conjunction with the other boards and working with Alberta Infrastructure, Alberta Education, science and innovation – Sustainable Resources and a couple of other MLAs were also involved – the three boards received some funding attached to that.

We're involved in this wind power project where we have a 20-year agreement with a supplier at a set rate for those 20 years so we know what our rate will be for those 20 years. Part of our involvement is some initial investment into not a windmill per se or an individual wind farm per se but sort of an equity share into wind generation. We receive a return on investment as well as receiving back our funds that we put into that. Those dollars are in those other sales and services as well.

Ms Woo-Paw: What is the role of the school or the school system in that project?

Mr. Olsen: In order to ensure budget certainty for energy costs.

Ms Woo-Paw: So it's an investment.

Mr. Olsen: Well, it's to ensure budget certainty. Utilities are a major part of our planned operations and maintenance costs, so to try to have some knowledge of where that is going to go over the next 20 years.

Ms Woo-Paw: That's the contributing factor to both the sales and services and investment income?

Mr. Olsen: It's a major part of the investment income part of it. Under Other Sales and Services there are a number of items related to schools. I can just pull that up and give you some idea as to what all goes into that. There are cafeteria sales in our high schools that makes up \$220,000 of that. There are additional school revenues. We have some CTS programs where there are revenues attached to that by working with the public. We also have some partnerships from FCSS programs within the local communities where they contribute dollars towards speech assistance programs, family-school liaison programs within our system. Wind power, obviously, has a major part to play in that as well.

Ms Woo-Paw: Do I have one more question?

The Chair: Sure. Mr. Jacobs had one more as well.

Ms Woo-Paw: Okay. My second question is around personnel. Given the very unique demographic for your school region, I'd like to know: how reflective is the workforce to the demographic of your students?

Mrs. Elliott: I presume you're talking about the aboriginal population and Hutterite population in particular. I would say that at this point in time we have one teacher and one administrator of aboriginal descent. There are no Hutterite teachers.

Ms Woo-Paw: Do you see that changing in the foreseeable future?

Mrs. Elliott: I'm hopeful to see a change there.

The Chair: Thank you.

Mr. Chase, please.

Mr. Chase: Thank you. I'm going to do a follow-up. I can't resist the line, "The answer, my friend, is blowin' in the wind," a favourite '60s song of mine.

In the cities a number of school boards in an attempt to be creative have gone into a variety of partnerships. Those schools that have strong parent committees have been forced into the circumstances of casinos for guaranteeing a set lump of money. If you've been successful through the Enmax project – and you've obviously had government blessing – I support you for your creativity.

Constant funding in your three-year or your five-year or your 10-year plans: to what extent has that been a challenge, and have you had other creative ways of trying to fund raise beyond the dollars provided by the Ministry of Education?

Mr. Olsen: I'm trying to understand exactly your question. I mean, in regard to planned operation and maintenance and funding issues or in general?

Mr. Chase: Just funding in general. This was a very creative approach, an investment that gave you 20 years of stability and also some financial returns on the investment. I'm sort of pushing a bit of a partisan question here in that you were potentially forced to be creative in terms of securing long-range funding. Have you other projects and creative manners of combatting or supplying your five-year or 10-year infrastructure or program plans for your schools? This is the most creative approach I've seen in any of the school boards I've dealt with, and I'm just wondering what other creative suggestions you may have tried for funding support, corporate partnerships, and so on.

Mr. Olsen: I mean, there are corporate partnerships, whether we talk about FCSS and utilizing community resources where they provide funding. Alberta Mental Health provides some funding, those sorts of things as well. The wind power one probably stands alone in that type of a situation. It was a need in order to be able to provide us with funding for planned operations and maintenance, to help us to deal with the costs that were related to that. We have all sorts of other situations where we have societies being formed in some of our communities whereby they raise funds and then donate those funds to the local school to be able to utilize those dollars as well. So there are funds being raised by some of these local societies and then turned over to the schools.

Mr. Chase: It was probably up in the bar graph, but what percentage of your overall budget requirements do these extracurricular, creative fundraising projects cover?

