



Legislative Assembly of Alberta

The 27th Legislature  
Second Session

Standing Committee  
on  
Public Accounts

Finance and Enterprise

Wednesday, November 4, 2009  
8:30 a.m.

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**Legislative Assembly of Alberta  
The 27th Legislature  
Second Session**

**Standing Committee on Public Accounts**

MacDonald, Hugh, Edmonton-Gold Bar (AL), Chair  
Quest, Dave, Strathcona (PC), Deputy Chair  
  
Benito, Carl, Edmonton-Mill Woods (PC)  
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)  
Chase, Harry B., Calgary-Varsity (AL)  
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 (AL)  
Mason, Brian, Edmonton-Highlands-Norwood (ND)  
Olson, Verlyn, QC, Wetaskiwin-Camrose (PC)  
Sandhu, Peter, Edmonton-Manning (PC)  
Vandermeer, Tony, Edmonton-Beverly-Clareview (PC)  
Woo-Paw, Teresa, Calgary-Mackay (PC)

**Department of Finance and Enterprise Participants**

Darwin Bozek	Assistant Deputy Minister, Strategic and Business Services
Jane Clerk	Assistant Deputy Minister, Tax and Revenue Administration
Dennis Gartner	Assistant Deputy Minister, Financial Sector Regulation and Policy
Stephen LeClair	Assistant Deputy Minister, Budget and Fiscal Planning
Rod Matheson	Assistant Deputy Minister, Treasury Management
Rick Sloan	Assistant Deputy Minister, Enterprise
Tim Wiles	Deputy Minister

**Auditor General's Office Participants**

Fred Dunn	Auditor General
Merwan Saher	Assistant Auditor General
Wayne Morgan	Principal

## **Standing Committee on Public Accounts**

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**8:30 a.m.****Wednesday, November 4, 2009**

[Mr. MacDonald in the chair]

**The Chair:** Good morning, everyone. I would like to now call this Standing Committee on Public Accounts to order and on behalf of everyone on the committee welcome those in attendance this morning. I would like to advise you that you do not need to operate your microphones; this is taken care of by *Hansard* staff. Our meeting this morning is recorded not only by *Hansard*, but the audio would be streamed live on the Internet.

We'll quickly now, as we usually do, introduce ourselves for the convenience of the people from the department of finance, and we'll start with the hon. Member for Strathcona.

**Mr. Quest:** Good morning. Dave Quest, Strathcona.

**Dr. Massolin:** Good morning. Philip Massolin, committee research co-ordinator, Legislative Assembly Office.

**Mr. Benito:** Good morning. Carl Benito, Edmonton-Mill Woods.

**Mr. Jacobs:** Good morning, everyone. Bryce Jacobs, Cardston-Taber-Warner.

**Mr. Vandermeer:** Good morning. Tony Vandermeer, Edmonton-Beverly-Clareview.

**Mr. Kang:** Good morning, everyone. Darshan Kang, MLA for Calgary-McCall.

**Mr. Chase:** Good morning. Harry Chase, Calgary-Varsity.

**Mrs. Clerk:** Good morning. Jane Clerk, ADM, tax and revenue administration.

**Mr. LeClair:** Good morning. Stephen LeClair, ADM, budget and fiscal policy.

**Mr. Gartner:** Dennis Gartner, ADM, financial sector regulation and policy.

**Mr. Wiles:** Tim Wiles, Deputy Minister of Finance and Enterprise.

**Mr. Bozek:** Darwin Bozek, ADM, strategic and business services.

**Mr. Matheson:** Good morning. Rod Matheson, ADM of treasury and risk management with Finance and Enterprise.

**Mr. Morgan:** Wayne Morgan, office of the Auditor General.

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

**Mr. Dunn:** Fred Dunn, Auditor General.

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

**Mr. Olson:** Good morning. Verlyn Olson, Wetaskiwin-Camrose.

**Ms Rempel:** Jody Rempel, committee clerk with the Legislative Assembly Office.

**The Chair:** Hugh MacDonald, Edmonton-Gold Bar.

Item 2, approval of our agenda. The agenda has been circulated. May I have approval of that agenda, please? Yes, by Mr. Drysdale. Thank you. Moved by Mr. Drysdale that the agenda for the November 4, 2009, meeting be approved. All in favour? None opposed. Thank you.

Approval of the minutes of the October 26, 2009, meeting as circulated?

**Mr. Olson:** Mr. Chair, I note that my name is shown as being in attendance, and unfortunately I wasn't.

**The Chair:** We'll have that corrected.

Other than that correction, may we have the minutes approved? Mr. Jacobs. Moved by Mr. Jacobs that the correction be noted and the minutes for the October 26, 2009, Standing Committee on Public Accounts meeting be approved as distributed. All in favour? None opposed. Thank you.

Of course, this brings us today to our meeting with the officials from Alberta Finance and Enterprise. We are dealing with the reports from the Auditor General from April and October 2009, the consolidated financial statement 2008-2009, and the annual report of the government of Alberta and the annual report of the Department of Finance and Enterprise for 2008-2009. I would like to remind everyone of the briefing material prepared for the committee by the LAO research staff.

If there are no questions from the members at this time regarding the agenda or the research that has been provided to us, I would invite Mr. Tim Wiles, deputy minister, to make a brief opening statement on behalf of the ministry.

**Mr. Wiles:** Thank you very much, Mr. Chairman. We certainly appreciate the opportunity to be here today and address the questions the committee may have. I feel very fortunate to be accompanied by senior members of my staff, to whom you were introduced earlier. They deserve a great deal of credit for the leadership they provide to the ministry, and each of them has been extremely helpful to me personally as I have transitioned back to the ministry.

I should point out that we have some staff in the gallery. I have Rick Sloan, the assistant deputy minister of enterprise division within Finance and Enterprise. I also have Mr. Richard Isaak, who works with Darwin, and Christine Yaremko, who works with Darwin as well. We also have staff from AIMCo, Mr. Warren Cabral, and we have Gisele Simard from the Treasury Board ministry as well. They're all interested in today's proceedings.

I want to thank my staff because I know they're going to help me address your questions because I'm still pretty new to the Finance and Enterprise ministry.

As you all know, today we are to talk about Finance and Enterprise, and as the chair indicated, the documents before us are the '08-09 annual report of the government of Alberta, the '08-09 ministry annual report for Finance and Enterprise, and the Auditor General's reports. I'll start with some brief comments on the government's annual report, which Finance and Enterprise worked jointly with the Treasury Board ministry on. The annual report is made up of several components. It contains the executive summary, the consolidated financial statements of the province, and the Measuring Up report.

I must reflect that having not been involved with the annual report for a few years now, there is a tremendous amount of information in there, in particular the executive summary, which is about 20 pages long. I think if many people had the opportunity to read that, they'd

have a very good understanding of the province's financial situation. The Measuring Up report, of course, presents our actual performance compared to our desired results laid out in the government's business plan.

With respect to the financial highlights for the government overall revenue for the fiscal year '08-09 was \$35.8 billion dollars. That's \$2.4 billion, or 6.2 per cent, lower than the '07-08 year and \$2.9 billion lower than budgeted. As always, there are a number of ups and downs that combine for the total difference from budget and the prior year. Due to the downturn in the global equity markets the government showed an investment loss of \$1.9 billion in '08-09, which was \$4.3 billion less than the investment income in '07-08 and \$3.9 billion less than the budgeted investment income. These investment losses are likely the single largest factor that contributed to the '08-09 deficit of \$2.8 billion.

The investment loss was offset by increased resource revenue and federal transfers. In '08-09 resource revenue reached \$11.9 billion; that's our third-highest resource revenue ever recorded as a province. It was \$891 million higher than '07-08 and \$206 million higher than we had budgeted. Transfers from the government of Canada were higher by \$1.1 billion from '07-08 and \$390 million higher than budgeted. This increase is primarily due to higher transfers of agricultural support and positive adjustments to the prior year's estimates for the health and social transfer programs.

