Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on
Resource Stewardship

Ministry of Treasury Board and Finance
Consideration of Main Estimates

Monday, March 18, 2013
7 p.m.

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Standing Committee on Resource Stewardship

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Standing Committee on Resource Stewardship

Participants

Ministry of Treasury Board and Finance
Hon. Doug Horner, Minister
Annette Trimbee, Deputy Minister

7 p.m. Monday, March 18, 2013

[Ms Kennedy-Glans in the chair]

Ministry of Treasury Board and Finance
Consideration of Main Estimates

The Chair: Good evening, everyone. Welcome to this standing committee. We've got six hours scheduled for Treasury Board and Finance budget estimates for 2013-14.

I would like to remind you that *Hansard* is operating the microphones, so please don't touch them. If you've got a cellphone, if you can just put it under the table, that would be wonderful.

I'll just go around the table and ask you to make introductions, and when we get to the minister, maybe you can mention who is here as well. Thank you. I'll start here with my vice-chair.

Mr. Anglin: Joe Anglin, MLA, Rimbey-Rocky Mountain House-Sundre.

Ms Kubinec: Maureen Kubinec, MLA, Barrhead-Morinville-Westlock.

Ms Calahasen: Pearl Calahasen, Lesser Slave Lake.

Mr. Khan: Stephen Khan, St. Albert.

Ms L. Johnson: Linda Johnson, Calgary-Glenmore.

Mr. Webber: Len Webber, Calgary-Foothills.

Mr. Eggen: David Eggen, MLA for Edmonton-Calder.

Mr. Casey: Ron Casey, Banff-Cochrane.

Mr. Hehr: Kent Hehr, MLA, Calgary-Buffalo.

Mr. Horner: Doug Horner, MLA, Spruce Grove-St. Albert, and I have with me my deputy minister, Annette Trimbee, and two of our assistant deputy ministers, Aaron Neumeyer and Bruce Perry. I'll introduce them a little more later.

Mr. Hale: Jason Hale, MLA, Strathmore-Brooks.

Mr. Bikman: Gary Bikman, Cardston-Taber-Warner.

Mr. Anderson: Rob Anderson, MLA, Airdrie, and to my left is Dr. Bill Bewick, our director of research.

Ms Smith: Danielle Smith, Highwood.

Mr. Sandhu: Peter Sandhu, Edmonton-Manning.

Mr. Allen: Mike Allen, Fort McMurray-Wood Buffalo.

Ms Fenske: Jacquie Fenske, Fort Saskatchewan-Vegreville.

Mr. Lemke: Ken Lemke, Stony Plain.

The Chair: Donna Kennedy-Glans, your chair, from Calgary-Varsity.

I just want to mention, too, that there is a standing mike at the back in case, Minister, you need to ask one of your colleagues to provide some advice.

Mr. Horner: Well, I've brought enough of them.

The Chair: You did indeed.

Hon. members, as you know, the Assembly approved amendments to the standing orders that impact consideration of these main estimates. Before we proceed with consideration of these estimates for the Ministry of Treasury Board and Finance, I'd like to review briefly the standing orders governing the speaking rotation.

As provided for in Standing Order 59.01(6), the rotation is as follows. First, the minister or the member of the Executive Council acting on the minister's behalf may make opening comments not to exceed 10 minutes. For the hour that follows, members of the Official Opposition and the minister or the member of the Executive Council acting on the minister's behalf may speak. For the next 20 minutes the members of the third party, if any – of course, there is a third party – and the minister or the member of the Executive Council acting on the minister's behalf may speak. For the next 20 minutes the member of the fourth party and the minister or the member of the Executive Council acting on the minister's behalf may speak. For the next 20 minutes private members of the government caucus and the minister or the member of the Executive Council acting on the minister's behalf may speak. Any member may speak thereafter.

Members may speak more than once; however, speaking times are limited to 10 minutes at any one time. A minister and a member may combine their time for a total of 20 minutes. Members are asked to advise the chair at the beginning of their speech if they plan to combine their time with the minister's time. If you'd just say something to me like "combined time" or "back and forth" if you don't want combined time.

Once the specified rotation between caucuses is complete and we move to the portion of the meeting where any member, not caucus, may speak, the speaking times are reduced to five minutes at any one time. Once again, a minister and a member may combine their speaking time for a maximum total of 10 minutes, and members are asked to advise the chair at the beginning of their speech if they wish to combine their time with the minister's time.

Six hours have been scheduled to consider the estimates for Treasury Board and Finance. I will call a break somewhere near the midpoint.

Committee members, ministers, and other members who are not committee members may participate. We just need you to come forward to the table and have access to a microphone. Members' staff and ministry officials may be present, and at the direction of the minister officials from the ministry may address the committee.

If debate is exhausted – or we're exhausted – prior to six hours, the ministry's estimates are deemed to have been considered for the time allotted in the schedule, and we will adjourn; otherwise, we will adjourn at 10 p.m. today and 10 p.m. tomorrow.

Points of order will be dealt with as they arise, and the clock will continue to run. Now, that's an important piece; the clock always runs.

Any written material provided in response to questions raised during the main estimates should be tabled in the Assembly for the benefit of all members.

Vote on the estimates is deferred until consideration of all ministry estimates has concluded and will occur in Committee of Supply on April 22, 2013.

With that, I would invite the minister to start his comments.

Mr. Horner: Well, thank you very much, Chair, and good evening, all. I am pleased to be here to share the Ministry of Treasury Board and Finance's business plan and estimates. These documents are founded on Budget 2013, which was the result of tremendous work by Treasury Board and Finance staff. I'd like to acknowledge and thank them for these efforts because they did do a tremendous amount of work in putting these things together.

To my right is Deputy Minister Annette Trimbee. To my left is Aaron Neumeyer, assistant deputy minister, budget development and reporting division for the department. To my far right is Bruce Perry, assistant deputy minister of strategic and business services division for the department.

In the audience behind me – and I'm not going to go through all of their roles, Madam Chair, because that will take up pretty much all of my time – are Mark Prefontaine, David Williams, Rod Matheson, Ian Ayton, Kate White, Stephen LeClair, Chris Bourdeau, Monica Barclay, Darwin Bozek, Richard Isaak, Craig Johnson, Melissa Banks, and Irene Chan. Many of these folks you will have seen at other budget presentations or financial presentations that we've had. There's a lot of knowledge and firepower behind me as we move through this and a tremendous amount of commitment to the province of Alberta and the people of Alberta.

Before I talk about the specifics of our business plan, I will speak briefly about where Alberta is today fiscally and economically and how this influenced the budget that I delivered nearly two weeks ago now. In 2012 Alberta led the country in economic growth. We also led the country in job growth, and we had the lowest unemployment rate in Canada. While still healthy, our economy is expected to expand at a more moderate pace in the year ahead.

Our population growth is not expected to be as moderate. Alberta is forecast to expand to more than 5 million people in less than 20 years, people drawn, no doubt, to our jobs and economic strengths, but while Alberta's economy remains relatively strong, we're facing some serious fiscal challenges, challenges that come from lower energy prices and the discounted price that Alberta producers have been getting for their bitumen. These lower prices are impacting our bottom line dramatically, and we're seeing more than a $6 billion drop in resource revenue from the Budget 2012 forecast.

Budget 2013 reflects the challenges we're facing right now, our ability to continue delivering on Albertans' priorities with lower than expected revenues, and our need to prepare for a much larger number of Albertans and their families 20 years from now, people who will expect the same high level of services and public infrastructure as this government provides today.

It's a unique challenge, and we are ready for it. With Budget 2013 we're instituting responsible change and ensuring that with every step we take, we will continue to be fiscally responsible. The budget focuses on three priorities: building Alberta by investing in families and communities, including the new schools, health facilities, and roads we need; ensuring government lives within its means by challenging every dollar in spending and making sure every program continues to deliver real results for the people of Alberta; and working to open new markets across Canada and around the world for Alberta's resources – that's food and technology and especially today, obviously, oil and gas – to obtain the highest possible price.

That brings us to our 2013-16 business plan. Coincidentally, our business plan also includes three goals. Goal 1 is about providing the leadership and the economic, tax, and fiscal advice that supports strong and sustainable government finance. A key priority under this goal is to implement a renewed fiscal policy and savings strategy to reduce our dependence on nonrenewable resource revenue. We've started down this road by introducing the Fiscal Management Act, which is the new legislation that sets out clear rules and creates the requirement for an operational plan, a savings plan, and a capital plan.

7:10

We will also provide effective leadership in cash and debt management government-wide. We are bringing in a borrowing strategy for our capital plan that includes a plan that sets limits on borrowing and a plan for paying down the debt. Our fiscal experts will be put to the test as we move this leadership to an even higher level. We will provide AIMCo, our investment manager, with investment strategies to achieve optimum investment performance in how they manage approximately $70 billion in investments for the government of Alberta. We will ensure the integrity of Alberta's gaming and liquor industries by modernizing business practices and services so that Albertans continue to have choices and these choices continue to be protected.

Our second goal is to provide policy and regulatory oversight for the financial, insurance, and pension sectors that is effective, fair, and in the interests of Albertans. Our work to support this goal includes developing and implementing policies to improve the adequacy of retirement income. We are embarking on a review of Alberta's public-sector pension plans to ensure the sustainability of these plans. This review will ensure these plans remain part of a competitive compensation package for the public service while protecting the interests of the taxpayers.

Finally, goal 3 is about ensuring that this government is effective and efficient. In support of this goal we are reviewing all government programs and services to ensure they're delivering the outcomes that Albertans expect. The results-based budgeting process is already under way and is in fact being accelerated. It's now expected to be complete by May 2014, one year ahead of schedule. We'll also strengthen accountability by continuing to implement innovative practices that ensure Albertans receive informative, timely, and readable business plans, annual reports, and government estimates.

Now that I've gone over our business plan, I'd like to provide to you some of the highlights from our estimates. Our revenue is forecast to increase by $1.75 billion from Budget 2012. This is largely due to increases in corporate and personal taxes as well as from investment income as we see increases in the investment base of the savings trust fund and other endowment funds. Other revenue increases are related to net income from commercial operations, $198 million. The AGLC is expecting increased casino and liquor revenue, and the ATB is generating more interest revenue from loan and deposit balances. My department's voted expense decreased by more than $9 million from Budget 2012 as we become more efficient in our delivery of services on behalf of Albertans. This decrease is offset by increases in some of the statutory expenses to cover the growing cost of the teachers' pre-1992 pensions, a $9 million increase, and debt servicing, a $12 million increase.

Our continued commitment to growing our investment returns is reflected in an increase in AIMCo's operating expense, which is up $55 million from Budget 2012. This is a net-gain type of expense, though, as the higher operation expenses for AIMCo means that they are delivering a higher return on our investments, and that's good news.

That brings me to the end of my presentation of Treasury Board and Finance business plan estimates. I think I've demonstrated the commitment to achieving the goals in our business plan and explained some of the reasoning behind our estimates. This shows how our government through Budget 2013 continues to implement responsible change. We're protecting core programs and services while living within our means. We're preparing our province for a new and larger generation of Albertans.

With that, Madam Chair, I say thank you.

The Chair: Thank you, Minister, for that introduction.

For the next hour the Wildrose caucus will lead the questioning, and I will turn it to you, Mr. Anderson. Would you like to go back and forth with the minister, or would you like to do set times?

Mr. Anderson: Back and forth if that would be okay.

The Chair: Absolutely.

Mr. Anderson: All right. Thank you for the report, Minister, and I look forward to our six hours here. I'd like to start. I've got several areas to cover over the next while here.

I want to start with your new reporting standards for the budget. Obviously, I'm sure, you read the newspapers like everyone else. It did cause a bit of a stir in that it was quite a departure from previous ways that the budget had been reported in the past. One of the issues, of course, was no consolidated budget deficit number, that people were used to. You gave the number $2 billion on budget day. Your associate minister said that if we used the previous method of calculating the deficit, it would have been closer to $4 billion. We had it at $5.5 billion. We counted 10 different estimates from opposition parties, within the government, from Associate Minister Fawcett and yourself, and, of course, media and other organizations with different budget numbers, so it's quite confusing.

I just wanted to highlight for you some of the changes, that I assume you're well aware of, that are in Bill 12 and ask you to comment on why these changes were made because they do seem to make the books far less transparent than they were before.

So I'll go through what we've seen. Whereas before the Government Accountability Act mandated there would be specific contents of a consolidated fiscal plan, under your new Bill 12, Fiscal Management Act, there's a requirement only that there be an operational plan, a savings plan, and a capital plan. No contents of plans are required. Under the old act total revenue is broken down by source. That's been repealed under the new one. Total expenses broken down by category: that's been repealed. Consolidated net revenue or expense: that's been repealed. Those don't need to be in there anymore. The economic cushion, total capital investment broken down by ministry: repealed. Net financial position and a breakdown by liabilities and assets: repealed. Borrowing debt requirements: repealed. The old act required a consolidated capital plan. The new one has only a requirement that there must be a capital plan. The old one required reporting for a consolidated capital plan. Now, again, there's only a requirement in the new one that there be a capital plan.

Going further down, the old act said that the minister must provide quarterly reports on the accuracy of the consolidated fiscal plan. In the new one the minister must only report on actual results of the fiscal plan, no consolidated figures and no comparison to budgetary targets. Now, that would of course include projections. It was very difficult during the third-quarter update and second-quarter update to get a fix on what the projection was going forward, and that's one reason we didn't know there was a $1.5 billion operating budget until the budget came out. We didn't know that because the third quarter didn't give us that projection.

The old act mandated the amount accumulated debt was reduced, and in the new one you only need to report the amount added to or withdrawn from the contingency account. In the old one the minister must provide a noncompliance statement if information required under the act is not provided. That has been repealed under the new act.

Those are some of the changes that we've noted in our study here of the new reporting requirements, and I would note that the big ones are no consolidated budget deficit and that the quarterly updates don't require projections. I wonder if you could start by commenting on those things and why you've decided to take that out because it seems to me it would be a lot more transparent if those requirements were left in.

Just so you know, Minister, I have no problem with you dividing it into operating, capital, and savings for how you present it to the media and so forth. I'm not taking issue with that. I'm just asking: why is this information not being included anymore?

Mr. Horner: Actually, all of that information is still included in the consolidated financial statements that we present, which under the new act will be required to be presented as well. So when you look at the consolidated financials, as an example, on page 135 of the fiscal plan, you will see that effectively the old definition that we had in the act, subsection (2) I think it was, basically was a definition of the change in net assets for the province of Alberta. If you look at that, where you see the difference between the bottom line of 2013 forecast and 2012 actual, you get the forecasted in the old definition, which was, in fact, the change in net assets.