2:10

Mr. Olsen: If we look at school-generated funds, I mean, they're approximately a million dollars out of our \$45 million budget. There are various parts to those school-generated funds, whether that be fundraising, whether that be donations. We have a number of our schools where scholarships are an important part of ensuring that all students coming from that local community have opportunity to go into postsecondary. There's a great deal of interest in the local community in trying to support that, so there's a significant amount of dollars being generated as school-generated funds in order to be able to provide those scholarship opportunities to students.

Mr. Chase: Thank you.

The Chair: Mr. Griffiths, please, followed by Diana McQueen.

Mr. Griffiths: Right. Questions. I had lots. Let's see. Two questions. I always ask this first question to everybody. There are satisfaction surveys, which are really perceptions of how well somebody is doing; there are output measures on how many students graduate and that sort of thing, which are also very meaningful; and then there are outcome measures, that measure more the true performance. I always encourage everybody to do their best to try to move to the next level of performance measures, from satisfaction surveys to outputs to outcomes. Is there a process in place that the board has or management has to try to continually improve the performance measures that are done by the board?

[Mr. Fawcett in the chair]

Mrs. Elliott: I think that as we work on our school improvement and identify what our priorities are, certainly the goals within that and the outcome measures within school improvement are clearly articulated. I know that depending on the project, different measures were used.

Steve, if you want to speak to some of the AISI measures.

Mr. Harris: Yeah. I think your point is well taken. As schools move into more of this accountability framework and outcome-based measures, I think our measures over time – if you look at our AISI projects, for example, or our school improvement plans from 10 years ago and look at them now, I think you'll see that our outcome measures are far more sophisticated and far more real and, hopefully, more holistic in the sense of looking at the whole student rather than just a small sliver of how they're doing.

Satisfaction survey data is soft. I think everybody recognizes the strengths as well as the weaknesses of that kind of data, and I think it behooves us to try to move to very clear, measurable outcomes. That's always our goal.

Mr. Griffiths: Yeah. Good. Thank you. They're all important. I'm not saying they're not. It's important to know how your clients feel. Thank you.

Now, you mentioned AISI. I know that the province has provided all school jurisdictions with AISI funding to try to improve performance. The purpose of Public Accounts is to account for public dollars. The best way we can do that is to ensure we're getting value for every dollar spent. In terms of AISI or other programs what's the board doing? I didn't notice anything in particular. Do you do value-for-money audits to see if the money that you're putting into a program or a particular initiative is actually paying off in concrete benefits?

Mr. Harris: Absolutely. Our board and our staff and our families believe in the Alberta initiative for school improvement. Again, it's a different way for teachers to look at their work. I think that it takes time for people to reframe and to look at education with those kinds of very specific outcomes and that accountability framework. We see it all the time when we meet with teachers and with principals where they're getting it.

I don't know what we'd do without AISI as a jurisdiction. It really does provide us with the seed money that's very focused on dealing with very measurable outcomes and enhancing how we provide professional development, reframing how we provide professional development. I think that over time we're going to see huge growth and investment into system capacity. I just think it's going to take a little while.

Mr. Griffiths: Thank you.

I was a teacher, so I know how important AISI is. It's exceptional. It means a lot to us, to the government, and I'm sure to yourself and your clients if, when you do a value-for-money analysis, you can show that for \$100,000 we get this much benefit, for \$400,000 we get four times the benefit, and for \$800,000 we're only getting three times so that we can actually see what value we're getting for every dollar that's put in. I know it's difficult to measure, but are you working on strategies for that?

Mr. Harris: It's best to give you a specific example. It's really complex, and to say that for every dollar that we put in, we're going to get this out the other side – I wish it were that simple, but I don't think it is. Alberta Education used to identify priority schools within school jurisdictions. Three years ago they identified three schools within our jurisdiction, all three schools with a high aboriginal population, and those schools specifically took their AISI dollars to focus on literacy for a certain group of students, the students that were falling between the 25th and 49th percentile, so students that just were slightly below grade level. Huge growth in those two schools, to where if Alberta Education used those definitions around priority schools, they would not see these schools as priority schools

anymore. These are schools that for over five years were consistently scoring below the provincial average on provincial achievement tests and as of this past June are both above the provincial average on language arts achievement tests.