Our tax revenue for the '08-09 year was \$16.6 billion. Over \$12 billion of that relates to corporate and personal income taxes. Taxes overall were about the same as '07-08 but \$400 million higher than we had budgeted. Our personal tax revenue of \$8.7 billion was the highest ever recorded by the province, and our corporate tax revenue of \$4.2 billion was the second-highest ever recorded. Another category of our revenues is the equity in the Crown-controlled SUCH sector, which includes school boards, universities, colleges, technical institutes, and health boards. That contributed a net income of \$38 million, compared to \$156 million from the previous year.

With regard to expenses for the province, total expenses for the year were \$38.7 billion. That's 7.8 per cent higher than the prior year and \$1.3 billion higher than budgeted. Excluding the pension provisions, the increase in expenses from '07-08 was \$3.1 billion, or 9.1 per cent, and the decrease from budget was \$534 million, or 1.4 per cent. I think it's important to note that we did have a decrease from budget in that fiscal year as it's evident that the government was responding to the changing fiscal circumstances. The increase from the previous year was mainly due to higher operating expenses of \$2.8 billion primarily in the health and education sectors, \$109 million for increased capital grants related to water and waste water, and \$269 million in disaster emergency assistance related mainly to the livestock industry. There was also a \$104 million decrease due to lower natural gas production.

Pension provisions of \$2 billion are included in the total expenses of \$38 billion. Pension provisions were unusually large in the '08-09 year for the second consecutive year. This is primarily due to a change in the discount rate used to calculate the pre-1992 teachers' pension plan liability.

Now shifting to the Ministry of Finance and Enterprise and switching to our annual report rather than the government's annual report, revenue for the fiscal year was \$13.2 billion, which was 4 and a half billion dollars, or 25.6 per cent, lower than in '07-08 and \$3.5 billion lower than budgeted. Our ministry's revenues, of course, roll up into the government's annual report, so the investment income comments that I made and the tax comments apply to our ministry as well.

**8:40**

The net income from commercial operations for the ministry at \$15 million was down from the prior year of \$37 million and below the budget of \$270 million. Increased net operating expenses at ATB Financial along with the increased credit provisions and further provisions for the asset-backed commercial paper were the primary causes for the reduction in income from commercial enterprises.

The ministry's total expenses were \$3.2 billion in '08-09. That's \$497 million lower than the prior year and \$1.7 billion higher than estimated. While \$3 billion seems like a very large number for a mid-size ministry, there are a number of reasons for that. Pension provisions of \$1.8 billion are included in our total expenses, and they were unusually large, as I mentioned earlier, primarily due to the change in the discount rate on the teachers' pension plan liability.

Still within the Finance and Enterprise annual report I'd like to quickly touch on a few of the ministry's key activities. There are, of course, many activities in the annual report which I won't highlight for you today, but I just wanted to touch on a couple of them. On the legislative side we introduced and passed several pieces of legislation related to the Alberta Corporate Tax Act and the Personal Income Tax Act, which ensure that Alberta remains fair, equitable, and competitive in its tax regime. Other legislation includes the Tobacco Tax Amendment Act, which strengthens the tobacco tax framework and supports the province's safe communities initiative by clarifying definitions, tightening rules, and providing more serious penalties for those breaching the act.

The ministry also made some significant strides in developing a more stable retirement income system. We worked jointly with the government of British Columbia to publish the report of the Joint Expert Panel on Pension Standards. This project will help harmonize pension standards regulations in Alberta and B.C. There is also ongoing work with other governments and the federal government to consider establishing a supplementary pension plan.

Still on the legislative side, amendments were drafted and introduced on the Securities Act to further harmonize and streamline securities law across Canada. These amendments will assist the implementation of the passport system, which will provide market participants with a single window of access to Canadian capital markets effective September 1, 2009.

Just a few interesting statistics on the tax and revenue administration side. More than a quarter of a million claims and returns were processed, including over 260,000 corporate and commodity tax returns and 23,000 benefit claims. That's a 7 per cent increase over the last three years. We also expanded our e-commerce programs for our revenue streams, and we have access to returns and renewals online for the international fuel tax program.

With those comments, Mr. Chairman, I'd like to turn the floor back to you for questions.

**The Chair:** Thank you.

**Mr. Dunn:** Merwan Saher will be extremely brief here with our comments.

**Mr. Saher:** Thank you, Mr. Chairman. The Finance and Enterprise section of our October 2009 public report is quite large – it's 30 pages – since the ministry comprises significant entities, including the department itself, Alberta Treasury Branches, AIMCo, and the heritage savings trust fund. In all we made 10 recommendations to entities within the ministry. These recommendations are listed in the summary on page 213 of our October report.

We numbered three of the recommendations and are seeking a formal government response to those three. I'll just summarize the three. On page 222, recommendation 24. We have recommended that ATB ensure that its business units adopt and follow ATB's IT governance and control framework. ATB must show that its IT policies have been implemented across the organization and are operating effectively.

On page 226, recommendation 25. We have repeated the recommendation that ATB improve the processes that will allow it to confirm compliance with the department's outsourcing guideline. ATB must show that it can consistently identify significant outsourcing relationships.

On page 233, recommendation 26, we have recommended that AIMCo establish a process to estimate current market values for private and hedge fund investments. In order to reliably measure the net income of its pension plan clients, AIMCo needs to efficiently obtain reasonably current valuations of these types of investments.

With respect to outstanding recommendations for each of the entities within the ministry please refer to the listing on page 339.

Thank you.

**The Chair:** Thank you.

I must say, Mr. Dunn, that was brief, but it was also very concise. I appreciate that. Thank you.

We will now proceed to questions. We'll start with Mr. Chase this morning, and we will then proceed to Mr. Vandermeer.

The chair would also like to welcome at this time Mr. Dallas and Mr. Mason to the meeting this morning. Welcome, gentlemen.

Mr. Chase.

**Mr. Chase:** Thank you. On page 4 of the briefing provided by the Legislative Assembly Office it states that the total deficiency of the pension plans under the ministry of finance increased by \$5.22 billion, or 88 per cent, from the previous year. What actions has the ministry taken to address this staggering deficiency? For example, has there been any change in investing policy practices to help avoid this happening again?

**Mr. Wiles:** Thank you. I don't have those numbers in front of me, but I will comment generally on the changes to the pension plans, and I will ask Dennis Gartner to supplement my answer.

The obligations of the pension plans are governed by separate boards for the public service, the local authorities, the management, the special forces, and the universities and academics. Generally, there's an arrangement in place where the obligations of those plans are shared between employers and employees and in some cases the government as well for the liabilities that relate to the pre-92 obligations. There was significant reform to the pension plans in the early '90s, so we separated the obligations into two parts, the pre-92 and the post. The post parts are generally funded by shared contributions between the employers and the members, and the pre-92 is where the government may make an additional contribution, in general terms. Each of the plan's formulas are tailored to the specific negotiations that happened at that time.

With respect to the increasing liabilities, generally, I think that's reflective of the market conditions that happened over this past period of time. Under our accounting rules those unfunded liabilities come onto the government's books over a period of time rather than in a lump sum.

In terms of the investment policies, each pension plan board would be looking at their own investment policy, that they have the responsibility to set, to react to those changes, and they also have

obligations to look at the contribution rates. They will be reacting accordingly.

Dennis, can you supplement?

**Mr. Gartner:** Just a little bit about the numbers. The bulk of the deficiency, \$8.5 billion, of the pension obligations is due to the teachers' pension plan pre-1992 unfunded liability. Now, prior to November 2007, when a memorandum of understanding was signed between the government of Alberta and the teachers, two-thirds of this responsibility was handled by the government, and one-third was paid for by teachers. After the signing of the memorandum of understanding the government assumed the complete liability, and that was the primary reason for the increase in the liabilities.

Most of the remaining liabilities, about \$1 billion, in pension obligations are due to pre-1992 liabilities for the universities pension plan, the special forces pension plan, and the public service management pension plan, which is a closed plan which pays pensions to managers who retired prior to the pension reform in 1992. The public service management pension plan costs are paid by the government, and this liability will be reduced over time as the pensions are paid out.

8:50

**Mr. Chase:** Thank you. Obviously, an 88 per cent increase from the previous year is very dramatic. What does this deficiency mean? What impact will this deficiency have on the ability to pay out pension benefits?