What we're going to be doing in the future is presenting you the change in net assets just as it has been in the past because that's the consolidated financial statement, but we're also now going to be showing a clear definition of what is our operating budget, what is the capital plan. Then something that is new, in fact, in the Fiscal Management Act, where we didn't have it in either the FRA or the old GAA, is actually legislated savings. That in terms of the heritage savings trust fund and in terms of nonrenewable resource revenue actually is an add-on.

The majority of the things that are in those two old acts are actually coming forward into the new FMA, things like the 1 per cent spending in-year limit that's coming forward into the new act, things like a borrowing limit. But, in fact, this borrowing limit that we're putting in is actually sensitive to interest rates because as interest rates rise, the actual borrowing limit of the province will go down. So it will force you to manage in terms of a higher interest rate because it's calculated based on that operating revenue.

7:20

The reality is that when you look at what you'll be seeing in the future – and I made a couple of points in terms of what is going to be in there – there are some generally accepted accounting principles that you have to maintain. That's going to be your P and L and your balance sheet, which we're seeing here. The budget presentation is the same budget presentation that we require municipalities to do. I know that there are a number of folks around this table who've had some municipal experience. We actually tell municipalities to separate out operating from capital because we want to know what they spent on operating, and we don't want capital mixed in with that, which is the way we used to do it.

If you're asking why I'm moving it out or what the financial advice that I got was, it's because we want to show what is our true operating cost, not blended in with what was a number of capital items. We're still showing the depreciation on those assets in our operating expenses. You're still seeing a very large depreciation number because we have a lot of assets. You're still seeing the piece off the top which is the debt-servicing costs and the savings. We've had to redefine what operating revenue is because we're taking savings and the debt-servicing costs off the top before we even get to operating revenue.

I thought it was interesting, hon. member, that – I don't think we can use names in committee, can we?

The Chair: We can use surnames.

Mr. Horner: Oh, we can? Okay. Good. Mr. Anderson. You see, that sounds even worse.

I think, basically, that today we were talking about a cap on spending. What the new FMA actually does is to put a restraint on spending for this government and future governments because you're actually reducing the operating revenue piece by taking the savings off the top, first of all. Then with our new definition under the operating expense guideline, we're saying: you cannot expend more than what is your operating revenue less your expenses less what is in the contingency account. You can't go beyond that, which is very similar to some of the stuff that you talked about in your motion.

Then, in addition to that, we're saying that the debt is capped and it must be capped and it is interest-rate sensitive so that if interest rates rise in the future, we'll have to deal with either quicker repayment if it's not a fixed rate or getting out of that marketplace. This is where I talk about the financial management of the capital markets being one that is sound financial management. It isn't based on just borrowing for the sake of borrowing. It's because you have long-term assets and you stretch it out with long-term capital.

The format that we've chosen is something that is very, very similar to what municipalities are doing today and have been doing for a number of years. It's very, very similar to financial statements you would find in your business or in what you would take to your banker. It's very similar to what the Chambers of Commerce asked us to do. In fact, the Alberta Chambers of Commerce recommended that we separate operating from borrowing. Almost all of the companies and financial managers and analysts that I've talked to look at this now and say: "Okay. Now I see. I see where you're going. It's the operating versus the capital piece in and of itself."

The reality is that when you look at what we're going to be presenting in the future – oh, you wanted to talk about quarterly updates. The quarterly updates will also include an update as to where we are in the actual capital markets and what those borrowings are. I know that you know from pulling some stuff off of one of our websites that we already list out all of the bonds that we have out there in terms of the debentures and the interest rates and the maturity dates. Now, that will be updated every quarter as we come forward because the idea of the quarterly updates is, as you would do in your business or when you go to your banker, that you're updating what your actuals were to what your budget was, not trying to reject something that you don't know, which may actually cause you to do things based on what your perceived revenue might be or a change in that when the reality is that it's more than likely not going to happen. Nobody has projected accurately, you know, in terms of a year out.

So every quarter we're not going to rewrite the budget. We're going to maintain true to what we put in the budget, and we're actually going to compare the actual to the budget amount. At the end of the year you will compare year over year just as we're doing here, but quarterly we'll compare actuals to what our budget was going to be.

Mr. Anderson: Thank you, Minister. I appreciate the comments, particularly on the quarterly projections. That would be a very useful thing to have. I do think that it's been standard for a long time, certainly since Mr. Klein was our Premier, that we've had these quarterly updates, and they've shown into the future how you expect the budget to turn out. I think that's something Albertans would appreciate, and I do think they would appreciate a consolidated budget deficit number as well so that they could compare.

We will move on to the issue of debt, and you touched on that briefly. On page 141 of your fiscal plan it's noted that by 2015-16 the total debt for the province for capital will be roughly $17 billion, a little under that. That includes, roughly, new borrowing of 3 and a half billion dollars this year. Now, in order to pay off that debt, on this same page you can see that you've set aside $32 million for principal payments that are due this year, that you're going to pay, and then another $40 million is set aside for future debt retirement, so $72 million in total, $40 million in a kind of debt retirement account, I guess you could say. Next year you're taking on $4.6 billion in debt, according to your own projections here.

Now, I noticed that you have coming due next year $944 million in debt. You say that you have a debt repayment plan; however, clearly the budget doesn't make allowance even for this $944 million payment. So I'm assuming what you're going to do with that is just refinance it and reamortize it and off you go. Could you please explain what your plan is to pay off this $17 billion of debt? I guess it could go up to $40 billion under your debt ceiling. What is the plan to pay it off? Right now all I see is $4 billion a year of debt being added until the end of the '15-16 year, and there's nothing beyond that, obviously. What's the plan to pay off this debt?

Mr. Horner: I'm going to take you, first of all, to page 140, the capital plan itself. The $17 billion is not debt that we're going to be adding on. It's adding on the debt that is only from '13-14, or to the next two years. There was roughly – you know, you can see there that we had a starting opening balance of a little over $3 billion. We've done a number of P3s. There will be some more P3s that will be done in the out-years. At this point in time, though, we're not exactly sure how much of the $3.1 billion is going to end up being in new P3s and how much of it might be in a capital plan like highway 63, how much of it we may look at and go: we may use a cash allocation or we may not.

What we've done is the best estimate we can of what we think we'll be going to the markets with. That's why what you're seeing is a number that, quite frankly, a recorder is probably going to change because as we make those financial decisions, those numbers are going to change in the out-years, and they'll be tied to the $26 billion worth of assets that that $17 billion of debt is applied against. That's things like the Anthony Henday. That's things like Stoney Trail. That's things like the school that Mr. Anderson was digging the shovel on. That's things like the school that's in my riding. I mean, those are things that we've built. A lot of that was done with P3s, and some of it was done with some other capital financing.

If you turn to page 75, the government is going to be setting aside money each year in the capital debt repayment account to ensure that sufficient cash is available to repay the debt as it comes due, matching the amounts being set for debt repayment with the maturities where possible. We're going to be looking at the actual amounts set aside. They're going to be calculated on the amounts that are borrowed and the relevant interest rates. That's why the $40 million is set aside first because that's what we know today.

As you may have heard me say earlier, we're going to be sticking to as much of the actual projections as we possibly can. That means that we're going to be doing things like refinancing some debt. We've got some old debt, that goes all the way back to '93, that was for some schools that you'll find in one of the line items in our budget. That is a debenture that we're continuing to pay, I think, something in the range of $20 million on. That was for the changeover when we had school boards using their ability to raise capital and borrowing for schools and we took over all of the school construction.

So long-term debt is something we manage on a daily basis, really. As those amounts are required, we'll be setting them aside, and you'll see that in the reports and also in the quarterly reports.

The $905 million is probably going to be a refinancing as a rollover for the budget because of the rates and the structure that we have on that. Again, we're borrowing for lending as much, if not more, actually, right now than we are on the capital side because municipalities, frankly, are taking advantage of low term interest rates through the Alberta Capital Finance Authority in a very big way. I don't anticipate that that's going to change any time soon because the requests that we're getting are driving that up.

7:30

Mr. Anderson: Thank you, Minister. Noticing the debt servicing costs, also on page 141: $238 million this year, $404 million next year, and going up to $593 million for 2015-16. Under your debt ceiling – I mean, obviously it depends on rates of interest and amortization, and all those different things – it could go as high as $1.2 billion, in that neighbourhood, maybe a little higher, maybe a little lower, and up to $40 billion in debt. So $1.2 billion, if it was to go that far, even just $600 million, the number from 2015: that's a heck of an amount.

I think it's clear that the reason we tried to get out of debt during the '90s was to avoid this exact problem, the problem that we see in western Europe, the United States, et cetera. The debt servicing costs in the United States, for example, take 4 cents of every dollar. Clearly, we're not there, and I'm not intimating that we are, but if we continue down this path – of course, we've seen how much the debt ceiling means down there. They just raise it when it's convenient for them. If we go up $200 million a year and keep going in that direction, it's not going to be long before, you know, 5 cents, 10 cents, 15 cents on every dollar is going to be spent on debt financing and sending in to the banks. No wonder the banks like the borrowing plan.

Mr. Horner: Well, it isn't just the banks that are suggesting to us that financial management and sound financial decisions would say that you put long-term capital to long-term assets. That would be the Canada West Foundation; that would be the Chambers of Commerce; that would be the Canadian Federation of Independent Business; that would be a whole raft of folks who believe that the direction that we're taking is the right direction for this time.

Now, in the '90s, with the rates where they were and the capital markets where they were, I probably wouldn't have been talking about doing this. It all depends on what the financial situation is and the environment you're operating in. I know you made the comment that you're not trying to compare us to Greece or, you know, to some of these other jurisdictions that are actually financing their accrued deficits with debt. That's something that we cannot do legally and we won't do. To carry accrued-deficit debt, where you're paying interest for what effectively is your credit card, is the wrong thing to do. You'll get no argument from this minister on that, and we won't do that.

To carry financing on a long-term asset that has a life span of 40 years when interest rates are as low as they are – with the leveraging that you can do with your financial statement, frankly, it would be irresponsible from a financial management perspective not to leverage your balance sheet for those long-term assets. That is really the debt-servicing costs that you're seeing on that line. It's for capital debt. There is no debt here for operational or accrued deficits because we had the foresight of the sustainability fund, which is now the contingency account, which will continue under the new format. We've set the limit for redeposits, if you will, into the contingency account of up to $5 billion, but we actually in the budget speech did not cap it at $5 billion.

What we said there is that we would like to see the contingency account as a policy piece be maintained at a level that would be closer to 15 per cent of the annual operating expenses. As our annual operating expenses may climb, the contingency account amount should climb as well, inflation-proofing the contingency account, if you will. I see that as a good hedge on some of the things that may come down the pipe at us. The other good hedge is the fact that we are putting savings away on an annual basis right off the top. The other good hedge is the fact, of course, that these are assets that we're borrowing against, not operational expenses.

The Chair: Let me just interrupt you for a minute. We're at the 20-minute mark. Do other Wildrose caucus members want to speak?

Mr. Anderson: No. I'm taking the full hour.

The Chair: Okay. Please continue, Mr. Anderson.

Mr. Anderson: All right. I appreciate the explanation on the last part. You know, I still see the problem occurring, though, that our debt costs, our servicing costs, are continuing to go up $200 million a year. I mean, that's five, six schools a year that we could build with just the interest we're spending on the debt. In the future when we reach the $40 billion or $35 billion debt ceiling, whatever it is, the same reasons will still exist. The growth will still be there. It seems to me that we'll just be in a position where we'll need to raise the debt ceiling again in order to continue to borrow for capital, but I hope I'm wrong.

Regarding the debt – and we had an interesting exchange in the House about this, so I wanted to flesh it out a little bit – in the House there's been a comparison that you and the Premier and others have used comparing taking on debt for capital like a home mortgage or a business loan. I, of course, and others take exception to that. First off, generally you only get one or two mortgages in your lifetime. Most people do, anyway. They don't get a new mortgage for a new house every year, so it's kind of a one-time thing for new and young couples, generally speaking. So I don't see the sameness there.

The other thing, too, is that obviously the risk is borne by the individual with a mortgage. It's not borne by his kids, generally speaking. It's borne by his estate, not his kids' estate. There's also the issue of appreciating versus depreciating. When you buy an asset, a house, for example, or you get a business loan, you're generally doing it because you're investing in an appreciating asset that you want to sell at the end of the day for something more than what you bought it for. When you buy capital for government, generally those assets depreciate immediately. They cost a fortune to maintain, far more as a percentage of their value than it would to maintain your home, for example. Then at the end of the day generally you can't sell it.

That's where we had a little bit of a disagreement. Not a disagreement. I wasn't expecting what came next from you on that one. When I said that you can't sell these assets, you proceeded to say that, yes, you can sell these assets. Okay. Fair enough. I guess you can sell roads, bridges, schools, buildings, what have you. The next question. According to the capital plan you have $28 billion in total capital assets right now. I'd like to know for last year, for example, or this year – let's talk about this year. How much of that $28 billion do you intend to sell?

Mr. Horner: I don't intend to sell any of it. Well, actually, I shouldn't say that. There may be some capital assets because we do sell capital assets on an ongoing basis. There will be property or land that we have that we'll sell if it's to municipalities. A lot of times we're not going to get market value, but they will put the market value on their books, or they'll put the dollar value that it's transferred on. We've provided property for parks, as an example, and we've paid full value for that property. There's a fairly significant number of land assets and road assets that we have in the province.

But I want to come back to something you said after our last exchange, Mr. Anderson. You said that the interest cost of $200 million could build a lot of schools. I would suggest to you that the interest cost is because we took out a principal amount to build a lot of schools. As an example, the last borrowings we did for capital were something under 4 per cent, 3.4 per cent, on an annual basis. Today – and you can check with the building construction association, and you can check with the Consulting Engineers of Alberta association – the cost of deferring that school, in terms of the construction costs that it will be next year, adds 5 per cent to the cost of that school. In effect you're actually netting 1.6 per cent off that, which I think is actually quite prudent in terms of building it when you need it, and you're actually saving yourself the increase, or the inflationary pressure, on that cost. I'll grant you that that doesn't always work out to be the case, but I can tell you that with highways it does, with schools it does, and certainly with medical facilities it does because of the inflationary pressures that are put on the marketplace.

7:40

When you talk about borrowing for capital, yes, usually you only have one mortgage for one home that is your residence, but we're building many homes. We're building a lot of homes for a lot of people in terms of schools, hospitals, and roads, so each one of those is only going to have one debt against it. There's not going to be revolving debt against each one of them. Each one of them is going to have the appropriate amortized amount against it, with an amount that is going to be an equity amount. I think it's important to understand. A lot of people think we're borrowing a bunch of money and that we're then going to reborrow that money even though the asset isn't there. That's not the case. What we're doing, as we did with 63, is that we're tying these dollars to an asset that has a long life.