Mr. Griffiths: That's value for money.

Mr. Harris: That's value for the money.

Mr. Griffiths: Excellent.

The Acting Chair: Thank you.

Our chair has had to step out for a minute, and our vice-chair was asking a question, so I'm now in charge. I don't know what that makes me.

Mr. Chase, followed by Mrs. McQueen.

Mr. Chase: Thank you very much. I'm wondering how successful you've been in reducing class size according to the Learning Commission and also, as part of the question, if you've been able to offer, for example, either full-day kindergarten or half-day junior kindergarten through local funds. I know you probably haven't received much in the way of provincial support. That's my first question.

Mrs. Elliott: As far as class size is concerned, in 2007 we met the requirements in grades 4 to 6, 7 to 9, 10 to 12. We moved in the right direction in K to 3; we went from 20.3 down to 19.3. That's been further reduced because, as I mentioned to you, a year ago when we looked at that, we thought we were not meeting that target of 17, so we have moved very much in that direction. It doesn't mean that every school is going to meet the average, but as a jurisdiction we are working toward the average. We may be still slightly above this year, but certainly we have hired additional teachers at the K to 3 level.

Mr. Chase: That K to 3 level has presented a tremendous challenge across the province, and of course with not only the increase in birth rates but also the moving to Alberta, it's an ongoing challenge.

The other has to do with departmental exam results and releasing. A number of the First Nations – and I very much agree with their rationale – do not allow their departmental exams to be released. They feel that it's the equivalent of putting salt in the wound, and, like myself, they believe that departmental exams are an economic test as opposed to necessarily an educational test. Because your children go to community schools, I'm assuming that their combined results are part of the announcement as opposed to being separated out.

Mrs. Elliott: Yes. They are included with the jurisdictional results.

Mr. Chase: Thank you.

The Acting Chair: Mrs. McQueen.

Mrs. McQueen: Thank you, Mr. Chair. First I want to commend you. I think that your division is doing an excellent job. In areas, as we travelled with the minister earlier this year, the high school completion rate seemed to be more of a problem throughout the province. You've got some learnings there perhaps that we can learn from as well, and you might want to touch on some of the things that you're doing to have those high school completion rates so high.

The other thing I wouldn't mind if you'd touch on is that as you're looking into your long-term planning – and you've got out to 2020, where you're seeing the declining population – what kind of plans are you putting in place, especially with regard to high school education, to make sure that those students will be able to receive a quality education, continue to receive a quality education, and be able to receive the kind of education we would expect for our high school students, whether that be in the area of technology? Are you working with Alberta Education with regard to some of the challenges that you have today but probably more so the challenges you're going to see in the future with that declining population?

2:20

Mrs. Elliott: Thank you. I think I'll start in reverse order.

Mrs. McQueen: Sure.

Mrs. Elliott: Technology is incredibly important in a small jurisdiction. Yes, we certainly have worked in partnership with Alberta Education with laptop projects, with innovative dollars. We're doing a project now looking at a software product called Pinnacle, that is going to allow us to report better to parents, which actually meets that other concern of parents being informed and knowing how their students are doing.

Certainly, I believe education is valued in our rural communities. Parents and students want to finish high school, and certainly our high school completion rates are strong. When we look at the data and go beyond three years to four, they jump dramatically. For those students who leave school, they tend to return to school, so we have very strong stats there as well.

I believe in that commitment to education, whether that's the family or schools saying: what is it that we need to do to ensure that we put the supports in place? We have very strong learning support, a belief in inclusion first of all, and a belief that we need to put structures in place that meet students' learning needs and learning styles. Steve spoke earlier about learning support teams. Those learning support teams put structures in place and support in place for students, whether that's counselling support, whether that's teacher-assistant support, whether that's programming, looking at alternate programming, whether that's work experience, CTS. It's not easy because of the range of needs as well as the range of programs, but there is a commitment by staff to meet student needs, and I think that's the driver.

Mrs. McQueen: Excellent.

Just one follow-up. I commend you for sharing your staff and doing the video conferencing and working in that direction. I guess I would ask you: into the future how do you see what kind of technology or what other kinds of means do you need to meet those needs with the declining population?