**Mr. Gartner:** It won't have any on the ability to pay pension benefits. Every three years at minimum each of the pension plans must do an actuarial evaluation, and contribution rates are then adjusted to ensure that the money is available to pay benefits.

**Mr. Chase:** Thank you.

**The Chair:** Mr. Vandermeer, please, followed by Mr. Kang.

**Mr. Vandermeer:** Thank you. How does the Department of Finance and Enterprise oversee and hold entities such as AIMCo and ATB within the minister's accountability framework? I'm thinking in particular of high-risk investments such as asset-backed commercial paper and hedge funds.

**Mr. Wiles:** The oversight of independent organizations like AIMCo and ATB is governed at several levels within the ministry. Obviously, there is a legislative framework for each of those, which has provisions within each of their acts which give the government the powers to appoint the boards and things like that. So at a governance level as the shareholder those relationships are primarily with the board, looking at business plans and things of that nature.

At an operational level for both AIMCo and ATB we have different frameworks because we have different relationships with them. In the case of ATB we perform a regulator's role of a financial institution similar to what OSFI would for federal banks, so we have processes in place where we're looking at those things from a regulatory perspective. In the case of AIMCo we're not only the shareholder of the corporation; we're also a significant client of them because they provide the investment services for the heritage fund and a number of endowment funds. In that situation, responsible for those funds' investment policies, then we monitor their performance, that AIMCo provides via regular reporting and ongoing things.

So at a high level that's how we provide governance and oversight to both of those organizations.

With respect to your question on asset-backed commercial paper, those were decisions that were made by the professionals based on their judgments at the time of the opportunity in the market and the assessment of the risks on that. We wouldn't get down into the day-to-day oversight of those individual investment decisions in either the case of ATB or AIMCo.

I don't know. Rod, do you have anything to add for AIMCo or, Dennis, on ATB?

**Mr. Matheson:** No.

**Mr. Gartner:** No.

**Mr. Vandermeer:** You say that you don't get into the day-to-day dealings, but surely there must be some way that we can hold them accountable and say: these are investments that some of the brightest people I know don't even understand, what asset-backed commercial paper is, and perhaps you shouldn't be investing in these things.

**Mr. Wiles:** Well, I think, again, our oversight is looking at their investment performance relative to the benchmark through our investment policy, that we do set. Obviously, when you have a situation like the asset-backed commercial paper – which primarily was an issue with ATB; it wasn't as much with some of our endowments – that affects their performance, and in the case of ATB that affects their return to the province, their bottom line. So we obviously have concerns when those sort of significant events happen, and we have an ongoing discussion with them from both the shareholder's perspective and the regulatory perspective. But, again, it's not something that we can deal with on a day-to-day basis.

Dennis, do you have anything to add?

**Mr. Gartner:** There were, certainly, learnings from the asset-backed commercial paper situation in ATB as well as all of the other major investors in asset-backed commercial paper. ATB held \$1.1 billion worth of asset-backed commercial paper of a total of \$38 billion in Canada, so there were many sophisticated financial institutions who were in the same situation as ATB. When ATB invested in asset-backed commercial paper, it was in accordance with their investment policy, and it was triple-rated by the Dominion Bond Rating Service. Nonetheless, as I've indicated, there have been significant learnings. The investment policy has been amended, and ATB now is in the position to not only look at the ratings from rating agencies; they have staff onboard and in the organization that do more due diligence on specific investments before they make them.

**The Chair:** Thank you.

Mr. Kang, please, followed by Mr. Drysdale.

**Mr. Kang:** Thank you, Mr. Chair. Referencing the recommendation made by the Auditor General on page 216 of the October 2009 report, how has that ministry failed to have contracts signed before work began with 4 of the 10 consulting contracts tested by the Auditor General? What caused this delay?

**Mr. Wiles:** I can't speak to the specific details of the 4 of the 10, but I think as a general practice we would agree with the Auditor General's recommendations entirely, that we should be more diligent in ensuring that our contracts are signed before work is done. Sometimes in the timing of getting work done, that does not happen, and that's unfortunate. I think that as a ministry over the last several years we have worked to tighten up our contracting processes.

Maybe I'll ask Darwin to talk about our contract review committee process.

**Mr. Bozek:** Yeah. January 2006 is when we implemented our new contract policy, and at that time we established a contract monitoring committee. That one committee oversees the large contracts, the high-risk contracts of the department, et cetera. Behind the scenes my shop oversees the compliance within contracts, and obviously we're looking for the signed contracts in advance and so forth.

Where we see some of the items identified in the recommendation is more on the administrative side. The contract is established; the terms of reference are agreed to between the two parties: we want to go ahead and proceed. The contract is sent to the vendor to sign off and then, administratively, trying to get the proper ADM or whoever to sign the contract may not be in place. We think it's important there to at least have the documentation on file. I think the recommendation here is that the documentation, the memory of why that contract was delayed or not signed before it had started, was not on file. We've consciously made a lot of effort to make recommendations to have the compliance, to have that piece in place. Again, we don't encourage that. We think that's the exception rather than the norm.

**Mr. Kang:** Thank you. My supplemental is: what risk was involved in allowing these four companies to work without contracts for up to 40 days for work which amounted to hundreds of thousands of dollars? How did the department evaluate or assess the work in the absence of a contract?

**Mr. Wiles:** I'm going to ask Darwin to comment on that.

**Mr. Kang:** And maybe I could get comments from the Auditor General on that, too, please.

**Mr. Bozek:** I don't have the particular contracts or the file in front of me, so I'm going to go a little bit on memory. Obviously, we do look at the risk of the contracts, again, going through this contract monitoring committee. In terms of the compliance issues we would report those findings to the deputy minister's office, and we would also follow up with the ADM respectively. Again, we might have to respond in writing, but there was no sufficient risk identified in terms of the signing of the contracts with these particular ones in the findings here. Again, I can't speak within the specifics.

**Mr. Saher:** Just to make a comment here. The delays that we identified ranged from 19 to 40 days, and the contract amounts ranged from \$75,000 up to over half a million. In our opinion these were significant amounts, worthy of bringing to the attention of the ministry and the Assembly.

9:00

There will always be a case, an exception where it's necessary to proceed with work being done without a contract being in place. In those cases there has to be good documentation in the ministry's file that all due diligence was carried out prior to that state of affairs being allowed. Our fundamental concern here – and we note it on page 216 – is that we couldn't find any documentation explaining the delays in signing the four contracts. Essentially, the ministry was at risk of conducting work with third parties without the signed contracts. The parties' rights and responsibilities are not clearly defined before the work starts, and if there is a problem with that work, that can lead to disputes between the parties as to the obligations and rights, what was expected, what was delivered. That's why contracts are put in place. I do want to make the point that there can be a case for an exception, but if there is an exception, it has to be properly documented and authorized in the file.

**Mr. Kang:** Thanks.

**The Chair:** Thank you.

We're going to now move on to Mr. Drysdale, followed by Mr. Mason.

**Mr. Drysdale:** Thank you, Mr. Chair. On page 33 of the '08-09 annual report the department's tax and revenue administration division is outlined, specifying some above average performance results for '08-09. My first question is: what is the impact of the current fiscal environment on TRA service levels to the public?

**Mr. Wiles:** I'm going to ask Jane Clerk to respond to that as she's the ADM for the tax and revenue administration division.

**Mrs. Clerk:** There is an impact. We're in a bit of a lag to the economy, so we're still dealing with the increased activity levels from the pre-2008 downturn. We have absorbed those workload increases through improvements in our technology, in automation of our processing environment. We're conducting business process reviews to increase our efficiency, and we're also engaged in enterprise risk management so that we focus our resources on the areas where it's of greatest risk to the province in terms of compliance and maintain services levels to the people of Alberta.

**Mr. Drysdale:** Thank you. I've heard that the Uniform Law Conference has recommended the establishment of an unclaimed property program. Was there any progress made on this in '08-09?

**Mrs. Clerk:** Yes, definitely. The unclaimed property legislation became effective September 1, 2008. The regulations were passed to implement the program. We've established a search engine for Albertans to search for their property across North America, and we are in the process now of implementing the process for holders of property to report to us where that property is so that we can make that information available as well. That will take place in April of 2010.

**Mr. Drysdale:** Thank you.

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

Mr. Mason, please, followed by Mr. Quest.