Take, as an example, the Calgary south hospital. I think it's $1.3 billion worth of asset that's sitting there. Frankly, it has value. If it didn't have value, why would you build it? You'd just get somebody else to build it. But it has value. The $1.3 billion we paid in cash. I would hazard a guess that financial managers would have said to you: "It's a 40-year asset life. Why didn't you at least leverage half of that and put the other half into your savings account? Why didn't you at least use some of that to maybe build some of the smaller hospitals around the province that we actually needed?" Instead, because that's the way we were doing it, we put all of our money into one project.

If you were doing things just on cash, the Anthony Henday would not be a ring road around Edmonton today. That's $5 billion. The Stoney Trail would not be on your radar because it would use up all of your year's capital and then some in the next year, and you wouldn't build anything else, which has been part of the issue.

The other thing that I'm going to say is that if you find that there's no value in the assets that we're building and that we're putting on our books, why are you depreciating over a billion dollars a year? If it has no value, why depreciate it? That means that I'm in a balanced situation because you could just add another billion dollars into my operating – that's not accounting standards, not wise, because you should be recognizing that the assets are depreciating on the balance sheet because of that depreciation. Think about it from an accounting perspective. If we're depreciating that much every year, that's a significant devaluation of your asset, but even with doing that, our net assets are going to continue to climb. So the balance sheet is getting better even with the borrowing that you see on this document.

The other thing I'm going to say to you is this: I'm not going to leave my kids with a debt-free house. Sorry to those kids that are listening right now. I'm going to pay off my debt, and they're going to pay off their debt. The fact – and I mentioned this in the House – that my grandkids are going to be looking for a school: I fully expect that my kids are going to pull their weight for the assets that they're going to be using and utilizing in the future, and I fully expect that down the road – you know what? – my grandkids are going to have to pay their way, too. When they go into that school, if there's still a mortgage on that school, it'll probably be a lot less than it would be today. It would seem relevant and appropriate to me that they would be paying something for that asset, for the use of that asset.

Yes, you can say that you want to leave the province debt free for your kids and tax free so they're going to, I guess, not have to pay taxes, not have to pay anything. That's just not prudent, and it's not going to solve the problem that we have today.

Mr. Anderson: We'll have to definitely agree to disagree on that. We could be here all day debating what we should be leaving to our kids, and a debt-free Alberta is certainly something that I think I would like see us leave to our children and grandchildren.

Mr. Horner: That would mean, though, hon. member, that all of the municipalities would have to pay off their debt, too, because we're liable for that as well.

Mr. Anderson: Well, we live in a debt-laden society, and we see the results of that all over the world right now. We should learn from it.

The other thing is that you mentioned net assets, that they'll be growing from $24 billion to $28 billion by 2016, as per page 141 of your fiscal plan.

Mr. Horner: No. Net assets are on page 135.

Mr. Anderson: Sorry. This is net capital assets. My bad. I'm not talking about financial assets.

Now, if they're going from $24 billion to $28 billion, that's a $4 billion increase, but as you stated, you're borrowing $12 billion to $13 billion in order to get that $4 billion increase in that same time because, of course, as you stated, when you build an asset, you count it as an asset, and it offsets the liability. So your net assets are indeed going up, but it's kind of nonsensical. Like, how can we borrow $13 billion and then have our net assets go up? You know, that's the reason. So I'd like you to comment on that first

Then the second thing. While we're talking about what we're leaving to our children, Minister, in 2008 we had a $17 billion rainy-day fund, sustainability fund, which will be worth at the end of this year $600 million, so very close to nothing remaining after it being $17 billion. Now we're looking at $17 billion in debt by 2016 and zero dollars in the rainy-day fund. Our heritage fund is worth less than it was in 1976, when Lougheed first established it. We're essentially borrowing billions to save a few millions right now. There's nothing illegal or anything about your new numbers and the way you're counting things. I mean, it's all good. It's all here. It's just that people are looking at the map and saying: "How is it that the Finance minister can say that we're actually increasing our net assets but borrowing $13 billion while doing that? And how can he say that we're saving when he puts a few hundred million dollars into savings but he borrowed $13 billion in that same time frame?" People aren't understanding the common-sense math on that.

Mr. Horner: Well, first of all, with a number of the entities that we on-lend to, their assets are not reflected in that. So when you borrow $10 billion and you provide that to municipalities to build their assets, that's on their books, not on these books. When you do the postsecondaries, when you do the schools boards, those sorts of things, we are gradually moving to a consolidated financial statement of all of those. Frankly, we lead the nation in terms of the consolidated financial statements of what they call the SUCH sector, which I know you know. Those assets are built into that $72 billion of assets that we have paid for over the last – I forget the date now, but it's over a large number of years.

When you talk about the $17 billion in the rainy-day fund, the actual fact is that that was a combination of two funds. You would remember from your time on Treasury Board that we actually combined two funds. One was what is really the contingency account now; the other was a capital account. So the majority of those funds actually went to build infrastructure in the province. So to say that it was squandered is a bit misleading in a sense that it wasn't just, you know, thrown out the window. It built a highway somewhere. It built a school somewhere. It went into the front end of a P3 somewhere. Even though we have a 30-year liability, a big chunk of those P3s required a very large, upfront cash payment. There's a fairly significant amount of cash in a number of these P3s throughout the province. That's where the $17 billion really is other than the deficit that you saw in the changeover in the net assets.

When you look at net assets at the bottom of the page there, you're looking at only what we put on the GOA balance sheet and not what is across the board.

Mr. Anderson: Okay. Appreciate that.

Just a quick question here again. Now that we've kind of debated the policy part of it, how much in capital assets did you sell last year, and how much are you planning to sell this year? I mean, it doesn't have to be exact. I can't see it anywhere in the documents. What would be the general numbers there? Certainly for last year you have that number.

Mr. Horner: It's not really a budget item. It would go into revenue in the various departments. As an example, if ESRD sold land, that goes into the Infrastructure budget, I'm pretty certain, in terms of where we would receive the funds into. If you go to page 141, you've got net book value of capital asset disposals. You'll see in there a line item, $61 million of assets that we sold would have been removed from there.

Mr. Anderson: Sixty-one million. Okay.

Mr. Horner: That would have been last year's. Page 141.

Mr. Anderson: What table are you looking at?

Mr. Horner: I am looking at the capital assets table, where it says, Net Book Value of Capital Asset Disposals. Those would have been items that we would've sold. You'd have to do a little bit more of a deep dive to figure out what those actual assets are. I can tell you that there's a broad range of things that we do. Everything from ESRD to Energy to Infrastructure owns properties around the province.

7:50

Mr. Anderson: Okay. So $28 billion in capital assets, and you sold $61 million last year, roughly, I mean, give or take.

Mr. Horner: We want to keep them. Why would we sell them?

Mr. Anderson: That's right. Exactly. We want to keep them. Again it goes back to that idea that you can't really sell these assets because you do want to keep them. You do want to maintain them and upgrade them.

Mr. Horner: I don't want to sell my house, but I still list it as an asset on my balance sheet.

Mr. Anderson: Well, that's fair enough, but you don't buy a house every year.

Mr. Horner: I've got three kids.

Mr. Anderson: You think you've got problems?

Results-based budgeting. Look, I certainly think this is a good thing that you're doing here with results-based budgeting. I have no qualms with it. You know, we'd call it something else. I think it's a little bit of a funny term. We would prefer zero-based budgeting. I know this is a little bit different. Nonetheless, looking at the departments, seeing where you can save money and still deliver the services that Albertans need I think is a really good idea, but it's still a little vague for me.

Now, you said that it would be done by 2014, so obviously this project is under way right now. Can you please give us any exact dollar figure of any specific savings that have been derived from this process thus far? Has there been any specific program that's been cut or amended in order to save the taxpayer money, and could you give us what that would be?

Mr. Horner: I don't have the list that we've been talking about right now, but I can tell you that the process of results-based budgeting that we've just launched – there are a number of the proponents around the table. The process is that the proponents, not the departments but the proponents who manage a program or service or service delivery, are the ones that have to come up with a plan for the review, okay? This is very similar to an audit committee that would be looking at creating an audit plan. That process is complete for the first raft of programs and services, so roughly a third of 800 programs and services.

That review plan was presented to the challenge panels. I know in the Wildrose Alliance plan you were going to farm it out to an audit firm, which would be very much focused on auditing the numbers. We looked at that. We thought: interesting. The federal government did something similar to that, and I did have a meeting with the President of the Treasury Board in Ottawa and asked him how they approached it and whether they would approach it again the same way. One of the things that he talked about was that that told them how much something cost. It didn't tell them whether they were getting value for what they were paying.

The best way to do that is to have Albertans who have financial knowledge or have some knowledge of the workings of, you know, government departments or programs or not-for-profit programs sit around the table and listen to the government civil service explain to them why a program is valid. That is what we have. We have challenge panels of people with financial knowledge who are outside government that are very much living up to their name of a challenge panel and going back to the proponents and saying: "The audit plan that you've got or the review plan that you've got doesn't go far enough or doesn't go far enough in these areas. Go back and rework it."

The next step of that is that after they come back and they've brought forward these plans, they go back and now bring forward the rationale and the zero-based budgeting, if you will, because it is a part of it. They bring that back to the challenge panels and say: "Here's what we think you should do. Either get rid of this program, change this program, or add some resources to this program." The challenge panels will then challenge those assessments and those assertions. At the end of the day, you want recommendations coming forward, which then become part of the policy decision of government because everyone around this table, including yourself, is elected to represent and to make those decisions.

We pull that back out of the process and say: "All right. If we're going to make a policy decision, that has to come back to the table where we do policy discussion," and we make that policy decision. You'll start to see those implemented in this fiscal year and in the next fiscal year. We moved it all up because this is not a we're-done-in-2014 process. This starts all over again in 2014. We go back to the same programs and services and deliveries that we made recommendations for to make sure that they're following those recommendations, which is the other piece that we did different than, say, the feds in the sense that the feds just went in and took a piece out. That's what they did.

I can tell you that part of the savings that we're achieving on the operating side across the board in the departments – every organization that is as large as ours every once in a while needs to be shaken up a little bit, and this has shaken up the organization in a very, very good way. I don't think we'd have received about $180 million or so, $180 million plus, of operating savings that we've seen in this year if we hadn't actually started this process, because it gets people to think about what they're doing so that they don't buy a bunch of stuff in March, don't buy a bunch of inventory. Of course, you and I actually have had conversations about this in your past life when you were on the right side of the table.

Mr. Anderson: No. I was on the left then.

Mr. Horner: The idea was that we had to do something. With all deference to the civil servants that I've worked with, who are all very conscious of their job and what they do, we wanted to get rid of March madness. I think results-based budgeting and putting the operating expense on a quarterly actual to budget is going to do that because not only do we now have results-based budgeting, but every quarter the actual operating expense is going to be seen to be progressing as we move through the year. The Auditor General is very keen on this. The audit committee is very keen on this. I'm very keen on this. I can tell you that there are some people that aren't very keen on this. But that's the whole point.

I see that your colleague likes March madness for whatever reason.

Mr. Anderson: He's a big basketball fan.

Mr. Horner: Oh, that's what it is, college basketball. There you go. He's probably in a pool somewhere.

I mean, that's the whole point of results-based budgeting, to get us to a culture where we are constantly reviewing what we're doing to make sure that the outcome of what we're doing is the result that we actually wanted to achieve in the first place.

The Chair: Mr. Anderson, I'll just interrupt for a minute. I assume you're going to continue, but we're down to about 16 minutes.

Mr. Anderson: Yeah. You bet. Sixteen minutes and 30 seconds, Madam Chair.

The Chair: Good.

Mr. Anderson: A hundred and eighty million dollars was some of the in-year savings you talked about. I would just encourage you – and I'm sure you will – to proclaim from the rooftops, brag all you can when you find these results. Please let us know because I think people need to see the importance of this process, zero-based budgeting, results-based budgeting, whatever you want to call it. I think it's very important.

One thing I would ask. I know you're not a big fan of arbitrary targets. That said, of course, in the Wildrose plan we did suggest that you set a target over the next four years to reduce what is spent on non front-line services, so essentially in the civil service of AHS and, in your case, the government bureaucracy, a reduction of 20 per cent in those line items. I know you say that you don't like to have these arbitrary targets, but there's a multitude of studies out there saying that what we spend in the civil service here on non front-line workers is very high compared to the national standard. For some it's 30 to 35 per cent; I've even seen one 40 per cent higher. Would it make sense to set some targets so that we could move towards that over the next four years? I mean, that would really send a message to, you know, look at more efficient ways of doing things. Is that something you would consider?

Mr. Horner: Well, we already did. We announced in the third-quarter update that we were going to reduce management and opted-out positions by 10 per cent. There are roughly 4,800 management and opted-out positions in the GOA. That roughly represents about a $500 million cost to payroll. You can talk about management and opted-out positions and say that you'd get rid of them all. That would save you about $540 million in year. It wouldn't save you anything the next year, but it would save you that much. So we have actually hit a target on that.

What I've always been averse to is setting it into a situation where we could not be flexible should the environment change, and by that I mean should we hit another 2008 or another 2005. That makes for a very difficult situation. Leading by example has actually started to bear fruit as well. I'm sure you're aware of AHS's decision on their management and administration. They're going to be reducing the administrative levels as well as freezing salaries. We've obviously frozen salaries of our management and opted-out positions for the next three years.

8:00

So within this business cycle of the three years you are seeing us looking at some targets. The other target that we have set, which I think is quite doable, is that we are looking for $400 million of in-year savings in operating this year. That's a target that we intend to be very aggressive about. That's part of what we're hoping to achieve through RBB and other things.

Remember, too, hon. member – and this is going to come right to my argument – that by having that capital piece in the operating, you could actually take out something in the capital and not build it that year and make your operating expense look considerably smaller in that year. By making it so that it's pure operating, you now have the ability to actually say: that was an operating deduction, not simply a lapse for capital or a lapse for some maintenance piece. I think that Albertans deserve that.

That's why we asked municipalities to do it. Again, I know there are some folks around the room that have been representatives of municipalities. When we started the borrowing and on-lending to municipalities, as a protection that capital would not be played with in terms of their operating we made them separate the two out because that's proper accounting. It's also good for the risk management and the due diligence. If you are blending your capital allocations in with your operating expenditures, it's very tough to get a true feel for what your day-to-day cash management is like. It's also very tough to understand whether or not you have the capacity from a collateral perspective or a cash-flow perspective to deal with that.