Mrs. Elliott: I realize that I overlooked. We did have a partnership with the Calgary board of education, and students did take some courses online. Certainly, I believe that video conferencing is going to be one of the ways that we are going to be able to continue to offer the range of courses in the future, with the sharing of teachers. I mean, it's hard for us to know. We know what our 21st century learner looks like. I think our pedagogy in the classroom and how we deliver courses is going to change dramatically over the next 10 or 20 years. It's hard to even imagine what it's going to look like. We have lots of our teachers that have taken their master's online, without ever going to a university. I think we're going to see some of those trends move into our high schools.

Mrs. McQueen: Good. Thank you.

The Acting Chair: Mr. Chase, followed by Ms Woo-Paw.

Mr. Chase: Thank you. I may have part of the answer to my next question. You're obviously very appreciative of AISI funding. I'm sure it's a challenge to write up those funding requests on a regular basis. In terms of the value for money business, special programs like STAY have obviously been very successful, and you can tell by the number of kids who are still in the system and the marks they achieved and so on.

I'm just wondering. On page 4 of the unaudited schedules there didn't seem to be an expense reported related to the children and youth with complex needs initiative. Maybe these were captured under programs like the STAY or special AISI programs. You know, I'm sure there are the odd special-needs children in your group.

Mr. Olsen: Those funds are covered elsewhere in ours; I mean, the funding related to children and youth with complex needs. There is funding from the province. We don't as a jurisdiction qualify for those types of funds, so that's why we don't report them. Obviously, we do have, you know, special-needs students, so they're reported under other areas, whether that be mild, moderate, or severe or whatever it may be.

Mr. Chase: We heard yesterday that the Calgary Catholic board was in the enviable position of having 15 full-time equivalent psychologists. In order to get kids coded, you have to have them tested. What's your psychologist ratio for your system in order to identify and then receive funding for special needs?

Mrs. Elliott: We had one educational psychologist on staff last year. We weren't able to provide all of the services. We have had contracted services as well as that. We have moved to a model that is all contracted services for psych assessments. The reason for that is that given our geography, it is very difficult for one person to follow up on the requests in a timely manner, so we will use contracted services this year.

Mr. Chase: Thank you.

The Acting Chair: Ms Woo-Paw, followed by Mr. Chase if he so chooses.

Mr. Chase: Please.

Ms Woo-Paw: Thank you. I had the same question as Diana earlier. I also am very pleased to look at your, I guess, better results than the provincial average in terms of dropout and completion rates. I'm also curious as to the characteristics of the 20 to 25 per cent that do not complete even after five years, between the dropout and the completion. Who are the kids who are not completing?

Mrs. Elliott: I would say to you that we certainly lose a number of aboriginal students between grades 9 and 11. Keeping our aboriginal students in school is complex, as Steve said earlier. When we think about our Blood students, they have five different systems, not schools but systems, that they can go to. They can go to school on the reserve, they can go to Lethbridge, they can go to the Catholic system in Lethbridge, they can go to Livingstone Range, or they can go to Westwind, and some of them move in and out of systems. When I think about Pincher Creek, we have students that can go to

four different schools, so sometimes our students transfer in and out. That's a challenge.

Ms Woo-Paw: Okay. The other has to do with the declining demographic in programming. I'm interested to know: what kind of plan do you have in terms of providing kindergarten and arts programs, second-language learning opportunities for students in your area given, you know, the challenge of geography and population?

Mrs. Elliott: Steve actually is a very creative person. When he was principal, he did something very creative in one of our schools, so I'll ask him to speak to this.

Mr. Harris: Oh, my goodness. I can't remember. I'm in trouble. Give me the question one more time just so I cover every piece, and it'll give me a chance to think of what I did creatively.

Ms Woo-Paw: I'm just thinking about the arts programs and second-language learning opportunities. You know, we really want to make an effort to provide a well-rounded education to our kids regardless of where they live in Alberta. Also, I believe in early literacy and the opportunity to provide kindergarten programs to young learners. I'm just wondering: given your challenges and also projecting that your population may continue to decline, how are you going to provide those programs to the kids in your area?