**Mr. Mason:** Thanks very much, Mr. Chairman. Thank you for being here this morning. My question has to do with the governance of AIMCo. It's been my experience that when government implements a private-sector governance model for part of its operations, there are a couple of problems. The first is that you lose control of your compensation costs, and secondly, you have greater trouble ensuring accountability. I want to ask about those, but first on the compensation costs: what do you have in place to ensure that compensation costs don't get out of hand for the executive team and senior staff of AIMCo?

**Mr. Wiles:** Well, under the legislation right now, currently, for AIMCo the CEO's salary is determined by the board, and a recommendation is made to the minister to approve that. That is the oversight we have in place to date. There are pending amendments to that legislation as part of the Public Agencies Governance Act that would see the minister's approval removed and that it would be reliant on the board, so the government's oversight is through the board of directors. In the case of AIMCo we're reliant on a highly experienced board to ensure that the compensation levels for the

professional investors that we're hiring to manage our around \$70 billion of investments are adequate to attract and retain the appropriate skill sets to compete in that very competitive business. So our oversight is through the board primarily.

**Mr. Mason:** Okay. So, essentially, from the government's perspective there is no oversight. It's delegated to the board. I guess I'd like the Auditor General to comment on whether or not there are steps that the government can take in terms of providing some direction to boards in these positions, whatever the mechanism might be, to ensure that the compensation costs, including, you know, severance packages and that sort of thing, are reasonable.

**Mr. Dunn:** Very good questions, Mr. Mason. Yes, the government can remain somewhat noses in, fingers out. As you're aware, there are many Crown corporations out there. Last meeting we had Alberta Health Services here, and the minister in attendance said that all contracts for senior people came to his attention. So you can remain somewhat involved, or you could take the approach that has been taken with AIMCo right now, hands right off. With the more hands right off, then you'd better have a very good board of directors there who will carry out their fiduciary duty.

At a minimum you want to ensure that all amounts are reported, that all amounts get disclosed and reported, and we are pleased, of course, that with the Treasury Board directive all amounts of compensation are reported. That may not be a preventive should there be an extreme, but at least you are made aware of what is there, and should you wish as a government or the Legislative Assembly to become involved in the future if you felt that they were extreme, at least you have the information in front of you. But as the deputy has just said, this is now delegated wholly to that board of directors.

**Mr. Mason:** What could possibly go wrong?

**Mr. Dunn:** Is that a question?

**The Chair:** No. We're going to move on to Mr. Quest, followed by Mr. Chase, please.

**Mr. Quest:** Thank you, Mr. Chair. Referencing page 64 of the department's annual report, schedules to the consolidated financial statements, just going back to corporate income tax, you touched on income taxes in your opening comments, but I don't believe we got to this detail. The budget to actual variance for corporate income taxes is about \$478 million, or about 13 per cent, so it seems fairly significant. I'm just wondering what to attribute that variance to.

**Mr. Wiles:** I'll make some general comments, and then I might ask Stephen or Jane to supplement. I think the primary driver was the Alberta economy at that time. Although in the '08-09 year towards the tail end we saw some dramatic shocks to the economy, primarily on the investment side, I think the corporate sector was still going strong for most of that fiscal year, and the activity exceeded our expectations at budget time.

**Mr. LeClair:** Yes, the variance reported on the whole was, as the deputy has said, a result of the corporate sector performing better than expected, particularly in the oil and gas and construction sectors. Despite towards the end of the year in 2008 being difficult, where earlier in the year we saw oil prices up at \$147 and natural gas prices up, for the whole year it was a better year for the corporate sector in general, in particular the oil and gas and the construction industry sectors.

**Mr. Quest:** Okay. A supplemental if I may. I'm looking at page 46 of the government's consolidated financial statements – another variance question – about three-quarters of the way down the page, transfers from the federal government, specifically health transfers. There is about a \$447 million variance there also between the budgeted and actual amounts. I'm just curious: why such a significant variance in that one?

9:10

**Mr. Wiles:** I'll ask Stephen to supplement again, but my understanding is that that was primarily due to some revised population data that then flows through the complex formula for that transfer, and that resulted in more money coming for us.

**Mr. LeClair:** Yes. You're right. The variance basically had two components related to it. Of the \$445 million, \$271 million was related to what Tim indicated were the entitlements of prior years. That entitlement increase was related to updated population data. Our population grew stronger than expected, than what the data had previously shown before it was updated.

The remaining portion of it was \$174 million due to a decrease in the value of Alberta's Canada tax transfer. The CHT cash which we receive is a function of a notional entitlement provided to us by the federal government. The amount of cash that we actually receive is that notional entitlement reduced by our tax transfer. When our tax transfer portion goes down, we end up with more cash, and the reason why our tax transfer portion went down was because of some of the weakness in the latter part of the year.

**Mr. Quest:** Thank you.

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

Mr. Chase, please, followed by Mr. Jacobs.

**Mr. Chase:** Thank you. What is the annual repayment schedule that has been established to address the rapidly approaching \$10 billion teachers' unfunded pension liability?

**Mr. Wiles:** In terms of a schedule we as government make annual contributions. I'll ask Dennis to give some of the details if he can.

**Mr. Gartner:** The unfunded liability is calculated by the actuary of the Alberta teachers' pension board. As I said earlier, there is a legal requirement that these evaluations must be done once every three years. If there's an unfunded liability, as there is in this particular case, it needs to be paid off by the contributors to the plan over a 15-year period. With the teachers' pension plan for the unfunded liability that's pre the 1992 reforms. It's split between the employer and the plan member, so they each pay half, and they'll pay it for 15 years until the unfunded liability is eliminated.

**Mr. Chase:** I realize teachers are responsible for the 1992 going forward portion of it, but when this pension was assumed in 2007, the figure was approximately \$6 billion of assumed liability. It's exceeded \$8.5 billion – in other words, \$2.5 billion – in a two-year period. Projections are that by 2040, unless it's significantly paid down, it could reach as high as \$60 billion. My supplemental is: how long will it take to erase this liability, and what will be the total projected end cost?

**Mr. Gartner:** The government of Alberta is assuming complete responsibility for the pre-1992 liability. I'm not involved in the financing arrangements for that. Rod Matheson might be able to

supplement. The post-1992 liability will be paid off, as I've indicated.

**Mr. Matheson:** Sure. I'm happy to comment. On the pre-1992 liability that you spoke of, that has been assumed in full by the government. The government has assumed the obligation to meet the pension payments for pre-1992 service. The current plan is for those obligations to be met annually by the government as an appropriation. There is no plan to prefund or pay it off in any other manner. The government will simply meet the obligations for all those pension payments until the last member of the pre-1992 plan ceases to receive benefits.

**Mr. Chase:** So it could go on forever if we just pay \$89 million a year, which is the current minimum obligation.

**Mr. Matheson:** I think it will go on until the last member because it is a defined group now. It's only pensions for service pre-1992, so there is a closed group, if you like, of teachers that will be receiving those benefits. So the government will continue to meet the pension obligations for that group of teachers until the last teacher stops receiving pension benefits.

**The Chair:** Thank you.

Mr. Jacobs, please, followed by Mr. Kang.

**Mr. Jacobs:** Thank you, Mr. Chairman. Mr. Wiles, in the past year there has been considerable discussion on the issue of a national securities regulator. Could you update the committee on the developments on this issue and also the current status or situation of that debate?

**Mr. Wiles:** Sure. I'll start, and I'll probably ask Dennis to help me out. Clearly, that's a topic that has been of a lot of discussion across the country. Alberta's position has been and remains that we prefer to have the passport system, and we've been working diligently with other jurisdictions across the country to implement that so that it's a seamless approach for registrants, so that they just have to go to one jurisdiction and their paperwork is accepted by others. Significant strides have been made to implement that, and it is, in fact, up and functioning as of September of this year. So that is working. I think it's also important to note that internationally with our passport system the Canadian system is acknowledged as one of the better ones around the world.

That being said, there are discussions being led by the federal government to move to a single securities regulator. They've announced a transition team that's working on a plan to do that. The transition team has participants from many jurisdictions but not all. Alberta is not a participant of that transition team, but we do plan to make a formal submission to the transition team about our position on a variety of matters.