We are an operation right now that has roughly $500 billion a year in cash flow. That's a significant venture. We need to have better management capability in terms of managing the operations on a day-to-day basis of expenditure. That's why businesses of our size in the private world make sure that they're following their actual to their budget every quarter. They don't change because they think, you know, the projection is going to change in midstream on their expenses side. They may change in terms of talking to their stakeholders and their shareholders, but even there our securities commissions are quite strong around making statements about future earnings that cannot be backed up. Why would we be anything different?

Mr. Anderson: All right. That's all I want, a third-quarter stakeholder update. I'm not asking you to change. We just want to know where we are going forward.

Anyway, on unfunded pension liability you said something in your budget speech that tweaked my interest. In the 1970s – you probably are well aware of this – Saskatchewan made the decision to switch new hires in their civil service from defined benefit to defined contribution pension plans because defined contribution is more sustainable over the long term. Now, we have a very high pension liability number in Alberta, as you well know, $11 billion. It's one of the highest per capita. I think it may be the highest, but it's certainly among the highest in the country for pension liability. Would it not be a good start – and maybe this will be all you ever need to do, frankly – to just immediately switch new hires in the future to defined contribution plans? Obviously, we have defined benefit plans that have been committed to now that we're going to have to pay for, but is there any thought to switching new hires in the future to defined contribution plans?

Mr. Horner: One caution, Mr. Anderson, about just switching over midstream, and the caution is that you will be hard pressed not to actually make up the difference in that unfunded liability off the hop, which could cost you a considerable amount of money up front, because the problem with a defined benefit pension program – and by the way, I don't disagree with you. The problem is that if we simply stopped all new entrants into a defined benefit program – we have something in the range of 200,000 public service contributors into that plan now, and we're supporting probably 114,000 who are on retirement benefits today – you actually create a bigger problem because now you don't have new entrants coming in to make the contributions to help that overall pension program. If you don't design something that will alleviate that issue, then you're going to have some other issues to deal with.

We are working with all of the pension programs. What I asked them to do, because I am also concerned about the sustainability of these types of plans, was to report back to me in July, I think it was, of last year. I said: I'm concerned about this as the minister and trustee for the taxpayer. I was very concerned that they weren't taking a close enough look at it, and they were potentially depending upon returns in the future that did not make their valuations something that I would find some comfort in.

So we asked them to go and talk to their membership because these are member-driven plans, and they're member-governed plans. They've each got boards. You've got the public service pension plan; you've got the local authorities pension plan; you've got the management employees pension plan, which is basically deputies and such; you have the special forces pension plan, which is the police and special services, sheriffs, et cetera. I wanted them to go and talk to their members about (a) the issue and (b) what some of the solutions are that they might bring forward. In fact, some of my colleagues and perhaps even some on your side have been getting e-mails from some concerned members of the pension plans about: "What is Horner up to? Is he going to do what Anderson thinks that he should do?"

The reality is that I didn't do those surveys; the boards did. So I'm going to throw a bouquet here to the boards for being very courageous on some of the questions they asked their membership: extending the age, taking some of the short-term or early retirement benefits out, doing some very creative things that would maintain a defined benefit plan for their membership but would also change it so that it actually has some sustainability and some flexibility in terms of being able to take care of that unfunded liability into the future.

I don't think, in my mind anyway, that there's any question that we've got an issue that we're going to have to work with them on. I did in fact talk about looking at changing all new hires to defined contribution, and I wouldn't take that off the table. But before I do that, we have got to figure out: what do you do with that hole that new entrants would have filled for you for those defined benefit plans? That's a tough question because I don't want it to cost taxpayers a lot. At the end of this month they're required to provide to me what they think they should do. We're going to do a fairly short turnaround on that, and then we'll communicate our wishes to them.

Mr. Anderson: Okay. Is any of this going to be made public?

Mr. Horner: Oh, yeah. I think there's going to have to be some public discussion about what they're presenting. These surveys are out there. I mean, there are a lot of people that are phoning people about these surveys right now. They're very concerned, frankly, because they do see this as something that was a commitment made to them at the time of employment. Hard to argue that. But at the same time they also understand that if they're going to enjoy a benefit into the future, there's going to have be some recognition that things may have to change.

Mr. Anderson: I think we're aligned that what was promised already for existing workers needs to be fulfilled. A contract is a contract in that regard. It's just the transition. So I wish you luck on that and would be happy to support something that's more sustainable.

Mr. Horner: Just on that point, you know, there's a lot of discussion. The federal government has been talking a lot about the pooled registered pension plans. I think that's another area of pension that Alberta wants to explore, and we'll be talking about that in the House.

Mr. Anderson: For sure.

I've only got five minutes here, so I've got to move on. I've got twelve things left. I guess we'll have to get to some after.

Mr. Horner: We've got another three hours tomorrow. What are you talking about?

Mr. Anderson: That's right. I don't get my hour though.

Another thing has piqued my interest lately. I think it's pretty clear that the number one cost driver that is causing most of our deficit problems right now is, of course, public-sector salaries. That's not blaming the unions and the people, the hard workers that have been out there working hard and negotiating these contracts. They're just trying to get the best deal possible. The fact is that the reason we're in this predicament right now, where we have pretty darn good revenues historically but we're still, you know, borrowing and running deficits, is public-sector salaries.

8:10

I forget if it was a speech, but very recently you talked about a government committee being formed to oversee essentially these negotiations going forward with our civil servants, whether they be teachers, nurses, AUPE workers, et cetera. Can you please explain this a little bit? Explain whether there is any kind of – well, first, can you just explain the process? We'll move on to the next question after.

Mr. Horner: I think, Member, you're referring to the Public Sector Resources Committee, that the Deputy Premier spoke of two or three weeks ago. Essentially, Treasury Board is mandated to provide the mandates to the ministries in terms of when they go out and do their negotiations. We have, as I said in the budget speech, not included any compensation increases for public-sector wages, and that's across the board. There was a recognition that there are a number of agreements that are coming due or are due – as in the teachers, as in the AMA negotiations, as in others that will come down the pipe – and given the fact that Treasury Board is responsible and the budget did not include any increases, there should be some discussion and co-ordinated effort to ensure that we can maintain our budget numbers. So a committee has been struck where we can come together and talk about our budgets.

Mr. Anderson: Okay. Well, I think that's good because if there's one thing that we've learned, it's that the negotiations that happen in the Education department or in the Health department affect the ability to provide programs in every single ministry. So I like the idea of having more than one person making that decision.

Two minutes left. There's just never enough time.

Is there a target? Here we go with targets again. Our public-sector salaries are very much over the Canadian average. Again, it depends on the vocation. It depends on whether we're talking about nurses, teachers, et cetera. It's good that, you know, we pay these professionals well. They do incredible work for our province. That said, it's causing us problems with regard to the amount of what we're spending in this area.

Have you ever thought about putting a target in place as you go forward, for this committee to have a goal over the next five, 10 years of bringing public-service salaries, the average spent on that, the per capita average, down to within, say, 5 per cent of the national average or 10 per cent of the national average, just something so that there's kind of a baseline that your new committee is working from so that when we go into negotiations, everyone knows what we're trying to achieve together? I think if we did that and we're transparent about it, the union leadership would be open to working with you to achieve those targets over a five- or 10-year period. Has there been any thought given to that?

Mr. Horner: Well, I think, Mr. Anderson, that one has to be very cognizant of the fact that there are a number of groups that have the right to negotiate. They have the right to try to reach a negotiated settlement. Our responsibility is to ensure that we do not do something that would harm that right or would be in bad faith.

The Chair: That hour flew by. Thank you, gentlemen. That was a very professional exchange.

Mr. Horner: I wanted to finish my answer, Madam Chair.

Mr. Anderson: I'll ask you again.

Mr. Horner: Yeah, ask me again.

The Chair: The next 20 minutes belong to the Liberal caucus. Mr. Hehr, would you like to go back and forth, or would you like to combine?

Mr. Hehr: Yeah. We'll see how we do.

Thank you very much, Minister, and to your staff for coming tonight. I've learned quite a bit so far, and hopefully you'll enlighten me some more as to the state of not only this year's budget but the plan going forward.

Just a few introductory comments. I think since 1971 we've taken in $350 billion plus in nonrenewable resource revenue, and even since 1987 we've taken in about $150 billion. I think we've managed to save $16 billion. As every good gambler in Vegas knows, it's not what you make at the tables; it's what you take home when you make it back to Calgary. Is it a fair comment to say that we have not done a very good job in stewarding this one-time resource for future generations?

Mr. Horner: Well, no. I wouldn't say it's a fair assessment to say that we haven't done a good job because I would look at where we sit compared to Saskatchewan, to British Columbia, to any of the other jurisdictions that are on our borders, and other jurisdictions where they are in the same kind of situation that we are in: small population, large geography, difficult resource, difficult extraction, landlocked. A number of other issues are on the table: the sovereignty, the fact that we are not a country unto ourselves. The majority of the benefit of that resource revenue actually does not accrue to us. It accrues to the federal government and then by virtue of that to other provinces, which is not a bad thing – it's part of Confederation – and we very proudly do so.

I would also look at the fact that we are the only jurisdiction in Canada that has net assets that put us into a league of our own in terms of North America and the fact that we have those assets and we have the capability and the capacity, which other jurisdictions can only dream of. I think about the infrastructure that is in our province when I come in on the Anthony Henday every day, when I look at the types of schools and cultural facilities and post-secondary infrastructure that we have built in this province. I look at the fact that we're growing by a hundred thousand people a year, and we're creating jobs more than any other jurisdiction in the country. I look at our population growth. I look at our economic growth. I look at just the types of opportunities that are available for young people in this province today. Being only just over a hundred years old, I think we've done pretty well.

Mr. Hehr: I guess in some respects we have, and in some respects we haven't. I guess you would take issue with that comment, and that's fair. You've explained it in a way that may make sense to some. It doesn't quite make sense to me; nevertheless, I'll carry on.

You said in your opening comments that this year's budget was devised with an eye to reducing our reliance on fossil fuel resources. Can you tell me how and what form or fashion this budget document does that?

Mr. Horner: Well, actually, as I said before to questions earlier, it does provide a framework that will limit the amount that you're going to do and expenditures on operating expenditures because on the top end it takes money out of the top. Your operating revenue is already discounted by how much you're going to save and any kind of debt servicing costs you're going to have. That in and of itself is going to limit the amount that you're going to spend on operating expenditures.

Second to that, this is the first time in a long time that legislative savings and the legislative savings format of the non-renewable resource revenue are going to be set aside. Regardless of how well we're doing in terms of the operations, we're going to set some of that resource revenue aside. You can well imagine that in the future that amount is going to be whatever that amount is going to end up to be, whether it's, you know, the Wildrose plan, which is for us to go to $200 billion. Maybe that's where we're headed. That's a discussion Albertans are going to have to have, but that's how you're going to end up getting yourself off these ups and downs of the nonrenewable resource revenue.

The other reason that this is going to work is the fiscal framework itself, by having the contingency allowance. As things go up and down in the commodity markets, we smoothed it out by having that contingency account. I think Albertans are aware of that.

Mr. Hehr: How much of our operations budget over the course of the next three years is being financed by nonrenewable resource revenue?

Mr. Horner: Percentagewise, Member?

Mr. Hehr: Sure.

Mr. Horner: I think we're going down to 19 per cent. I can take a minute here.

Mr. Hehr: Well, a percentage and a global number, if you could.

Mr. Horner: It's a hundred per cent of the nonrenewable resource revenue in '13-14. Then, as you move out into the out-years, it's the 5 per cent of the first $10 billion, 25 per cent of anything above that.

8:20

Mr. Hehr: I know the savings plan.

Mr. Horner: I just haven't done the math on what that changes in terms of the percentage of operating.

Mr. Hehr: Is it still fair to say that we're spending $3 billion, $4 billion, $5 billion of nonrenewable resources on operating? Any estimate on that number?

Mr. Horner: If I go to page 19 and we look at the total amount of the revenue that we've got coming in, in '13-14 the total revenue is going to be $38 billion. Of that the nonrenewable resource revenue is $7.25 billion. Of that amount we won't be using any into the savings, but in the out-year of the $8.314 billion estimate we will be taking roughly $800 million and then a billion in the out-year. You're still looking at, as we move out: of the $8 billion you're going to probably use seven and a half. Of the $9.8 billion you're going to use probably eight to eight and a half. Still very high.

Mr. Hehr: Still very high.

Mr. Horner: But as you can see, the trend is to move away.

Mr. Hehr: I understand what you're trying to do. Okay. So we're still spending on paying our day-to-day bills somewhere in between seven and a half and $9 billion in nonrenewable resource revenue.

Mr. Horner: Yeah. You're up there.

Mr. Hehr: Okay. Fair enough. What portion of our capital expenditures over the next three years are going to be made from our nonrenewable resource revenue?

Mr. Horner: Well, in the next few years it'll be basically a cash component that comes out of the residual of our operating and nonrenewable. All of the amount comes in. We're not going to take just nonrenewable and put it into the capital plan. It's whatever is left out of that.

Mr. Hehr: Okay. I think I've got a handle on it.

You also made some comments. You're very good at bringing in, I guess, outside sources to reference your facts. I think that's a good thing. It's a good thing that you went out and got buy-in from many financial institutions, chambers of commerce, and the like on our capital plan, and I think it was a smart move by your government to go to debt financing on capital plans. It makes sense right now with the market conditions. It makes sense given where we were in 2012 with the growing needs that we had. In my view, paying cash for everything wasn't the wisest move, and I don't think it was wise in terms of some of the P3 contracts we're going to be stuck with over the course of time nor for some of the decisions you said, like spending $1.3 billion on a hospital all at once. It's not really good economic planning, so on that I am in agreement with you.

Getting back to my point of referencing people who tend to have knowledge of an area, you don't quote my dad when you go to verifying your expert analysis on who agrees with your new budgeting process. He's a recovering teacher, by the way, so he wouldn't know much about that.

Mr. Horner: Did you say recovering teacher?

Mr. Hehr: Yeah. So that's why you don't quote my dad, I understand, when you do this. At the same point in time, I'm going to take the liberty of naming some organizations who should have some credibility in this matter in terms of our revenue streams, okay? Here's where we go: Jack Mintz, of the Calgary School of Public Policy. We have Dr. Percy, the economist from the University of Alberta. We have from the Parkland Institute Greg Flanagan, who has done excellently on our revenue streams. We have the government now appointing a panel in, I think, 2011 called the Emerson report. All said that we have to increase our revenue streams. That's a code word for taxes, by the way, Doug, if you're not picking that up.

Mr. Horner: Thank you for clarifying that for me, Kent.