Mr. Harris: Partnerships, partnerships, partnerships. In rural Alberta that's the key to our survival. At the ECS level it's about working with private daycares within the communities; it's sharing facilities. For CTS we're currently really involved in a blue-sky process, as I mentioned earlier, with Lethbridge College, with businessmen, trades groups, and communities, where we're trying to look at: what will it look like? What can CTS programming, the career and transition studies program, look like over the next 20 years, and what's the best way to respond to that through delivery methods and getting teacher expertise and up-to-date equipment?

The arts and music. Right now, again, schools are bringing in outside volunteers to support. When they don't have the necessary talent, for example in music, they bring in parent volunteers, community groups. We're currently working on a project with the Empress Theatre, which is a professional theatre group in Fort Macleod. When international professional acts come into the town of Fort Macleod, we have an arrangement and agreement that they will come around to our schools to provide experiences for our students and work with our teachers so that they can enhance their instruction.

It all comes down to partnerships and thinking outside the box to release the key.

2:30

Ms Woo-Paw: Thank you.

The Acting Chair: The last speaker that we have on our list is Mr. Chase.

Mr. Chase: When I taught school, I majored in French and art – I'm following up on Teresa's question – but I also coached wrestling for 25 years and a variety of other sports. With 51 per cent of your children on buses are you able to offer sports programs beyond the intramural or through, you know, shared parent transportation and so on? Are you able to give kids the sort of larger team and sports and competitive opportunities? If so, how do you accomplish it?

Mr. Harris: If you've ever been to small-town southern Alberta, boy, the sports teams are where it's at. Just hit a basketball game anywhere in Livingstone Range or Westwind: huge community support for extracurriculars, and parents find ways to transport their students to and from competitions and weekend tournaments. Somebody mentioned fundraising earlier. It's really around that extracurricular piece to provide every student the opportunity to be able to participate. Extracurricular sports and band programs and singing and video programs are alive and well.

Mr. Chase: It's been my experience as well as a core teacher that it's the options and the sports that keep kids coming back, particularly where I taught the majority of my time, in junior high school, so I'm pleased to hear that those programs are alive and well.

My question would be in terms of involvement by parents on parent councils, again with the transportation. You can get parents to come to a social activity or to a game a whole lot easier. Have you been successful in involving parents, even though there are miles of driving involved, in being those core supporters and the cheerleaders for your programs?

Mrs. Elliott: I would say absolutely, yes, particularly in some of our smallest schools, and very active engagement in the elementary grades.

I realize I didn't answer your kindergarten question. We don't have any full-day kindergartens in Livingstone Range school division.

The Acting Chair: Do any other members have questions?

Mr. Chase: Never be stumped without a question. This is where we're stretching here. This is hypothetical. Let's say that Enmax shares rose tremendously, and the dividends you received, you know, amounted over, say, a five-year period to between \$15 million and \$25 million. What would be your priorities for spending that windfall? What are the needs that you would most like to address given that extra input of cash? I know it's hypothetical, but maybe we would increase our per-pupil grants as well in recognition of the good work you're doing.

Mr. Griffiths: You can submit that in writing if you like.

Mrs. Elliott: Our challenge is exactly the opposite, of course, so you're allowing us to wish here and dream a little bit. I think to be able to offer a wide range of programs with qualified staff to all our students is probably where we would end up. What would that look like structurally that might be different than what we have now? That would be enough.

Mr. Chase: We can always wish and hope in Alberta's land of milk and honey and promise, so we'll hope that these come in.

The Acting Chair: Any other questions from members?

Mr. Dunn: Just one point. If the committee is now looking at the end here, I would like to make two or three comments regarding the next meeting if I may.

The Acting Chair: Okay. We're going to get to that.

Mr. Dunn: Okay.

The Acting Chair: Well, I want to thank the officials from Livingstone Range school district for attending our meeting. We very

much appreciate you making the trek up here and appearing before the committee. Thank you to Mr. Harris, Mrs. Elliott, and Mr. Olsen for your honest and frank answers.

Mrs. Elliott: Thank you.

The Acting Chair: I guess we can continue on with the rest of the agenda. The only other thing on our agenda: is there any other business? Mr. Dunn.