I believe the government of Quebec as well is not a participant in the transition team. The Quebec government has launched a constitutional challenge in the Quebec court on the issue of the single securities regulator. That process is unfolding, and we've participated as an observer in some of those events. The federal government as well has announced its intention to seek an opinion from the Supreme Court of Canada on its approach to plan to bring in place a single securities regulator, and my understanding is that that probably won't reach the courts until sometime later in the 2010 calendar year. At this point in time I think we're still continuing to review our legal options as to where we will go on the legal challenge question.

Anything to add, Dennis?

**Mr. Gartner:** No.

**Mr. Jacobs:** Okay. Thank you. A supplementary question, if I may, Mr. Chair. On page 310 of your '08-09 annual report the ASC budget shows a budgeted loss of \$7.6 million. So the question would be: if these losses continue, how will ASC continue to operate or execute its business plan in the future?

**Mr. Wiles:** I'll start, and I'll probably ask Dennis to help me out. I think the ASC generally would try and operate on a break-even basis. Over the previous several years they've accumulated a bit of a surplus largely because when they do their budget, they plan for some contingency funding in there so that they're prepared for some contingencies. Often that hasn't been realized, so they've accumulated a bit of a surplus as a result of that. Going forward, I think their plan is to manage that surplus so that it doesn't continue to grow, so I think they're looking at perhaps budgeting for some deficits to draw that down to a more acceptable level for their constituents so that they're not overcharging, if you will, from that perspective. I'd also note that for the most recent fiscal year past they did experience a loss, and that was primarily due to some losses on their investment portfolio as well.

Is there anything to add, Dennis?

**Mr. Gartner:** No.

**Mr. Jacobs:** Thank you.

**The Chair:** Thank you.

Mr. Kang, please, followed by Mr. Dallas.

9:20

**Mr. Kang:** Thank you, Mr. Chair. I'd like to thank the Auditor General for the comments on my last questions. In the 2008-09 Finance and Enterprise report, page 338, 24 per cent of ATB's total loan portfolio credit risk is attributed to personal loans. This is only slightly lower than the amount in residential mortgages, which is 34 per cent. Why is there such a relatively high concentration in personal loans when compared to residential loans, which are only slightly higher?

**Mr. Gartner:** ATB's loan portfolio is quite standard compared to other financial institutions that provide retail financial services. The distribution of loans between personal loans, residential mortgages, and commercial or small business loans is very much like other financial institutions. That's just the way Canadians seem to want to borrow money to finance their households or their businesses.

**Mr. Kang:** Okay. My concern is about, you know, having so much money for personal loans.

My supplemental is: what best practices is this loan portfolio diversification based on? How does this compare to the practices of the other financial institutions? Is there some kind of comparison?

**Mr. Gartner:** ATB uses best practice standards for making their loans for personal, residential, and commercial. In addition, this year the Department of Finance and Enterprise, as the deputy minister indicated earlier, has developed and is implementing a regulatory program so that we will have a greater degree of knowledge about and oversight over the organization and we will have a higher degree of assurance that they are actually meeting standards. But we have no reason to believe, based on the information that we have at present, that they're not meeting prudent lending standards.

**Mr. Kang:** Thank you, sir.

**The Chair:** Thank you.

Mr. Dallas, please.

**Mr. Dallas:** Thank you, Mr. Chair, and thank you, gentlemen. I'm looking at page 64 of the consolidated financial statements. There's a reference to a transfer from the government of Canada under the subline Community Development Trust. I assume this is a budget for grants that we've administered through the ministry, and I wonder if you can speak to how that money was allocated and which programs were supported by that.

**Mr. Wiles:** Thank you. In April of 2008 the government of Canada transferred a total of \$104 million to the government of Alberta through the community development trust fund program. The funds are to be used over a three-year period from '08 until March 31 of 2011 to support communities with incremental economic development projects that can help mitigate the effects of global economic conditions impacting rural communities. So they're trying to help ensure that the local economies are protected.

The Ministry of Employment and Immigration received about a quarter of those funds, and Alberta Finance and Enterprise received the balance to disburse. We're sort of a clearing house for a number of other ministries as well to accomplish the program objectives. What happens is that as projects are identified by their ministries and if they're approved, those ministries would fund them, they would then run a deficit, and we would fund it through Finance and Enterprise. The programs are meant to assist single-industry communities facing downturns and experiencing unemployment and layoffs and those sorts of things.

I don't know if Rick Sloan, who is in the background, has got any additional comments to add.

**Mr. Sloan:** Thank you. The bulk of the funds were transferred to ministries who had line programs that related to the objectives of the program, as the deputy noted. The key beneficiaries of these funds, if you like, include the department of SRD to work with communities who are dealing with problems associated with the forestry downturn and mountain pine beetle difficulties. Some funds were transferred to the Department of Advanced Education and Technology to carry out technology improvement projects to support the forest industry. Another main beneficiary, as an example, was the department of agriculture, who established an incremental grant program to assist communities who are dealing with issues in the downturn in the agriculture sector.

**Mr. Dallas:** That's good. Thank you.

**The Chair:** Thank you.

I have a question now, Mr. Wiles. It concerns page 279 of the annual report, the employment benefits for senior management of Alberta Investment Management Corporation, AIMCo, note 3, letter (c). "The Corporation provides a retention incentive to employees through a long-term incentive plan . . . and a restricted fund unit plan." And if you flip over a couple more pages to 281, you will see where there is an amount set aside in note 6 of \$2.3 million for the annual incentive plan. How is that annual incentive plan calculated?

**Mr. Wiles:** I don't have that detail with me. I think I'd have to get back in writing after consultation with AIMCo management.

**The Chair:** Okay. And if you go a few more pages along in the

annual report to page 286, at the bottom you see where there is the deferred long-term incentive compensation. Roughly half of that \$2.3 million amount is for five individuals listed at the bottom, including the chief executive officer, who has a deferral here of half a million dollars for one of these programs. I would like as my supplementary question to ask: given that this is a program that's provided to senior management and other key employees of AIMCo, how many employees in total at AIMCo are eligible for this deferred incentive plan? If you could provide that through the clerk to all the committee members, I'd really appreciate that.

**Mr. Wiles:** Yeah. Of course.

**The Chair:** Thank you.

Mr. Olson, please.

**Mr. Olson:** Thank you. And thank you for being here and educating us on a lot of things. My questions are about Alberta Capital Finance Authority. I think it tends to be an organization that flies under the radar largely. It doesn't get a lot of attention. Anybody who's been involved in any kind of commercial borrowing in the last year or two would know that credit has tightened up significantly. Yet this authority, obviously because of its mandate and, I think, because of the accepted thinking that in times of recession it's a good time to spend on infrastructure and so on, is very busy doing lending. I'm just wondering if you can comment on whether or not there's any adjustment in approach by this authority with the changing economic times as there is in commercial lending. Do they get more aggressive? Do they stay the same? Can you comment on that?

9:30

**Mr. Wiles:** I'll make a general comment, and I may ask Rod to help me out. I mean, my observation would be that the authority is structured in such a way to make credit available to its shareholders, which include primarily municipalities and some regional airport authorities and the like. I don't think the corporation itself proactively seeks or avoids lending. I think it's reacting to what its shareholders and its clients want, so the increase in activity would be primarily from the initiatives of the various people who are doing that.

Anything to add, Rod?

**Mr. Matheson:** Not really, Tim. I think that's absolutely right. ACFA is there to extend the advantage of Alberta's low cost of borrowing to any of its shareholders, to any of those local authorities throughout the province, but it is very much a vehicle that reacts to the demands of their shareholder base. They are seeing increased activity because of the increase in focus on capital and infrastructure throughout the province at every level of local authority, but they are very much there to serve their shareholders and meet their needs on a reactive basis. They don't proactively go out and market themselves.

**Mr. Olson:** Right, and I didn't mean to give that impression. They're essentially a guarantor, as I understand it.

I know that municipalities with projects would be driving this. Nonetheless, what's the process? Somebody must have to nod their head and say: yes, we will guarantee this project; we'll endorse the project. I see that new loans, at least, are at a record amount right now. Does that not increase our exposure at least on a contingent basis?