Mr. Hehr: We can go back to 2007, where Dr. Mintz led a policy discussion where he said, again, that we have to increase our revenue streams, our taxes. Go back to 2002. Another blue ribbon panel said that we have to increase our revenue streams. On this document I see before us these people seem to have a handle on economics, and they're from all political spectrums. Are they right, or are they wrong?

Mr. Horner: Hon. member, I'm going to refer you to an answer that I gave in the House to another hon. member who referred to one of those economists when they were talking about: well, borrowing is bad. That one economist decided that borrowing for capital was not good because we should be raising revenue on the other side, and it was exactly his balancing approach from that perspective that you don't need to borrow if you raise taxes. What we're saying is that you can't take pieces of their advice. You have to take the entirety of their advice.

What I did was that when I talked about the capital – and I appreciate your comments around the capital – I not only went to those research think tanks, if you will, but I also went to roughly 70 individual CEOs, CFOs, corporate Alberta, and banking Alberta. I know they were referred to as the eastern banks today in the House, but the reality is that even the Canadian Western Bank, which is by far not an eastern bank, was also one of those who talked about it making good sense to leverage your balance sheet.

When it comes to the revenue side, I look at how personal income tax in our province is going to go from $10 billion to $11 billion in this three-year business plan. Corporate income tax is going to go from roughly $4.8 billion to $5.7 billion. So you're going to have a $2 billion increase in your personal and corporate income tax, and other tax revenue is going to rise by another $200 million. The corporate and personal income tax is rising because we have a very robust economy, and our personal income tax is going to continue to rise.

I also believe, and many economists would also agree, that you don't necessarily have to raise the interest rate to get more money. What you do have to do is get more people making more money. By getting more people making more money in a very positive business environment, you actually raise the amount of personal income tax.

Our projections – and I know Kate and Stephen are behind me – for personal income growth some have said have always been somewhat high, and these are those economists. In actual fact, we've hit them because we are creating growth in personal income. That personal income is what's fuelling, in fact, a lot of the good numbers that we have in the province today: our higher housing starts, our consumer spending. To raise the rate, you may actually dampen the consumer spending. You may actually dampen that side of it, so there's an offset there.

The other thing I've got to throw on the table very quickly, Kent, is that Albertans told us: look to yourself first; make sure that you are monitoring and living within your means before we go further on any of these other discussions around what we should be doing with nonrenewable resource revenue and whether or not we should be using it for operating. We made a conscious choice in this province that we would use it for operating. Other jurisdictions made conscious choices that they wouldn't use it for operating and, in fact, jacked their taxes so high that you've got marginal rates in Norway of 70 per cent and 25 per cent GST. We're not there.

Mr. Hehr: Well, that society has chosen to do what they wanted to do. They've chosen to pay the taxes to get the services. I guess an argument would be that we've chosen to do both, not collect the taxes and give the services, which, in my view, has been somewhat of – I'll use the term again – an intergenerational theft. We haven't done as good as we could have on saving for the future, the day when oil and gas run out or the world moves on.

Anyway, by your answer I'm assuming you're going to choose to ignore every government study since 2002 that says that our revenue streams need to go up, virtually every economist outside of the Canadian Taxpayers Federation who said that our – and I know you've had issues with them as of late.

Mr. Horner: Well, he's not an economist.

Mr. Hehr: So there you go. Who says that taxes of one manner or another – and I'm agnostic on them. You know, it really doesn't matter to me. I think we just have to pay more as we go. Are you guys just going to ignore it? Is the plan simply: sell more bitumen, and let's hope this problem goes away?

Mr. Horner: Actually, it's not our plan to sell more bitumen. It's industry's plan to sell more bitumen, and the industry actually is going to create the wealth that is going to increase that personal income tax and that corporate tax. As a matter of fact, if you see market access improve and we see some product actually moving to the markets to get the actual price of what we should be getting, you're going to see additional savings, you're going to see additional investment, and you're going to see the fact that that personal and corporate income tax is going to rise substantially. As the royalty revenue rises, you'll actually see more royalty revenue going into savings because of the new Fiscal Management Act that we have before the House.

8:30

When you talk about intergenerational theft, I have to disagree. When I talk about $72 billion worth of assets that those royalties have built for Albertans, that's not theft. Those assets are there for those Albertans today. When you talk about highway 63, is it theft that we're going to be putting a large chunk of money into highway 63? No. When you talk about the Anthony Henday, which I've talked about a lot, is it intergenerational theft to build a piece of road around the city that is going to be there for the next 40 years that those two generations are going to be driving on? I think not. I mean, those aren't intergenerational thefts. That's thinking forward.

Mr. Hehr: Well, in fact, they are, sir, and let me explain why. You've made the point that we are subsidizing our operational budget even in this year alone by $9 billion. The plan you have just outlined for me is the plan we have followed for the last 25 years that has left us with no savings in the heritage trust fund. I realize that you put some lipstick on it by saving 5 per cent of the nonrenewable resource wealth – you know, I guess Rome wasn't built in a day – but that is hardly a dramatic statement on saving for the future, and it doesn't start till, presumably, the next budget.

I don't have to remind you that the second lowest taxed jurisdiction in Canada is Saskatchewan. Just adopting their tax code would bring in $12 billion more. Okay? You cannot tell me, sir, that we are optimizing what we should be doing towards saving for the future, a day when Alberta may not be as prosperous without our oil and gas revenue. We're in the best business at the best time, Doug. Okay? We're selling barrels of oil for $100 a barrel. Yeah, I know we're not getting it now, but this may be as good as it gets. In terms of being in a commodity business and a commodity-starved world, this is pretty darn good. If we're not going to save now, you know, what makes it better?

I see the only thing in your plan is, again, hopefully selling as much bitumen as we can, but that never gets us out of what we need to do for the future. Am I off? Actually, don't even worry whether I'm off. Ignore what I say. Are these economists who have written over the last numbers of years from all walks of the political spectrum wrong? Is that what you're telling me here tonight?

Mr. Horner: No. I'm telling you that economists do what economists do. They look at a particular situation, they dream up what it could look like under a different situation, and then they say that that's where you should go, with all due deference to my colleagues, the accountants behind me here that are about to throw something at me. I'll be answering for that later.

The reality is that we did make some choices as a population over the course of the last 35, 40 years. We did make a decision even with the Alberta heritage savings trust fund, which you will recall, Kent, was set up with 30 per cent of that fund going into – what? – assets that will be of benefit to future Albertans. So what did we spend it on? We spent it on railcars. We spent it on hospitals. We spent it on schools. We spent it on roads. So we made a conscious choice that we would continue to use not only nonrenewable resource revenue for operating to defer and to make us the lowest taxed jurisdiction in North America, but also we would use it for assets that would benefit Albertans into the future.

The reality is that until Albertans decide that they want to change that mix, this business plan before us today has three years, no tax increase.

Mr. Hehr: Okay. But then again, you know, just to push back a little bit, Mr. Anderson . . .

The Chair: Thank you, Mr. Hehr.

Minister, you've got a choice. You're the one answering the questions here. Would you like to take a five-minute break now, or would you like to take the break after the questions from the ND caucus?

Mr. Horner: We'll go after David, yeah.

The Chair: All right. Mr. Eggen, would you like to go back and forth, or how would you like to do it?

Mr. Eggen: Yeah. I think we can carry on with a conversation.

I just wanted to thank you, Mr. Horner, and your considerable staff behind you.

Mr. Horner: Just so you know, I have the best team in government.

Mr. Eggen: Yes, I can see that. Certainly, they look like the smartest team.

To that end, I think what I would like to do is maybe ask my more specific questions first. You don't necessarily have to answer them straightaway. Rather, you can defer them to some of your colleagues in the back, and then we can work towards general questions in that direction.

My first series of questions are actually quite specific in regard to gaming, which is part of your portfolio, I believe, right? This is very recent and very current, but I was just curious to know. I know that you're replacing your VLT stock over time, buying new VLT machines. I was just wondering if the purchase of those new VLTs is included in this year's budget. Are you buying new VLTs now?

Mr. Horner: Well, remember that AGLC's budget is a rollup. We take their revenue. So as part of what they do within their corporate entity, they would have that included in theirs. So the rollup would be included in this.

Mr. Eggen: Right. But it's still under your purview.

Mr. Horner: Oh, absolutely. Yes.

Mr. Eggen: You don't have to answer that, like, right straightaway, but I'm just curious to know. It sounds like there's quite a major purchase. It was in the news today and so forth. I just was curious to know . . .

Mr. Horner: All part of their business plan.

Mr. Eggen: Yeah.

. . . how that's unfolding, whether that's part of your budget from this year and so forth.

Mr. Horner: Yep. It is.

Mr. Eggen: Oh, it is. Okay. And to what sum, I guess I would ask. So someone can look for that and catch me later.

My second question also in regard to gaming is, you know, considering that VLTs generate so much money – it's more than a billion and a half dollars in government revenue that I can see, and along with that revenue I know that there is this ongoing problem since we started VLTs with problem gambling. I know that these new VLT purchases have some feature to mitigate that, right? My understanding as well is that problem gamblers are generating the majority of revenue from VLTs, by one study at least. So I'm just curious to know when you look at your line item in your budget that's called gaming research – right? – to what degree does that involve helping to develop strategies to help mitigate this thing of problem gambling? There's the gaming research line, and I'm curious to know how tied that is to focusing on problem gambling specifically.

The Chair: Mr. Eggen, I just want to keep us on the budget and the estimates.

Mr. Eggen: Yeah. Oh, it's in there. It's a line item right on the – it's in there.

Mr. Horner: On the VLTs there's $187 million which we're going to be using for the new terminals. There's $44 million there for software and for resources around those terminals. The problem gaming piece, you're asking how much of it is related to problem – what's the question again?

Mr. Eggen: No, no. I mean, it's just gaming research. To what degree do you focus gaming research on problem gambling? Are you spending that line item on, you know, helping to mitigate the problems associated with gambling addiction?

Mr. Horner: That's what we're using it for.

Mr. Eggen: That's the main focus of it – right? – entirely. Okay. Thank you.

How much did you say? I'm sorry; I forgot. It'll be in *Hansard*.

Mr. Horner: The VLTs?

Mr. Eggen: Yeah, the VLTs.

Mr. Horner: There's $187 million total for all of the terminals. Included in that is $143 million for the terminals and $44 million for the software and the resourcing around those new gaming terminals.

Mr. Eggen: Okay. Thank you.

Mr. Horner: Now, included in that, too, there are on these new terminals all of the gaming warnings for folks who would have issues with gaming. All of the latest technology in terms of helping people with problem gaming is involved in those new terminals as well.

Mr. Eggen: Okay. Thank you very much. I think you can see what I'm getting at. You know, this is generating a lot of money, and there are a lot of problem gamblers in Alberta. I'm seeing more than 72,000 identified by AADAC. I just would hope that we could spend more money on helping people with addictions. In that same survey that I saw from AADAC, at least 20,000 of those problem gamblers indicated that they do want help, but we don't have enough capacity to help those people, right? If we could maybe spend some more money on gambling addiction, I would be very, very grateful.

8:40

Mr. Horner: It's not only in our department, Mr. Eggen; it's also in Health. You'll recall that in their budget. I would encourage you to talk to the minister about the addictions counselling that is available within the mental health and addictions piece of the Alberta Health budget because you really should look at the things combined.

Mr. Eggen: Absolutely. You know, the issue that I think myself and a lot of Albertans are just concerned about is this Pandora's box that we've opened many years ago now in regard to VLTs. I think we're ultimately responsible for those addictions and to look for ways to change that over time. If, maybe, we can find a way to reduce our own reliance on VLT revenue, that might be a part of our responsibility as well.

Mr. Horner: Remember, too, that a lot of what we do in our department is the research that actually helps mental health and addictions make sure they have the right programs. So $1.6 million in research is probably on the high end of other jurisdictions.

Mr. Eggen: Thank you. My next question is actually in regard to labour. I think the hon. Member for Airdrie was touching on this a little bit, right? I know that in last year's budget there were quite significant provisions to cover costs of labour agreements, and in the interim we've had quite a number of labour agreements coming forward, too. I wanted to ask if the budget for this year has provisions to cover off the cost of all labour agreements that were signed that cover this next fiscal year. In other words, if you had an agreement that's outstanding, that's going to grow in through 2013-14, with AUPE, let's say, does this budget have a built-in provision to honour the terms of that agreement?

Mr. Horner: I thought I was quite clear with my budget presentation. There are no increases put into the budget for new increases in compensation agreements.

Mr. Eggen: Right. Let's say that you signed an agreement, and it's a two-year deal, and the second year of that deal falls into the provision of this new budget. Then you've presumably budgeted to cover the term or the length of that agreement.

Mr. Horner: Whoever signs that deal would have to eat it in their budget.

Mr. Eggen: Even if the agreement was signed last year?

Mr. Horner: Well, no. If it's in there, that's not a new compensation agreement. That's an old compensation agreement.

Mr. Eggen: Right. So anything going forward from budget day?

Mr. Horner: Right.

Mr. Eggen: But if there's something before that's like a multiyear contract – that's what I'm saying.

Mr. Horner: No. The labour costs of contracts that we've signed – we're not going to go back and tear up old contracts. The labour agreements that were signed previously, for the most part – and we're talking about GOA proper, right? We're not talking about others that are out there. Certainly, for us we've said that on a go-forward basis there is nothing included in this budget for increases to public-sector wages.

Mr. Eggen: No, that's fine. You've said it much more succinctly than I did. You're not going to tear up old agreements. That's what I wanted to know. Thanks a lot.

Moving on to my next question. This is in no particular order, I guess. The horse racing and breeding renewal program, that's a line item in your budget again this year, right?

Mr. Horner: That's part of the gaming piece, yeah. It's a flow-through grant. They earn it through the VLTs, and it flows through to Horse Racing Alberta. It's a flow through of the net proceeds from the gaming contract that we have with them.

Mr. Eggen: Right. It's their choice to carry on putting the $26 million into the horse-racing budget, then?

Mr. Horner: Within their agreement there are things they can use it for and there are things they can't use it for, obviously, because it's part of lottery funds, and the excess of those lottery funds actually flows over to the lottery-funded programming. The agreement that we have with them I think runs out to 2016, and this is revenue that is generated from VLTs in their locations. It's a flow through. It's a similar kind of flow through that we do on the aboriginal gaming policy. It's the same kind of deal.

Mr. Eggen: Sorry. Just to make sure I get this straight, then, their gaming revenues match or probably exceed the $26 million that go specifically to the horse-racing industry. Is that what you're saying?

Mr. Horner: I don't think it exceeds. I'm pretty sure it wouldn't exceed. Well, actually, it does exceed, and the excess goes – see, there's a share split that we get out of the 'racinos', and with that share split with Horse Racing Alberta they get to utilize some of the revenue that's generated. The other portion of that revenue that's generated, just like any other of the casinos, actually ends up rolling back into the lottery funds. So they don't get all of it. They only get a portion of it.