Mr. Dunn: Yeah. Looking at the next meeting, it's on the 15th?

The Acting Chair: The 15th at 8:30.

Mr. Dunn: I just want to bring to the committee's attention a couple of matters. First of all, as a result of the meeting that you had in the spring with the Department of Energy, the department has officially written to me to revise their response to the Auditor General's recommendations that come from the October 2007 report. In the course of the meeting and in answer to your questions they had made a representation that they were going to accept those recommendations. In their communication to the chair of this committee, initially it was accepted in principle. Subject to that, they have now officially written to me on September 17 to say that they have accepted all the recommendations, and they're now going to be acting on those and implementing the recommendations by March 31, 2009. So they officially changed their response following the meeting with you. I just want to put that on the record.

The second thing. In anticipation of the meeting next week the correspondence that was sent to me on July 9 said that we'll talk about the report of the Auditor General of April 2008 together with October 2008. The reason for April 2008 is that we had started our mental health audit, and there were a couple of recommendations in April. Then we had the follow-up with what was actually happening at the RHAs in October. That's the only connection I see to April. Unless there are other matters that you wish us to cover from the April report, we will concentrate only on the October 2008 report.

In that regard if any of the members can indicate to me if there is one of those areas that you'd like us to focus more on. You've already been through ATB this morning, so I would expect that we will not focus much on that. Is there another element of that report that you would like us to focus on?

The Acting Chair: Mr. Chase, did you have something to add, or is it another matter?

Mr. Chase: It wasn't directly related to Mr. Dunn's comments.

The Acting Chair: Okay.

Mr. Chase: If there's feedback for Mr. Dunn, by all means please provide that feedback.

The Acting Chair: Do any members have any comments on what we want to focus on at the October 15 meeting?

Mr. Dunn: Just to remind you, we talked about CEO selection, evaluation, and compensation – I think the Alberta Health Services Board was announcing the compensation, severance payments today for CEOs, so you may have that – and protecting information assets. There was a lot of interest around the security of databases and technology in Alberta, response to climate change. I'll skip ATB. There's mental health, which I believe is very important. Then we

had a number that related to AIMCo, the very large investment management company. If you could signal to me which ones you would like us to spend a bit of time reviewing with you, what I would propose unless you've got something you'd like us to introduce with some significance is that we would just cover off the introduction very briefly and open it to questions.

The Acting Chair: I think what you're asking is if we just want to focus exclusively on the October '08 report, and if there are any particular issues . . .

Mr. Dunn: That you would like us to spend more time on in our introduction.

Mr. Griffiths: Is it advisable that we could send you an e-mail, and you could collect those? I know that personally I've only had time to thoroughly go over the report for the meetings from yesterday and today that were relevant, and I haven't had time to absorb the rest of the report yet.

Mr. Dunn: I'd be interested in receiving any e-mails that you may have.

Mr. Griffiths: Okay. Good.

Mr. Dallas: Well, just a couple of quick comments. Yes, a little more time would be good there. But I would suggest that we could focus solely on the October report and that perhaps for contemplation an exploration in terms of the information technology database, security of information, and privacy would be of interest to Albertans. Perhaps they would like to see that included in the work of the committee.

2:40

Mr. Dunn: Okay.

Mr. Chase: I will just throw in . . .

The Acting Chair: Excuse me. Mr. MacDonald had his hand up first.

Mr. Chase: Oh, sorry.

Mr. MacDonald: Yes. Thank you, Mr. Chair. Your key recommendation 32, Mr. Dunn, on page 282 of your October report: AIMCo may need third-party assurance on internal controls. Can you provide us at our next meeting with some more details on that, please?

Mr. Dunn: We will do that. That's what I'm looking for. I do not want to take time from the committee to ask questions of us. If there's a recommendation you would like us to focus on in our introduction, we will spend some time just reviewing what we've done and focusing on which areas, and we'll include that.

Mr. MacDonald: I appreciate that because I think that's pretty important in light of the fact that AIMCo could have up to \$75 billion to look after.

Mr. Dunn: Yes.

Mr. Chase: Mr. MacDonald, obviously, was thinking on the same level. Given the amount of money that's being invested, the security

both in terms of information and in investment are key, and I look forward to that explanation there, that focus.