**Mr. Wiles:** I wouldn't characterize ACFA as a guarantor of the borrower's debt. If a project is approved through the board process – through ACFA a series of projects will be approved based on the needs of the various local authorities and municipalities – ACFA would then go to the marketplace to fund a range of projects. The debt that they borrow in the marketplace is clearly backstopped by the government of Alberta. That's the advantage to them because they are able to enjoy the government's credit rating, and that cost flows through to them. The promise to repay ACFA is in effect the responsibility of the borrowers. We're relying on the financial wherewithal of the individual borrowers – usually they're local authorities and municipal organizations – so there is some process around to make sure that it's a project that can be funded successfully by that local authority. I don't think the ACFA would extend excessive credit to, you know, a summer village that doesn't have the tax base to support that. There is an evaluation of the creditworthiness before they actually go out and market that.

**Mr. Matheson:** The only thing I'd add is that that credit adjudication process is taken very seriously by the board of Alberta Capital Finance Authority. I know that in their annual report they pride themselves on the fact that they have never had a default in their history. They do look carefully, and there are other governance frameworks around. Municipalities, for example, are constrained under the Municipal Government Act in the level of debt that they can take on. Universities can only borrow with the approval of their board and with the approval of the Lieutenant Governor in Council. Depending on the local authority, there are also a number of other checks and balances in the system.

**Mr. Olson:** Okay. Thank you.

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

Mr. Mason, please, followed by Mr. Benito.

**Mr. Mason:** Thanks very much, Mr. Chairman. I want to follow up on the governance issue relative to AIMCo. I'm wondering what measures are in place in order to ensure that there is proper accountability on the part of the board to the government. I'm not so much interested in accountability by management to the board but from board to government. Could you describe that relationship? Maybe in your answer you could reference the total value of the assets that are managed by AIMCo.

**Mr. Wiles:** I'll start with your last point first. The total asset base managed by AIMCo right now is approaching \$70 billion.

**Mr. Mason:** Okay.

**Mr. Wiles:** That's the combination of the several pension funds that they're investing on behalf of as well as the government's own investments, whether it be through the heritage fund, the various endowment funds, or the government's sustainability fund as well.

In terms of the governance with AIMCo there is a relationship between the government and the board. We do have a written memorandum of understanding between the minister and the chair of the board. That sets out expectations and roles and responsibilities, so that is in place. Of course, the government is the appointer of the board. We have, you know, a fairly robust process to recruit the initial board members of the AIMCo organization, and we've recently appointed another individual this past fall. It goes through, you know, some independent review and recommendation and recruitment so that we are satisfied that we're getting people with the

appropriate skills so that the board on balance has the appropriate skills to provide an oversight role to management. The minister has, I would say, frequent conversations with the chair of the board on a variety of fronts.

We also have the opportunity through setting the investment policy. That's a direction to the board and to management of AIMCo that lays out the parameters of where the government wants to have its investments made in broad categories, albeit not on specific individual investments but the broad categories. Then we monitor the performance of our investment policy to see if it's meeting our objectives. We have performance measures that would help evaluate our investment policy from the government's perspective. Then we also have monitoring of AIMCo's achievement of the results compared to a benchmark, and that's more to evaluate their success.

The combination of those factors, I think, would knit together to be the governance and oversight of that organization.

Rod, are there any other points to make?

**Mr. Matheson:** No. I don't think there's anything else.

**Mr. Mason:** Thank you for that. For my supplemental question I'd just like to ask a question about the reporting relationship. Now, I'm assuming that the board of AIMCo has the same reporting relationship to the minister as you do as the deputy minister, but I'm wondering what assistance the minister has in holding AIMCo's board accountable from the department. You've mentioned that there's some monitoring that goes on, but, you know, I'm kind of concerned. Politicians have certain sets of skills, but if everything just depends on one politician to hold a whole board accountable, there's not going to be enough accountability.

**Mr. Wiles:** Well, certainly, we provide whatever support the minister would ask of us to help her in that relationship, and we do provide information to the minister at a reasonably detailed level on things like the investment performance, how it compares to benchmarks. It's not just all information from AIMCo to the minister. We would evaluate in consultation with AIMCo. I mean, we have a close working relationship with AIMCo as well. That's part of that as well. So the minister is able to get advice from the department on that, and the minister, if she chooses, could seek other advisers as well.

**Mr. Mason:** Thanks very much.

**The Chair:** Thank you.

Mr. Benito, please, followed by Mr. Chase.

**Mr. Benito:** Thank you very much, Mr. Chair. My question is with reference to non bank sponsored ABCP, or asset-backed commercial paper. Can you provide us a status update on any asset-backed commercial paper held by the ministry through the 2008-2009 fiscal year?

**9:40**

Can you also make a comment on all this asset-backed commercial paper? Who makes the decision on how much percentage we will be setting aside for this asset-backed commercial paper? You know, we know now that there were some losses incurred by this province on this ABCP, so can you make a comment also on the effect of this, about the benefit to the senior management and executives and their bonuses?

[Mr. Quest in the chair]

**Mr. Wiles:** Okay. That's a long question, so I'll try and work my way through it. I would point out that on pages 43 and 44 of the government's annual report there's a fairly extensive note to the consolidated financial statements of the province that gives a pretty thorough discussion about some of the details of asset-backed commercial paper and the writedowns that have occurred to date both in the '07-08 fiscal year and in the '08-09 fiscal year.

Referring to that just briefly, for the government and endowment funds – that would be the heritage fund and other endowment funds – we had a total investment of asset-backed commercial paper of \$63 million. In the first year of the issues around asset-backed commercial paper we had a \$5 million writedown, and this most recent year we had another \$2 million writedown on that. So the remaining estimated fair market value of the government's investments through the endowment funds is \$59 million.

Alberta Treasury Branches had the largest position of the province in asset-backed commercial paper, with an initial cost of over a billion dollars in that. They took in the '08 year a writedown of \$243 million. In the most recent fiscal year they took a writedown of \$203 million for a total writedown of \$446 million over the two fiscal years. So our estimated remaining value of that just over a billion dollars is some \$629 million.

Also within the government's family, if you will, the University of Alberta and University of Calgary also had some investments in asset-backed commercial paper totalling \$227 million, likely through some of their endowments. They took writedowns of \$57 million in the previous fiscal year and \$42 million in the current fiscal year, with their net remaining estimated value at \$126 million.

That's kind of the summary of the position, if you will, of the province on the asset-backed commercial paper.

In terms of the decisions to invest in asset-backed commercial paper, those were decisions made by the management of those respective organizations. In the case of the heritage fund and the endowment funds that would have been AIMCo, or its predecessor, AIM, Alberta investment management division of the department, and, you know, their judgment at the time was not to go significantly in that. I think ATB would have made their own judgments on that and chose to go a greater investment in, as many others. Similarly with the two universities. They made those decisions based on their assessments of the investment and the risks associated with it, as they would any other type of investment.

To speak generally, I don't think that the bonus structure would have focused specifically on just asset-backed commercial paper, but it would have looked at their collective performance based on the performance parameters they have in place. In the case of AIMCo for the last fiscal year there were some bonuses paid to some managers that had some successes in their individual portfolios or areas of responsibility, notwithstanding that overall we had an investment loss in the province of some \$2 billion, but the senior executives of AIMCo did not receive any performance bonus for the '08-09 fiscal year related to their investment operations. There were some bonuses to AIMCo related to organizational issues. In the case of ATB, their variable pay approach is governed by the board of directors of ATB.

**Mr. Benito:** I appreciate the answer. Can I ask a second question?

**The Deputy Chair:** A brief one, please.

**Mr. Benito:** Okay. I'll make it brief. On page 61 of your annual report the term "Montreal Accord" was mentioned, and I would like to refer you to page 62, which basically says, "A senior funding facility was also established as part of the Accord to help investors

and asset providers to achieve a stable and effective restructuring agreement." This \$300 million indemnity, a share of the funding support of the senior facility: is this in Alberta? I'm just curious.