Mr. Eggen: Right. Well, I guess I'll maybe put it this way. Considering how you get to make the decision as to who runs a VLT operation or a gaming operation and that it's a limited field that we make choices about and that it's in competition with charities and all kinds of other things, considering all of those things, are you considering carrying on this horse-racing arrangement that totals $26 million a year? I mean, let's not forget that we've had subsidies of more than $400 million over the last 10 years for the horse-racing and breeding renewal program. Is it something that we can expect to go forward to subsequent years?

Mr. Horner: We're working with Alberta Agriculture because, as you know, there's a lot of agriculture-related employment that is with horse racing. The industry itself employs somewhere in the range of 8,000 Albertans in horse racing. There is a considerable amount of employment good that comes from this activity. The agreement, as I said, runs to 2016. Thirty-three and a third per cent of everything that's raised in one of those 'racinos' actually does go into the Alberta lottery fund, so in effect if you were to shut it down, you'd lose that money out of the lottery fund unless you decided to create new casinos somewhere else, which I think is not the kind of thing that we want to talk about.

You know, there's the opportunity that there might be another 'racino' in the province down the road, but whether or not they would be under this agreement for the next 20 years is still up for debate. We're working with Agriculture and the Horse Racing Alberta group to talk about what the next steps might be.

Mr. Eggen: Thank you very much.

My next question is in regard to pensions, and this is an emerging issue and problem not just here in Alberta but right across the country and in other countries around the world. I guess, you know, my concern is perhaps simplistic, but I think it reflects what a lot of Albertans think when they have their pensions. You join a pension and you pay into it in good faith. What has changed, really, so that a defined benefit pension plan may not be so viable in the future? Sustainability, of course, is the key to a pension, but as long as you have defined the terms reasonably correctly and you have people that continue to contribute to it, the basic function of it should be sound, in my mind. I'm not sure. I mean, as a person that has some small pension, I'm curious to know on behalf of all pension holders what has changed that makes these defined benefit plans not such firm ground.

8:50

Mr. Horner: Well, as someone who's never had a defined benefit pension plan and has always done my own thing in my corporations, I can tell you – actually, that's not true. I did have the opportunity to join the ConAgra one in the United States, which was, you know, their 401(k) stuff and all that. It was very, very confusing, so I opted out of it. They had a share purchase plan that actually worked better, which is defined contribution.

The problem that you have with some of our defined benefit programs is that you have a very large cohort of employees in a plan – and demographics come into this as much as anything else – where the benefits upon retirement are basically defined as per the description of the plan, and in a lot of cases they would be indexed to whatever growth and inflation. They were developed when, you know, people weren't living as long as they are today. They weren't retiring and on retirement for as long as they are today.

The whole idea is that you conceivably put enough into the plan and that others are putting enough into the plan that it will pay you your benefits for the entire term of your retirement and in some cases, perhaps, beyond and not go broke in the process. If you didn't contribute enough to do that and you and your employer and the returns that you made on the pool that you had accumulated didn't earn enough so that in the out-years there was enough there for you to retire on, you have an unfunded liability.

When we do valuations by legislation, every one of these plans must be valued and they have to use a projection of what they think the annual rate of return on the fund is going to be. Then they do the calculation of: so here are all the guys that are going to be retired; this is the benefit cost of what they're doing; this is the indexing we're going to have to deal with. Then they look to see if the returns are going to make the difference, if they're going to be able to pay that out. What we are seeing is that because interest rates are as low as they are – bond issues and returns are very low. These are not funds that you invest in risky ventures for higher returns, so they go to very conservative bond-type returns. The incremental cost and the increasing of the benefits that are being paid out is turning out to be higher than the returns that they're forecasting in those out-years.

So what do you do? Well, there have been a lot of suggestions around what you could do with these pension programs. You could extend the age of retirement. What does that do? That makes it so that the fund can actually earn a little more to backstop you when you actually do go to retirement. You can reduce some of the benefits that are on the outlier of your plan, things like early retirement benefits, where maybe instead of getting 75 per cent for the rest of your life you're going to get 55 per cent if you take early retirement. I mean, I'm pulling these numbers out of the air.

Mr. Eggen: Yeah. That's fine. As you can see, I'm just trying to sort of frame the landscape.

Mr. Horner: Hopefully, I'm giving you a good enough understanding of how the system works. This is coming back to the hon. Member for Airdrie. We were talking about this earlier. If you've got a great big bubble of baby boomers that have been paying into the plan all along to create their benefit in the future and all of a sudden that huge chunk decides to retire, who's paying for them now? A much smaller chunk. I forget; which generation is that?

Mr. Eggen: X, Y, Z. I don't know.

Mr. Horner: I don't know. It's one of them.

Mr. Eggen: Which one are you?

Mr. Horner: I'm actually tail-end baby boomer and into the other one, whatever that is.

But, anyway, you get my point.

Mr. Eggen: Yeah, I do.

Mr. Horner: That smaller number also becomes the problem. So the actuarials that most of these plans use start to take into consideration the cohort that's going to be paying as they move out. As that cohort moves and the incoming cohort gets smaller, you start to create a problem where you've got to extend this out a bit.

Mr. Eggen: Right. Thank you.

That helps to provide some idea of the landscape of it. If you have a larger group moving through, it doesn't seem particularly logical, necessarily, to deny the defined benefit status to the next group that's moving through. In fact, that could be an enticement to have them participating in that pension so that the pension can stay alive, basically, right?

Mr. Horner: Well, therein you're touching on the question we were talking about earlier, again. I happen to have the belief that a defined contribution is the right way to go. However, you have an issue there that you have a number of plans that are out there that are in full bore, as I said. You've got a huge cohort. My job is to protect the taxpayer and the liability of the taxpayer. Frankly, if you do something too rash, you may cost us a lot more because of exactly what you're talking about.

Mr. Eggen: Yeah. Thank you. That's what I wanted you to say.

The Chair: Thank you, Mr. Eggen. Thank you very much.

We're going to break now, and we're going to start exactly at 9 o'clock.

[The committee adjourned from 8:55 p.m. to 9:01 p.m.]

The Chair: Okay. The plan for the next hour is that we will have 20 minutes from the private members in the PC caucus.

I think, Mr. Allen, you were going to start. Do you want to go back and forth?

Mr. Allen: Yeah. We could amalgamate our time.

The Chair: Or combine the time.

Mr. Allen: Combine the time, yeah, because I have a few.

Thank you, Madam Chair, and thank you, Minister, for your very thorough explanation of many of the issues that were coming up here. I want to start off as well, just on behalf of my constituency, by thanking you and your department for the work as a team that went into getting the financing together for highway 63. I know our constituents are very, very happy with that.

Mr. Horner: Thank you.

Mr. Allen: My first question, I think, was basically asked a bit by Mr. Anderson and answered, but I want to expand on it a little bit more. That had to do with the new reporting structures and how we moved there, why we moved there. You know, I guess with my background as a small-business person and a member of the chamber of commerce and municipal councillor I'm just very used to seeing a very clear income statement, balance sheet, and savings plan. In fact, the municipal governments are a creature of the provincial government. We've clearly defined all of that. It's part 8, sections 242 to 283, of the Municipal Government Act. It defines the operating budget, the capital budget, debt limits, and the guidelines on investment. I'm very encouraged to see the government move into this and make it a little bit clearer.

We've got a budget here, and then we are issuing financial statements. Now, are the financial statements in the annual report prepared on the same basis as the fiscal plan?

Mr. Horner: Actually, the financial statements that are in the annual report are prepared basically in accordance with the Canadian public-sector accounting standards. They include the accounts of all the organizations that are controlled. The consolidated financial statements are going to be audited by the Auditor General.

I've actually talked to the audit committee about moving in this direction. We had a discussion last fall and early this year about the format and where we were headed with that. Interestingly enough, on our audit committee the chair is a chief financial officer of a major Canadian corporation, and the first thing that he said to me when he saw the format that we were going to do on the budget was: I understand that. The reason that he made that comment was, again, this idea that you had capital mixed in with the operating expense, and it was very easy for moving that around to actually make your operating expense either go up or down. As an example, if you decided that you were going to increase an operating grant for capital in one year, you could make it look like your operating expenses went considerably higher or lower.

Thank you, Mike, for bringing the sections of the MGA out. I wish I had pulled them out a long time ago, actually, because that would have solved some explanation before. We did that so that we could actually get clarity around: what is operating? What is capital? The difference here, of course, is that we are putting in a savings plan and a savings statement. The reason that we did the savings statement – which is not going to be part of, if you will, the consolidated financial statements because those are still going to follow the proper accounting procedures, the public-sector accounting regulations, all of those things because that's what the Auditor General is going to audit.

The policy document, which is the budget, including the three plans, is so that we can have a very clear, transparent explanation to Albertans about what we're spending on operating, what is in the capital plan, and then – you know what? – even as it stands today, here's $20 billion worth of savings. What we found when we did our round-tables and when Mr. Fawcett and I were travelling the province: I would say that in a lot of those open town halls that we had and a lot of the one-on-ones that we had, even, people didn't know where to look to find out how much money we actually had in savings. There was this huge confusion, and I mean a very huge confusion.

In fact, even for some members in our House, the Assembly, huge confusion around: "So, you've got the sustainability fund. Is that the same as the heritage savings trust fund? What about the access to the future fund? What about the scholarship fund? What about the ingenuity fund? What about the heritage savings trust fund for medical research? Where is all of this stuff?" The decision to put it in a statement that is very clear and very out in the open for Albertans so they can see what's happening with those funds provides clarity and transparency and, frankly, a lot more information than what the old requirements were.

Mr. Allen: Good. Well, that actually explains an awful lot. I'm a new MLA. This is my first experience, and I find myself often really confused. I'm confused in debate, and I'm confused in how things are being reported in the media. I think that's in turn confusing a lot of folks out in the public because I keep hearing about different reporting standards or new accounting standards when in fact these are standard Canadian accounting practices.

Really, what we're doing is moving more to a new reporting structure, but we continually are having to debate the difference between debt and deficit, borrowing and saving, and operating and capital spending. I heard the term earlier: a consolidated deficit number. Never actually heard that term before. Obviously, consolidated financial statements. But in my mind if we're using a term of consolidated deficit number, does that not just cloud the difference between debt and deficit? Will this help to clarify the difference between those? If you could comment on that.

Mr. Horner: Again, thank you. In the previous legislation, the Fiscal Responsibility Act and the GAA, the definition in section 2 really was the definition of what was the change in our net assets. If you go through the definitions prior to the section, you can pull that out. The Auditor General has talked about that in the past, too. We're still going to show that because that is actually something you can pull off your financial statements. I'm not shy about showing that. We're very open. In fact, I think the first question Aaron got was: so where's this number? We said: well, the change in our net assets is going to be $1.975 billion to the negative. But the deficit on our operating side, which to me is a much more important number because it's very serious in terms of the operating, is going to be very clear, very transparent today and into the future because now it's a number that really is the operating deficit. There's no capital in there at all.

Again to your point, we made municipalities do that. Really, when we talk in the future, we're going to be talking about: what was the change in our net assets? We're going to report that on a quarterly basis, and we're going to compare it to what our budget was. We're going to be reporting: what's the result of our operating? When you're running your business and you're looking at a P and L statement, you're looking for the result of your revenues over your operating expenses. There's all this discussion around a cash requirement. The accounting term is the cash requirement, not a cash deficit. The cash requirement is actually captured in the change in net assets because as you utilize your cash, whether you put it in savings, buy a piece of capital, or use it for operating, it will be reflected in that net asset change. That's standard accounting, a standard rollup of your balance sheet, your cash flows, and your P and L, or profit and loss statement.

That is where we're headed with this reporting. We're saying that now we have something that the average homeowner would be able to understand. The financial analysts either in Calgary or on Bay Street can find the consolidated financials, which is where they always went before anyway. It hasn't changed, and in fact businesses can look at it and say: so where's your P and L? I can show it to them, and they can be comforted that there is no capital allocation involved in that as well.

9:10

Mr. Allen: Okay. My next question is in the same vein. Now, this seems to be a new, bold change, but to me it just seems that this is what we should have always been doing. Are we the only provincial jurisdiction in Canada that is going to this type of reporting? I think every province still uses a consolidated financial statement process, but are we moving into this type of reporting on our own? Is this something we're going to lead the way with?

Mr. Horner: Well, I mean, Saskatchewan has been doing a similar type of presentation, but they've taken it a step further, where they have what would be the equivalent of our contingency account. They actually put that at the top, so they add it in as revenue. When they're done, at the bottom they have a balanced operating statement. That's the way they choose to do it. I'm not going to say whether that's good or bad. That's their policy and how they present. The general gist of that is similar to what we're doing in the sense that they keep it fairly clear.

Where we have the same is in the consolidated financials although we're ahead of the game, I would say, in terms of presenting consolidated financials and moving forward with the new standards that are being set in the international realm. Are we there yet? No, but I think we're moving in that direction. I think you're going to see other provinces follow our lead in that sense. They have in the past. I think they will in the future.

When it comes to some of the other things, no other jurisdiction that we've been able to find so far, anyway, has legislated rules on their borrowing limits. We're one of the few that has. The difference is that in the old act the lending cap was a number, and you went to the cabinet, basically, to change that number. In the old act it had a total number. We're fast approaching that just on our borrowings with the municipalities. We're pretty sure we're the only jurisdiction that now has put in a cap that is actually interest rate sensitive, where as the interest rate goes up, the borrowing cap will actually drop down because it's relative to the change in terms of the overall ability to carry that debt.

Whether other jurisdictions will follow us on that: I can't imagine a jurisdiction like Ontario or some of these other jurisdictions that are borrowing for accumulated deficits would. That would be rather difficult for them. But where you're only talking about borrowing it for capital, I think it's something that is prudent and that financially we can manage.

Mr. Allen: Okay. Great. Well, I guess, a slightly different vein but also based on terms. We also keep hearing this term "borrowing to save." I'm going to go to the example that we talked about earlier, and that was on the capital debt-servicing costs on page 75. The 2015-2016 target was at $593 million, but then it also shows the second line as the 3 per cent limit of $1.2 billion. Does that mean that that's a potential at $1.2 billion, or is that just demonstrating the maximum based on the borrowing ceiling?

Mr. Horner: That's just demonstrating what the actual ceiling would be and where we're at with it, so in that case, you know, we're less than 50 per cent of what the ceiling would be.