Mr. Dunn: Okay. Receiving that and any subject in an e-mail, I will bring my senior management team with us, but we will spend very little time introducing subjects we'll be prepared to respond to other than the ones that you have signalled that you'd like us to do a little introduction to to cover off the matters that we've found.

Mr. Benito: Mr. MacDonald, is that million or billion?

Mr. MacDonald: Billion.

Mr. Dunn: As long as everybody understands that that \$75 billion comes from \$40 billion that belongs to the various pension funds; \$35 billion belongs to the province of Alberta. Quite often people focus on only the heritage fund, but there are many other funds out there, aggregating in total approximately \$35 billion.

The Acting Chair: Okay.

Mr. Saher: Excuse me. If I could just supplement the Auditor General's comments and remind the committee that on the 29th of this month the Department of Finance and Enterprise appears before the committee, and AIMCo is a Crown corporation that falls within that ministry's oversight.

The Acting Chair: Okay. Mr. Dunn, have you heard enough? Some other members indicated that they need a little bit more time to review the materials. They could send an e-mail to the committee clerk a week in advance – and I know that we're not too far away, but by the end of this week – and she can send that to you as well.

Mr. Dunn: Thank you very much.

The Acting Chair: Philip.

Dr. Massolin: Thank you, Mr. Chair. Just along those same lines I'm wondering if we can get some guidance from the committee in terms of the research section and what the committee would like us to do. Just by way of background, as you probably know, we've been providing, sort of, weekly reports on the ministries for the last couple of sessions. If it's the will of the committee, we can continue to do that, and/or if you have specific recommendations and suggestions as to what to pursue – for instance, for the meeting on the 29th – we could take those suggestions as well. I'm just looking for some guidance, Mr. Chair.

The Acting Chair: Okay.

Mr. Chase: Just specifically to what Philip suggested, I always appreciate comparative information. What sort of funding over-sights other provinces have and how they maintain their security and how they advance their investments would be very appreciated.

If I can just say, I very much have valued the last two days we've had outside of the session. Thank you, Kyle, for bringing up the ATB suggestion. I think it was very appropriate. You obviously were thinking ahead of the rest of us in terms of something that became extremely important. Having had the opportunity to make a degree of comparison between a rural board and a couple of urban boards, it provided myself, who was a teacher, with a terrific amount of understanding of the different struggles and approaches between the boards. Thanks to all the members for contributing.

The Acting Chair: Any other comments on the matter raised by Philip?

Mr. MacDonald: Karen has some information to provide.

Mrs. Sawchuk: Thank you, Mr. Chair. The suggestion was just made that the next three ministries that are scheduled be read on the record just so that they're there. Next week we do have the Auditor General doing his report. On October 22 we have the Minister of Justice and Attorney General. The 29th is the Minister of Finance and Enterprise. On November 5 we have the ministers of Tourism, Parks and Recreation and of Culture and Community Spirit; it's a joint one. That is what we have on our schedule so far, Mr. Chair.

Dr. Massolin: Just to follow up, if it's okay with the committee, I guess the direction is to prepare these weekly reports. Is that what I'm hearing? Is that all right?

The Acting Chair: Yeah. I think so.

Okay. We've kind of talked about the last item on our agenda, and that's the next meeting on October 15 at 8:30. We've kind of moved past that.

Do we have someone to move for adjournment?

Mr. Griffiths: Sorry. I just wanted to thank everybody. I think the members, regardless of their party, did a fantastic job. It was very co-operative and very complimentary. I saw members, regardless of what side of the table they sit on, asking questions and other members following up on those questions if they didn't get an answer. I thought it was an incredibly good process, and I think we have set the bar across Canada for the effectiveness of Public Accounts in accounting for the public's dollars. I'm very impressed.

Also, I always appreciate the work that the Auditor General and his team does, but I also wanted to thank Philip and his research team because the information they gathered for us was incredible and very valuable, so thank you very much.

The Acting Chair: Yes. And the committee clerk.

Mr. Dallas moves to adjourn the meeting. All in favour? Opposed? Motion carried.

[The committee adjourned at 2:47 p.m.]