**Mr. Wiles:** Actually, our \$300 million is part of a collective commitment, if you will. It's part of a \$3.4 billion backstop provided by the government of Canada at \$1.3 billion, the government of Quebec at \$1.6 billion, the Ontario government at \$250 million, and Alberta at \$300 million. That was part of the strategy, if you will, when a lot of the credit markets had their crisis. In order to try and maintain some value from these investments, this was the agreement that was reached, that the governments would put in place this backstop facility for a period of I think it's 19 months.

Also, the investors in asset-backed commercial paper sort of had a moratorium on transactions related to them. They kind of went into a hold position, if you will, and the restructuring was really to allow the investment vehicle to more match and the timelines of that investment to more match the underlying assets and to get us through the crisis so that, hopefully, we will realize the value of those investments over the longer term as they reach maturity. I think, in a nutshell, that's how it would work.

**Mr. Benito:** Thank you very much, sir.

**The Deputy Chair:** Thank you.

All right. Mr. Chase, please, followed by Mr. Jacobs.

**Mr. Chase:** Thank you. Due to our rapidly depleting time, if I can have you put me on the list again for what will probably be a read-in question.

Referencing page 128 of the finance annual report 2008-2009, would the ministry please provide some overall detail on the almost \$81 million in investment writedowns? What happened?

**Mr. Wiles:** Well, I'll speak generally, and we may need to follow up with some written comments as well. We would go through a normal process, as we do in any year, to look at investments and look at if there has been a permanent impairment in some of those investments. In those cases there would be some writedowns. Obviously, with the collapse of the equity markets, primarily in the '08-09 year, that was a greater exercise than it might have been in other years just because of the state of the market, so some judgments would have been made based on going through the portfolio and seeing how that looks. Those would be recorded for accounting purposes. Our intent would still be to hopefully realize in our investments, and I think we're seeing at first quarter that the province's investment performance was greater than we expected at budget, and that's reflective of the rebound in the markets thus far this fiscal year.

Rod, I don't know if there's anything to add on that.

[Mr. MacDonald in the chair]

**Mr. Matheson:** I think you've summarized it quite well.

**Mr. Chase:** I appreciate the generic response and also your willingness to provide through the clerk to all members some more specific detail.

My supplemental: why were the interest, dividends, rental income, and security lending income \$6 million lower this year than the previous year? Did we lose a lot of tenants?

**Mr. Matheson:** You're speaking of the financial statements

specifically for the Heritage Foundation for Medical Research, which would just be a subset of, if I'm right, page 128 of our annual report?

**Mr. Chase:** On 128, the interest, dividends, rental income, and security lending income.

**Mr. Matheson:** Right. That was \$52.5 million in '09 and \$58.9 million in '08? Yeah. Okay. Again, we'd have to get the details provided. We don't have the breakdown to the dollar, but clearly some of the reduction in income would be from the interest component. With interest rates declining over the year, that would have led to lower interest income. I can't speak to the specifics of the dividend or the rental income without going back and getting more detail.

9:50

**Mr. Chase:** I appreciate you researching that detail and providing it. Thank you.

**The Chair:** Thank you.

Mr. Jacobs, please, followed by Mr. Kang.

**Mr. Jacobs:** Thank you very much. Gentlemen, I'd like to go to the Alberta heritage savings trust fund and ask a question which comes from page 139 of the annual report. On that report the fund shows a loss of \$2.5 billion when an \$835 million investment income was forecast. Could you comment on how and to what extent stock market problems have contributed to this situation?

**Mr. Wiles:** Well, that I think they were a substantial contributor is the short answer to that. Obviously, the heritage fund is a mix of equity investments and debt investments. When the stock markets had a significant correction, anyone in the market had that correction as well, so the heritage fund, because they're in the equity markets, did suffer those significant losses. I think that because we have a diversified portfolio, if we'd been more into equities, then we would have had a larger loss. Yeah, the shorter answer is that when the equity markets go down, the investment income of the heritage fund goes down.

**Mr. Jacobs:** A quick supplementary, Mr. Chairman. Page 151 of the annual report shows that active management may have contributed to losses in the heritage savings trust fund during the period. I'm not sure what active management means, so could you define this and elaborate on this active management term?

**Mr. Wiles:** Yeah, I can do that, and then I might ask Rod to supplement as well. In the investment community they would classify your approach to investing your portfolio as either a passive approach or an active approach. A passive approach would be where you would simply invest in, essentially, the market through an index thing. A mutual fund investment personally would be the equivalent of a passive approach. You'd put some money into a mutual fund, and you'd have a professional manager look after that, and it would match the market. Active management would go beyond just mirroring what the market is doing. They would go overweight and underweight in various classes of investments and hope to add value by making those choices. The risk is that the choices you make don't pay off. The payoff is that you make some of the right choices and you get an improved rate of return.

We've taken the approach that there is value in the long run from actively managing our significant portfolio, so we're expecting a

premium from our investment returns from that. In the '08-09 year we didn't achieve that premium. I think it's important to keep in mind that tracking investment performance over a single year is not necessarily the best thing. I think you have to keep an eye on your annual returns, but I think you also need to look at your returns over longer periods of time, whether it's four or 10 years as well. In this particular fiscal year our active management did not add the value that we expected.

**The Chair:** Thank you.

Mr. Dunn, do you have anything to add regarding the previous question?

**Mr. Dunn:** No. I was going to just add a quick supplement to Mr. Benito's question on compensation. If you go to the 2008 report of the Auditor General on page 125, you'll see that the answer to the question is that the impact of the variable compensation is negligible to none. We wrote about that quite extensively in ATB.

**The Chair:** Thank you.

There are still many questions and very little time, unfortunately, so we're going to again read them into the record, Mr. Wiles, and if your officials could respond in writing through the clerk to all members, we would be grateful. We will start with Mr. Kang, followed by Mr. Dallas.

**Mr. Kang:** Thank you, Mr. Chair. Referencing note 26 on page 369, why did ATB receive the "repayment of principal of \$65.4 million on . . . traditional ABCP notes issued under the Montreal Accord" five years before the notes were scheduled to be repaid?

My supplemental is: what are the details of the IFRS conversion projects that ATB is undertaking? That is referenced on the same page under note 25.

Thank you.

**The Chair:** Thank you.

Mr. Dallas, please.

**Mr. Dallas:** Thank you, Mr. Chair. In 2008-09 there was a court decision regarding a challenge to the minor injury regulation and auto insurance reforms. What is the current status? Any developments since that decision?

Also, on page 203 of the department's annual report we can see that the Alberta risk management fund has moved from a deficit in the prior year of \$1.3 million to a surplus of \$3 million in the '08-09 year. Why the change, and what plans have been developed for this fund?

**The Chair:** Thank you.

Mr. Chase.

**Mr. Chase:** Thank you. Referencing page 24 of the finance annual report of 2008-09, during a year when investments nosedived in part due to the considerable risk in asset-backed commercial paper, why did the operating expenses for ATB increase by \$84 million?

The supplemental: what was the reason for the \$74 million increase in other income by Alberta Treasury Branches referenced on the same page? What is this other income?

**The Chair:** Thank you. Mr. Kang, do you have any other questions? No? That's fine, then. No other members?

On behalf of the standing committee, Mr. Wiles, I would like to express our gratitude to you for your attention this morning. You are

now free to go, but again thank you, and the very best as you proceed into the 2009-10 fiscal year. Thank you. I appreciate it.

We're going to move on now to item 5, other business. Mr. Mason.

**Mr. Mason:** Thank you very much, Mr. Chairman. I'd like to raise a question relative to the possibility of a special investigation by the Auditor General into the handling of the H1N1 influenza vaccination program in the province. I have here the Alberta plan for the pandemic influenza as well as the government of Canada guidance on H1N1 influenza vaccine sequencing, including direction to the provinces. What I'd like to know is whether or not the program that is currently being rolled out by the government is adequate, whether it complies with these documents, and whether these documents themselves are adequate.

The reason I do that is because we have a situation where we could have had and will likely have in the future a much more dangerous and virulent virus. Most of the experts are predicting that at some point this is going to happen. If we have the same kinds of, I guess, glitches, which are not limited entirely to Alberta, I have to say – across the country we've seen some similarities. I think this would be a very important area for the Auditor General to look at so that for the next pandemic or serious virus that spreads in our population, we're better prepared.