This concept of borrowing to save is something that I find a little bit weird. If in my household I have a mortgage, I'm paying my mortgage every month, but frankly I'm also putting some money away every month even though I'm still paying for the debt. One could argue that I'm, I guess, under that logic, borrowing to save, but I don't follow that logic. I think it's prudent, and Albertans told us that you would ensure that you put some of the money away every year whether it was good times or challenging times. Indeed, they also told us: make sure you show us how you're paying it back.

Well, that's why we put that line at the top, too, so before you can get to revenue, you're going to be showing that you're setting aside the cost of that debt. That's like saying: before I put any money in the account for saving, I'm going to make sure that my mortgage payment is covered. That's exactly what we're doing. To suggest that you're borrowing to save would mean that we would be going out and borrowing and then handing over the money to AIMCo to put in an account and save for us. That's not what we're doing. We're using that money for capital assets that Albertans need today.

Mr. Allen: Okay. I think that's where a lot of the confusion is out there. There again, the difference between the P and L, or the income statement, deficit being the difference between our income and our expense side and the balance sheet being our cash and our assets less our long-term liabilities and current liabilities, which then gives us our net assets. When we get into our quarterly statements as well, in the same vein, as we're building this series of endowment funds, we record our debt servicing. So on page 75 the debt servicing is recorded on the expense side of the income statement.

But is there a way that we can actually comment on the relationship between the interest income that we've put aside for that borrowing? If we took – I'll throw a number out there – $5 billion, and we invested it into our heritage savings plan and the contingency fund, what's the relationship of the interest income that we make on these investments against what we're actually spending in debt based on today's current economic factors? We have a low interest rate for borrowing, around 3 per cent, and we're making interest on that $5 billion instead of handling it as a pay-as-you-go.

Mr. Horner: Well, we don't directly offset – you know, we borrowed a billion, so we're putting a billion away – because we're not borrowing to save. It is based on the savings formula versus the capital plan. We are on a regular basis putting on our website the debentures that we're using to borrow and the interest rates that are there. On an annual basis the heritage savings trust fund or the results of that income are known.

As an example, the account closed out – we earned about 8.2 per cent or something in that range, I believe, last year. This year, first quarter, probably, as I understand it, we were tracking above 6 per cent. The latest borrowing that we did on the capital side for a 10-year term was 3.4 per cent. So you can see that there's a difference there. On page 19 you see the investment income line, and that income line will rise as dollars are put into the savings account. Again, it'll be based on whatever we're making in terms of those investments and the rates of return on those.

The good news is, as I said in my opening comments, that we did quite well in our investments, which meant that our investment fees went up. It's kind of like, you know, you should be happy when you're paying lots of taxes because you made lots of money. That's not always true, but it's a nice thought. The other thing is that when you're doing well in the investment community, you pay a lot more fees. We're looking at that line very conservatively, but, you know, we've actually done better in numbers. Now, that's not to say that you didn't have years where you had a fairly significant decline, and we do actually bring that to market at the end of every year even though we may not have sold those assets. There again is another cash transaction that would not be recorded as cash, but it would be a hit against our bottom line.

Mr. Allen: But the new Fiscal Management Act is actually putting controls in place to be able to control both our spending and our borrowing?

Mr. Horner: Borrowing, yeah. Absolutely.

Mr. Allen: Okay. Thank you for that explanation.

I'm going to change topics and go into the pension plans. You had mentioned earlier about yourself and your own when you were in business and how you handled pension plans. I'm the same way. There's a lot of the population, mostly in the private sector, that aren't enrolled in pension plans. Last year the federal government introduced legislation to permit a new type of voluntary, broad-based defined contribution plan called the pooled registered pension plan. Do we have any plans here to provide a pension plan opportunity for Albertans that are not currently enrolled in those plans?

9:20

Mr. Horner: As I said, and I know Mr. Eggen brought it up and actually Mr. Anderson brought it up as well, there's a lot of discussion right now around the issue of pensions. Not only, you know, in Alberta but across Canada there's a number of different groups that are talking about: should we add to the CPP and increase CPP? Alberta, as you know, was a bit of an outlier on that one for some period of time.

At the last meeting that we had with the federal minister in December of 2012 the topic of top-up to the CPP came up. Given, I would say, the weakness in the Canadian economy, not in Alberta but in other areas of the country, and given the fact that we don't have a very clear understanding of what the impact to our businesses would be of requiring them to add more into that CPP, we declined to accept a move to increase that at this time.

What we did talk about at that meeting was the fact that Quebec has already moved forward with a pooled registered pension plan program, and under that they have actually made it mandatory. In Quebec if you have over 10 employees in a business, you have to have this thing for your employees to enrol in.

We're still in the discussion stages of that, but we did tell our federal counterparts that we will look to harmonize with the federal government. The federal government has passed the Pooled Registered Pension Plans Act, and we intend to introduce our own pooled registered pension plan legislation hopefully this spring. We'll see how that goes. Minister Fawcett will be talking a lot more about that in the next little while because he's going to be managing that piece. I think it's important that we allow Albertans every opportunity to save for the future.

The Chair: Thank you, everyone.

We're going to change gears here a little bit. I'm going to suggest given the time left – we've got 44 minutes left – that each caucus have 10 minutes. We're now down to five minutes per speaker, so it will be five and five, and we'll go through the cycle of the caucuses as we did earlier: Wildrose, Liberal, ND, PC.

Who would like to speak for the Wildrose caucus?

Mr. Anglin: Rob Anderson.

The Chair: Rob Anderson. Would you like to do it as you did before, combine time back and forth?

Mr. Anderson: It's just such a short time. We'll probably just do five and five if that'll work.

The Chair: As you wish.

Mr. Horner: You're going to do five, and then I respond?

Mr. Anderson: Yeah.

Okay. We left off, and you were saying how we've got to be very careful in negotiations because people have the right to negotiate and so forth. Of course I agree with that, and we all know that. I'm just wondering, talking about when we're negotiating with regard to public-sector contracts, whether that be with AUPE or the teachers, as we just saw, or with the nurses or whomever, the doctors, if you as Finance minister would place a target of what you're trying to achieve with regard to bringing public sectors more in line with the national average or within 10 per cent of the national average or 5 per cent, just something that will allow your committee something to work towards and will also get our unions and public sector in general on board so they all know, so we all know where we're headed and we figure out what the best way is.

The Chair: Mr. Anderson, can you make sure that this is tied to the budget estimates? Can you make the tie?

Mr. Anderson: I honestly have no idea how this could be more tied to the budget estimates. If we're talking about public-sector salaries, he heads a . . .

The Chair: No, I understand that. It feels a little bit abstract. Are you referencing some activity, something in the budget now in the estimates?

Mr. Anderson: Yeah, the amount that we spend on public-sector salaries.

The Chair: Okay. Just keep it there.

Mr. Anderson: Okay. All right.

That was one issue, possibly putting a target, something we can shoot and work towards. I find that when people know the direction that we're going, even in the public-sector unions, I think they will bend over backwards to try to work with the government on making sure that that target is arrived at in a way that's best for their membership. That's the first question that I'd ask you to address.

The second question, actually, was regarding the spending restraint rule, but I think we hashed that out pretty well this afternoon, so I'm going to skip that.

On page 234 of your estimates, going to your minister's office. Now, I know you probably work with a lot of these folks. I'm sure they're wonderful people. I get to engage them on Twitter all the time. In fact, one called me a chump the other day.

Mr. Horner: In my office somebody called you a chump?

Mr. Anderson: Absolutely, absolutely. I'll give you the tweet.

On your communications, line 1.5, page 234, we spend $763,000. Now, that of course is in addition to the Public Affairs Bureau, the $17 million that we spend on them.

Last year you'll notice that your office went up from $642,000 to $763,000, and that's an 18.8 per cent increase. I understand, of course, that you've frozen the amount for this year, and a freeze is always good, but last year you did raise it 18.8 per cent. I would think that this is one of those soft areas where there could clearly be some savings, if you would. Like I said earlier, when you need to lose 40 pounds, zero pounds just ain't good enough. I think that this is definitely an area where you could decrease costs.

So if you could address the issue of having a target for public-sector salaries to get it closer to the Canadian average for your committee to work with and then the issue of cutting – and we'll bring an amendment to this effect tomorrow to cut the communications budget at least back to 2011-12 levels, which would be $642,000. If you could address those two issues, that would be fantastic.

Mr. Horner: That was five minutes?

Mr. Anderson: That was four minutes and 30, but I want you to have five minutes and 30 to answer it because it's just a lot.

Mr. Horner: On the negotiations, Mr. Anderson, the thing that I was going to there was that, first of all, each of the departments is responsible for their own negotiations. So the chair's discussion around: is it in my estimates? Well, overall in the budget it is part of Treasury Board's purview in terms of the mandate that is set out there, but the reality is that you'll have an opportunity to talk to each of the ministers about their particular, you know, section of whether that's AUPE in Human Services or the nurses in Health. Frankly, we have a section of AUPE in our GOA domain in Treasury Board as well.

Treasury Board does set the negotiation mandates for those negotiators, but I think – and I'm not a lawyer or a labour lawyer – it would potentially cross the bounds of bargaining in good faith if we went out publicly and said, "Here's the deal," because then you may as well legislate it, and constitutionally you can't do that. I think there's every indication that you can say: "This is how much money I've got." We've done that. We've said: "None. There is none. There are no increases." We also want to ensure that we're not creating a whipsaw or anything like that. We're trying to manage that in good faith and ensure that we're watching the tax dollars.

As it relates to communications, you'll recall that this department was two different departments previously. We have had some savings in terms of the combination of the two. We're now tasked with a number of other areas in terms of AGLC, you know, the insurance piece, the pensions piece, a number of those items in addition to the Treasury Board piece, in addition to the results-based budgeting. Combining those two things, we did get some savings. But we're also doing some additional things in terms of results-based budgeting, in terms of making sure that Albertans have a good understanding of where we're headed with those things.

9:30

Certainly, there are some issues around making sure that Albertans have the communications they would like to have in the budget consultations, so we did use and, in my view, will be reaching out to Albertans again this year during the summertime. You will recall that I made a comment around even having a symposium as it relates to the forecasting and working with the Conference Board of Canada and a few others, industry included. We're getting a lot of interest on this, actually, sitting down and putting it to a round table: "Here's how we do the forecasting today. Any ideas, suggestions? Is it the right thing to do? Can we improve it? Can we make it better?" We're going to actually go to the specialists and the experts on that and have a very good discussion on that. Again, it's interesting in the sense that other provinces who have been using our estimates, like Saskatchewan and some of the others, are very interested to potentially even participate in that.

Part of that would be a communications effort and partly a communications expense as well. You've got a number of different variables that come into that. I would point out, though, that when you look at the bottom line on our budget, we're being as frugal as we possibly can while at the same time bringing forward a number of new initiatives that I think we are going to see a lot of fruit from over the course of the next three or four years.

We are leading the charge on finding those $400 million of in-year operating savings. We're leading the charge on making sure that we get the best value for taxpayer dollars for results-based budgeting. It does mean that we're going to be doing a lot more communicating. Frankly, I think this year was a very good indication that we need to make sure that Albertans have a good understanding of what we're doing so that they don't get the wrong information. Part of that's going to be around the Fiscal Management Act and how that's going to roll out in terms of our savings and in terms of where we're going with all of the pieces of the puzzle of the budget.

The Chair: You've got 25 more seconds if you have anything else to say.

Mr. Horner: It's 9:30. No. That's good.

The Chair: Okay. Mr. Hehr, would you like to go back and forth with the minister?

Mr. Hehr: Yeah. Sure. That will be fine.

Just following up on our previous conversation, tomorrow night I might have some more detailed questions in tow. I understand the minister's reluctance to accept our party's views on the revenue structure. I'm a little more suspect of his willingness to dismiss the advice of economists like Jack Mintz of the Alberta School of Public Policy and the Parkland Institute and virtually every economist that's been around for the last 25 years on the need to raise revenue in this province. I'm even more surprised that the minister would look past the government's own reports going back to 2002 and 2007 and the Emerson report, that states the imperative nature of us diversifying our revenue streams – that means taxes, again, Doug, if you missed that – to allow us to go more steadily into the future for predictable, sustainable funding.

We have two former Finance ministers, Minister Morton and Minister Liepert, who should be intimately involved and understand where this province has been with the revenue sources, at least when they were in government, and where they're projected to go, who have said that additional revenues need to be raised.

Like I said, I'm suspicious that you would ignore all these economists, but are you saying that they, too, are wrong in their pronouncements on this issue of the need for additional revenue to do justice to this province's future?

Mr. Horner: Again, I did not single out an economist and say: I don't believe his comment; I don't believe that individual's comment or that group's comment. What I'm saying is that all of them have to be taken in the context of the overall presentation that they're putting out there. It's a package. You can't take one piece and not the other piece or any of those sorts of things. I agree with you, Member, that there are a number of economists that have said that we should change our thinking on what we use to offset low taxes and our operating and put it all in savings. There are a lot of people out there that have been talking about that for years. But that's not what Albertans have told us they want to do. You know, as much as the economists might believe that that's the right thing to do, Albertans have told us that that's not where they want to go.

What they've told us is that they want us to look to our own budget first. They want us to make sure that we're getting value for every tax dollar. We've said that we're going to do that. It's going to take two to three years for us to do that, to go through that process. We're going to go through every line, every dollar that we spend for Albertans' services, program delivery. We're going to make sure that they're getting value for that dollar and that it's actually accomplishing an outcome that they still desire, that they still think is a priority. You know, once you get through all of that and you've got a very firm handle on what it is you think you should be spending, Albertans should have the discussion of: in their minds, should they be paying low taxes and using nonrenewable resources, or should they be paying moderately higher taxes and not using nonrenewable resources?

We've had this question with Albertans many times, and I'll tell you that one of the things they say to us on a consistent basis is: you need to save some money, curb your spending, and don't tax me any more than I already am until you do those two things. I think it behooves us to prove to Albertans that we can do that. Also, Jack Mintz would agree with some of that.

Mr. Hehr: I understand that, and Dr. Morton has said that there may be a spending problem and a revenue problem. Maybe he knows something on that count.

Nevertheless, what we're talking about here is an ability for us to move forward with a more sure footing. Like you said earlier: I expect my kids and grandkids to pay their freight. I believe that that was a quote. If we just look at this year's operational budget of us spending $7 billion to $9 billion, almost all of the nonrenewable resource revenue that comes into this province, can you honestly say that citizens today are paying their fair share?

Mr. Horner: Based on how they view what government is doing today, in their minds – and I would suggest that you might want to go and ask Albertans that – I would say that they feel that until we show them that we're getting them fair value, they're putting enough money into the coffers of the government of Alberta.

Mr. Hehr: Okay. If they feel that they're putting enough money into the coffers of government, if they think they're paying enough money, why aren't you, then, cutting the services?