I'll provide these documents to the clerk, and I would like to ask the Auditor General to consider undertaking a special investigation under the authority that he has.

**The Chair:** Are you proposing a motion?

**Mr. Mason:** No. The Auditor General has the authority to do this on his own.

**The Chair:** Okay. But not through the Public Accounts Committee.

**Mr. Mason:** Well, he would report back.

**The Chair:** Yes. Just a historical point I would like to make. I read that the Standing Committee on Public Accounts in Ontario passed a motion that was supported unanimously by all members to have their Auditor General look at electronic health records in Ontario, and that's how the process worked there. But you're just suggesting that, directly, he has the authority under the act.

**Mr. Mason:** He does.

**The Chair:** Okay.

*10:00*

**Mr. Dunn:** May I just speak to that? As you are aware, we have looked at infection control, the Health Council. We have looked at these areas in the past, so we're quite capable of doing such a request. We have in the past felt that it was appropriate for our office to look into those sort of processes, systems, both the plan and the implementation of the plan and then, in turn, finally, the reporting back around how and what works. Our office has in the past looked at health care provision, whether within the regional health authorities or in all of AHS.

Thank you.

**The Chair:** Thank you.

Are there other members that would like to discuss this suggestion from Mr. Mason? Okay. Mr. Chase, please proceed quickly.

**Mr. Chase:** Thank you. I appreciate your willingness to investigate. Do you have the funding in place in order to investigate? One-third of previous projects had to be deferred or cancelled.

**Mr. Dunn:** On November 20 I meet with the Standing Committee on Legislative Offices on budgets, and we will discuss that with them.

**The Chair:** Thank you.

Mr. Dallas, please, followed by Mr. Vandermeer.

**Mr. Dallas:** Thank you, Mr. Chair. You know, I appreciate the discussion here, and certainly I understand that the Auditor General has the wherewithal to initiate and conduct a review of that. My suggestion is simply that the timing of a decision to do that, it strikes me, would be at some point in the future. Clearly, while there's been a significant review of the planning processes that are in place to date, the timing to do a further review of that would be at some point after the execution of the planning, which has been years in the making here. I would just suggest that rather than jump into this, what we want to do is ensure that any officials with respect to health delivery in the province are focused on the delivery of that plan and that at some point it might be appropriate that the Auditor General would want to take a look at the execution.

**The Chair:** Thank you.

Mr. Vandermeer, followed by Mr. Quest.

**Mr. Vandermeer:** Yeah. I don't think that we need to get into this. I think Mr. Mason is just trying to add to the hysteria that's going on out there. We've got a situation here where at first we were worried that not enough people would come out and get the vaccination, and now we've had such a successful campaign that we ran out.

This reminds me of – in my other life I build houses. I wouldn't want to build a house for Mr. Mason because when it rains and he says, "Well, I thought you were going to put the shingles on the house yesterday," I say, "Well, it rained." Well, too bad, right? When you build a house, sometimes you get frost, sometimes you're dealing with things, and you get backed up because you had a storm or something. You roll with the punches, and you do the best you can. In this situation we're doing the best we can under extreme circumstances.

**The Chair:** Okay.

Mr. Quest, followed by Mr. Mason.

**Mr. Quest:** This is a surprise to all of us today. I'm not sure Public Accounts is really the place for the discussion, but if the discussion has to take place, I'm going to move that we table this discussion and bring it up at a future meeting.

**The Chair:** Would you like to move a motion to that effect?

**Mr. Quest:** That was my motion.

**The Chair:** That was a motion to table this discussion.

**Mr. Quest:** I need a seconder.

**The Chair:** No, you don't. But the chair would like to point out that members are certainly entitled to bring forward a motion without notice. There was a motion without notice by the Member for Athabasca-Redwater to restrict and limit Alberta Health Services

and the department of health to a 90-minute meeting instead of two separate meetings. The chair allowed that. So Mr. Mason is certainly within the rules to have this issue discussed, and if it's of public importance, which I think it is, and there's an issue of public safety, perhaps – are you seeking direction from the committee through the Auditor General?

**Mr. Mason:** No, no, Mr. Chairman. You know, I think this is a very important question now. The government has said that they will have everyone in Alberta who wants to be vaccinated vaccinated before Christmas. That's not too far away. So, you know, I accept Mr. Dallas's point – I think it's a good one – that you don't want the people involved in the delivery of this program to be preoccupied with dealing with the Auditor General. But I do think that it's very important that we really do get a good, solid look at how this was planned and rolled out and whether the plans and the implementation were adequate because people's lives in the future may depend on it.

Mr. Vandermeer may believe that I'm just playing politics, but I think that we should not play politics the other way and try and head off a proper review of what's happened, which could in fact save lives. If it's any consolation to Mr. Vandermeer, if I were to be purchasing a new home, I would not come to his company either.

**The Chair:** Okay. We're not going to get into who's going to build what house where.

Now, Mr. Quest has a motion before the committee to reserve some time at our next meeting, which is two weeks away because Remembrance Day week is next week. We're going to vote on that motion without any further debate. Now, the chair needs direction. Do you want to set aside 10 minutes, 15 minutes at our next meeting for this discussion? What would you like to do?

**Mr. Quest:** I think 10 minutes is probably more than adequate.

**The Chair:** Okay. We're going to vote on this motion. The motion from the Member for Strathcona is to table this discussion until our next scheduled meeting, and we will set aside time on the agenda at the next scheduled meeting to deal with this matter. Is that to everyone's understanding and agreement?

**Mr. Kang:** Mr. Chairman, 10 minutes wouldn't be enough. We should bump it up to 15 at least.

**The Chair:** Well, there's a long list here of speakers already this morning.

**Mr. Olson:** Excuse me, Mr. Chair, can I just ask a question? What's the purpose of the discussion? Mr. Mason has made no motion. He's not asking for any action. I mean, we can all go have a coffee right now and talk about it, too. I'm just not sure what we are seeking to accomplish. If, you know, the wish of the committee is to set aside some time to have the discussion, I guess that's fine, but at the end of the discussion, we had a discussion. I don't think there's any resolution that will come from it.

**Mr. Quest:** Well, I think, Mr. Olson, it's like eight minutes after 10 now, and this could be an ongoing discussion. We're eight minutes over time now, so my feeling is that I guess it is an item that is of some importance. But I for one don't understand the process and where we're going with this and would certainly like an opportunity to research how that works and doesn't work. Again, it could be a 20-minute discussion. It's 10:09 now. I think if we set aside 10

minutes at our next meeting to discuss it further, it's 10 minutes to discuss it further.

**Mr. Dunn:** In 30 seconds. The next meeting is with us, and we're going to talk about the April and the October reports. A question that you often ask is: how do you decide what you're going to do? I believe that is the question which Mr. Mason and maybe Mr. Olson will look to us to answer. How have you decided what you will do? I think we should be prepared, then, to go on to: what might you do for the April 2010 and October 2010 reports? As much as your suggestion was there, you're obviously assuming we haven't thought of this.

**Mr. Mason:** No.

**Mr. Dunn:** We do have a planning process. We do have a protocol we go through. We do work with all the organizations out there. So we're quite prepared to discuss with you what we're going to do, when we're going to do it, why we're going to do it, that type of thing, to answer. It might do exactly what Mr. Olson was saying: give you the guidance as to what more matters you might want to advise us as to "Maybe you should spend more time over here." Okay.

**Mr. Quest:** Sounds like a good topic for the next meeting.

**10:10**

**The Chair:** Okay. So you're withdrawing your motion, are you?

**Mr. Quest:** Yeah. If it's just a discussion item, it's just a discussion item.

**The Chair:** Okay. Let's do that. Members will have ample time to discuss the act with the Auditor General and what he can and cannot do under that act. Well, that solves that issue to everyone's satisfaction, hopefully.

Any other business? Seeing none, the date of the next meeting, of course, is November 18 with the office of the Auditor General. We'll be going through the 2009 report from the end of September.

**Mr. Dunn:** Both reports.

**The Chair:** Both reports, yes.

Can I have an adjournment motion, please? Mr. Olson. Moved by Mr. Olson that the meeting be adjourned. All in favour? None opposed. Thank you very much. We'll see you in two weeks.

[The committee adjourned at 10:11 a.m.]





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