Mr. Horner: We did. We took $2 billion out of our spending this year. We dropped it down to zero. We're going to be doing another $400 million this year. That is a significant impact on day-to-day operations of the government of Alberta. And the results-based budgeting initiative is something, as I've said before, that we've initiated because Albertans have told us that they want us to review every dollar we spend for value analysis, the zero-based budgeting side of it.

That all is going to take some time for us to make sure that we're doing it right because we're not going to just do an across-the-board hack and slash to get to a certain point. What we've said is that we're going to do this in a thoughtful way, which includes the results-based budgeting, which includes making sure that we're doing things that are still relevant to Albertans. Then when we find out that there's something that we're going to be doing that Albertans believe is still relevant, we'll break that back down to zero and say: okay; are we doing it the right way, with the right resources, in the right time? To use an old thing from my past: having the right kit at the right time in the right space in the right order.

Mr. Hehr: Now, Ms Redford, when she was talking, at least in December and January, was saying that she was going to go out to Albertans in the next calendar year and discuss our revenue streams. In fact, she gave a throne speech where she said that she would review all revenue streams to see if they're adequate. One, I guess I would ask: did your department undertake that review of your revenue streams, and if not, why not? Or was that just in the throne speech? Two, that conversation about our revenue streams and what many economists have said and, in fact, many Albertans in some polls have suggested, that they're willing to pay more taxes: are you guys going to be continuing that conversation?

9:40

Mr. Horner: Well, what we found when we did the review of the revenue is that we've got a 6 and a half billion dollar hole this year because we have a market access problem. The number one issue for us today is market access. We're going to make sure that we put the resources that we need to ensure that Albertans are getting the right value for that resource, which you keep talking about. Right now I would tell you – you talk about an intergenerational . . .

Mr. Hehr: Theft.

Mr. Horner: Theft. I would say that there is a subsidy to the United States right now on that differential which is directly affecting the ability for Albertans to make the kinds of choices that you're talking about.

I would also say that what the Premier talked about was the fiscal framework, and the fiscal framework is exactly what we've been talking about in terms of being able to provide Albertans with transparent, accurate, detailed explanations of what we're doing in our operating, in our capital, and in our savings. That is part of what we're doing here tonight and what we're doing with this budget. We are putting forward something that Albertans can look at at a glance and find out how much money we've got in savings, what we're doing on our capital plan, and whether or not we are actually doing what we said we are going to be doing on our expenses and can then get that information every quarter, accurately, up to date, and compared to the budget that we told them about this year.

Mr. Hehr: I'm okay. No more questions.

The Chair: Thank you, Mr. Hehr.

Mr. Eggen. Again, do you want to combine your time?

Mr. Eggen: I think we'll go five and five if that's okay.

Thanks once again to everyone who came to the estimates tonight. You know what? It was just so much fun; let's do it again tomorrow. We'll meet in the same place at a similar time.

I have just a series of questions. Obviously, the section that I missed from my first opportunity was around the revenue issue. As the minister quite rightly pointed out, the economy here in Alberta is growing and is quite robust. It's one of the best in Canada if not in North America. Our population is growing considerably as well, so there's no doubt that there's money around. Again, it's very simplistic, but it's what, you know, people see and ask about when they see that we have an austerity budget in place for the provincial government. Isn't that out of keeping with the other economic indicators that we see around ourselves anecdotally and, in fact, statistically as well in regard to the economy, the GDP, the population, and other measuring factors? What's different? Why is it that we have an austerity budget whilst the economy and the population are growing at the same time here in 2013?

My second question, that leads on to that, is that it seems like the talking point of your government is: well, we don't want to tax people or bring in any kind of new fees or what have you. But, you know, these ideas of a progressive tax rate and a corporate tax rate that is more in keeping with the international average or the national or North American average are not new things at all. They are things that we had before, and we had taken them away from our tool box of ways by which to pursue revenue streams and to bring in the money we need to run the government. They've been taken away. So it's not as though these are something new that we're going to impose on the government or the people of Alberta and the economy. Rather, they are things that we had before. Perhaps there are certain benefits that we can gain from going back to a progressive tax regime and a corporate tax rate which is more in keeping with the national average.

When we look at things like savings, my question is: at what point did we stop saving significant funds into the heritage fund? At what point did we start to just maintain it at its level with interest and not actually grow the heritage fund? I'm curious to hear your answer, but, I mean, one obvious thing is that it coincided with when we reduced our royalty rates and didn't have the money to put into the long-term, the heritage savings plan. You know, that's an example of how the conversation around this budget is as though we're not talking about the most obvious thing that makes the budget function, which is revenue.

We've changed our revenue so that we've reduced the ways by which we can gather revenue, and then we are wondering what we're going to do now that we can't pay for the goods and services that we are charged with providing here in the province of Alberta. It's not as though it's an option to finance our education and health care systems and to build roads and the infrastructure that we need to be a modern society, but it's the obligation of the government, and in fact it's the reason that this entire structure exists. If we're not doing that job, then obviously we need to address that revenue problem that we have, that's staring us in the face, and make appropriate adjustments to ensure that we have the money to pay for education, health care, and so forth.

One example is this teachers thing which has just come up with the contract in the last few days. You know, I find it so appalling . . .

The Chair: That's a good word to end on.

Minister, you have five minutes to respond.

Mr. Horner: David, I don't find the agreement appalling at all, that two groups were able to sit down and come up with a negotiated settlement.

It is difficult to understand the dichotomy of having a growing economy, a growing population and then to see what happens with the budget that comes out. The difficulty there is in the fact that our revenue stream is made up of a number of different sources. The strong economy is actually the reason behind higher corporate tax, higher personal income tax. That's where you're seeing that strong economy in our books.

The problem is that you have a situation where you're land-locked to get the best price for your product and that 30 per cent of your income stream is based on a product that now – because we've flipped this thing around. Where before you used to have gas and conventional oil and bitumen, and bitumen was a very small piece, that whole thing has turned upside down on its head, and it's happened in a very short term. Gas is now really not a big factor in our royalty stream. Conventional oil is having the same issues as our bitumen in terms of the discount to price.

That has all had a dramatic short-term effect that is going to be with us, I would suggest to you, in the medium term, which is why we are not even coming back to the discount rates that we had in 2012 in this three-year business plan. You know, as much as that is an issue, because of that structure, we're trying to soften the blow, as it were, of a 6 and a half billion dollar drop in revenue. That's why we've put the balanced approach of making sure that our capital is still being built but at a slower pace – I agree – and we took a billion three out of the projected operating expenditures. So is it an austerity budget? I would say that it's a reset for sure and that it's a tough budget where we had to make some tough decisions.

You mentioned the tax rate. You know, you hear a lot about the single tax rate being a problem and that it should be more progressive. In fact, the top 10 per cent of income earners, those who earn more than $105,000, pay 53 per cent of the total personal income taxes in our province while the bottom 50 per cent of earners, those making less than $36,000, only pay around 3 per cent of the total tax base. Alberta's basic personal and spousal amounts are what make Alberta's personal income tax system progressive because we have those very high basic personal exemptions, and I think that is sometimes lost in the discussion.

The other thing you mentioned was the corporate tax rate or, you know, if we were to go to a rate of tax similar to Saskatchewan or those sorts of areas. The reality is that if, say, Alberta adopted B.C.'s multirate tax system, we'd generate about $200 million more. We'd have a lot more complexity in our tax system. We'd have to change those underlying exemptions, and that would be about what you would generate. Saskatchewan: about $3 billion more, but they have a sales tax which, I will point out, is a 5 per cent sales tax. That does add to their side of things.

9:50

You also mentioned in terms of the savings: when did we stop? Well, the reality is that there haven't been any new deposits. I will refer you to the annual report of the Alberta heritage savings trust fund. There's a graph in there on page 20 which basically shows you that since 2005-06 we probably have deposited around 3 and half billion dollars, if you include the inflation-proofing, and another billion dollars in the Alberta advanced education endowments, so that's $4 billion to $5 billion that has gone in since 2005-06. Previous to that, not a lot of money went into those funds, and that goes all the way back to the '80s and '90s.

That's why when we look at the new Fiscal Management Act, we wanted to ensure that there was a formulaic and legislated savings plan. Albertans see, the same as you and I, that we should be putting more money into the heritage savings trust fund. This act will allow us to do that. Actually, it'll force us to do it because we're going to take it off the top.

I can't stress enough that when we went out and were talking to Albertans about what should be in the budget – last summer, last fall, and then into the spring – there were some messages that kept coming back to us. It didn't matter whether we were in the town halls, whether we were answering the surveys, or whether I was in the room with corporate Alberta . . .

The Chair: Thank you.

Mr. Webber, I think you were going to speak on behalf of the PC caucus. Is that correct?

Mr. Webber: Thank you, Madam Chair.

The Chair: Do you want to go back and forth, or do you want five and five?

Mr. Webber: No. I'll just put in a couple of questions and get the answers from the minister. Thank you.

Thank you, hon. minister, for all the work that you do. I do have the privilege of serving on Treasury Board, so I see the hard work of you and your department and, of course, our associate minister, Mr. Kyle Fawcett, and even someone like Mr. David Williams over there in the corner, that I work with on a challenge panel. You all work extremely hard, and I appreciate the work that you do.

I've got a few specific questions I want to ask. I'm going to bounce around a bit from automobile insurance to tobacco tax revenue to liquor revenue. With regard to one of your priority initiatives under goal 1, 1.8 says: "Ensure the integrity of Alberta's gaming and liquor industries by modernizing business practices and services so that Albertans' choices continue to be protected and provided." On that particular initiative I've got a specific question for you, Minister. I remember that back on January 5, 2011, when I was the minister of Aboriginal Relations, the Alberta Gaming and Liquor Commission, the AGLC, seized approximately 15 million cigarettes from the Montana First Nation in Hobbema. According to news accounts and information that I got, the cigarettes were manufactured by Rainbow Tobacco, which is not licensed to distribute tobacco in Alberta, and the cigarettes were not properly marked, of course, for a tax-paid sale in the province, which is, of course, a violation of the Alberta Tobacco Tax Act.

Now, I understand that the AGLC is under your ministry, correct, Minister? It was under Justice and Solicitor General in the past.

Mr. Horner: Yeah, Sol Gen.

Mr. Webber: With respect to that, I understand that the amount of potential tobacco loss in Alberta can be quite significant due to contraband. I guess I'd like to know: what are you doing to eliminate contraband tobacco from entering the province? If you could talk just a little bit about that.

On another point another initiative that you have here under goal 2 is 2.3: "Continue to enable affordable, efficient and fair systems for insurance, pensions and other financial services through monitoring and regulating the financial services sector and providing policy support." With respect to that initiative, I've got a question under the automobile insurance review. Of course, in the fall of 2011 Premier Alison Redford pledged to review the minor injury regulation in automobile insurance. I think it was last done back in about 2004 by minister Pat Nelson if I recall.

Your department was later directed to expand this review to examine the whole automobile insurance system. A question that I have, Mr. Minister, is: what is the status of the government's review of the automobile insurance system, and when is it expected to be completed? Are you considering a change to the minor injury cap on pain and suffering damages? How are other automobile insurance regulations being reviewed such as the diagnostic and treatment protocols regulation and other ones such as that?

I guess I'll leave it at that, Mr. Minister. If you could tackle those two questions. Thank you.

Mr. Horner: Look at that timing. You guys are good on that. I'm going to have to get a timer or something.

First of all, I want to say thanks to Len for expressing the appreciation to the staff. You know, when you're on Treasury Board and things are moving very quickly and we make changes at Treasury Board, the next day all of these documents are recalibrated and recalculated and they're at the table. It never ceases to amaze me how fast and how responsive this team is, and it doesn't matter whether you're talking about tax collection, insurance, AGLC, or just doing the numbers. I wasn't kidding when I said that we've got the best team in government.

I'm going to start with the tobacco piece, Mr. Webber. You brought up the name of the group, and I'm going to be very careful here because that particular situation is in the courts right now. So I'm not going to make any comments as it relates to that, as you can probably understand. But you should know that in April of 2012 we did adopt a new federal tobacco stamping regime. It has some very sophisticated security features in terms of allowing law enforcement agencies and retailers and consumers to more easily identify those counterfeit tobacco products. We're working towards enhancing our ability to enforce the province's regime and reduce that illicit tobacco activity. We've had the Tobacco Tax Amendment Act. We've had a number of other pieces of legislation that we're involved in. Well, no. You're involved in the other one right now.

We have, I think, as good as we can determine, to date been able to find where this is happening and have actually taken action. We're continuing to monitor along with the RCMP where this stuff is coming from and how it's happening. We're trying to be as reactive to it as we possibly can. Given where that's at in terms of the courts and stuff, I think I'm going to leave my comments there on that one.

As it relates to the automobile insurance review, I know that this was a very contentious issue in – was it 2004 or 2003?

Dr. Trimbee: In 2004.

Mr. Horner: I still wear a few of the scars from that one.

We did initiate the review in the fall of 2011. The MLAs heard broad support for the current system, but they also wanted to do some fine-tuning, so we did initiate a review. It isn't our intention to substantially overhaul or replace the existing system, but there are some things that I think we can recommend in terms of improvements to the system that are going to make it work better for all of the stakeholders and provide Albertans with a better understanding of how it works.

In terms of the timing of the automobile insurance review initiatives we put them into phase 1 and phase 2. Phase 1 recommendations are targeted for legislative and cabinet consideration this fall, and they've been identified by the department through analysis and consultation with the impacted stakeholders. They are high-priority items that will incrementally improve the automotive insurance system.

10:00

Phase 2 recommendations would provide further enhancement to the system and to the initiatives that have been put forward, but we are doing other pieces of the review. We're looking at diagnostic and treatment protocols and doing some statistical reviews of that. We're also looking at the automobile accident insurance benefits regulation and where that goes. We're doing some voluntary questionnaires for participants. We're getting some stats so that we can actually have an understanding of what's been going on and what the impact has been. I think it's important that we do hear from Albertans. It's important that we hear from those who have been affected by this, so we're going to continue to do that. The findings of the statistical review are what we're also expecting this fall, of 2013, and then it'll roll out, you know, whatever decisions we're going to make from that.

In this budget year, in these estimates, there really isn't an impact other than the statistical review, which we estimate is going to cost probably about $96,000.

The Chair: Thank you, folks. We're just after 10 o'clock. I think this was an excellent start, and I'm really grateful to everyone for their professionalism.

We start again tomorrow night at 7 o'clock to continue this meeting, and we will do a rotation. It'll be five minutes and five minutes tomorrow for the whole duration. We do not have to go for the complete three hours, but we will go as long as people ask questions.

Thank you and good night.

[The committee adjourned at 10:01 p.m.]

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