



STANDING COMMITTEE ON PUBLIC ACCOUNTS

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS
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Mr. Kim Trew
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Mr. Kevin Yates
Regina Dewdney

The committee met at 10:30.

The Chair: — Good morning, ladies and gentlemen. I'll call the Public Accounts Committee meeting to order and welcome all of the committee members here. I also welcome the officials who regularly grace us with their attendance, from the Provincial Auditor's office and from Finance. We have guests that will be presenting very shortly and answering our questions.

The agenda for today deals with just two items. This morning we will be dealing with Environment, under chapter 10 of the 2004 report volume 1, provided by the Provincial Auditor. And then this afternoon we will be dealing with the 2004 report volume 2, which is entirely on Finance.

For those who are watching via streaming video, this could be live or you could be seeing a rerun. And for those who are watching on television, this meeting actually occurred on December 1, 2004. And people will likely be watching it in March, at some time when again the affairs of the legislature are broadcast to the people of Saskatchewan.

Having clarified all of that, I would like to commence immediately with the item, first item, on the agenda — Environment, chapter 10, 2004 report. First of all we will hear from the Provincial Auditor's office. Bashar Ahmad is going to give a brief report, or summary of the auditor's report. And then we have Lily Stonehouse, the deputy minister of Environment, with us and she will introduce her officials and respond. So, Bashar, the floor is yours.

Public Hearing: Environment

Mr. Ahmad: — Thank you, Mr. Chair. And good morning to committee members.

I will provide an overlay of chapter 10 of our 2004 report volume 1. The chapter begins on page 139 of the report and describes it as out of our audit of the Department of Environment's processes to regulate air emissions.

We examined the department's processes for the period from April 1, 2002 to October 31, 2003. The Clean Air Act and Mineral Industry Environmental Protection Regulations, 1996, require the department to protect Saskatchewan's air quality by regulating air pollutants that originate in the province. The department regulates air emission by certain industries and mine operation that may release significant sources of air contaminants. Our agronomy departments monitor other sources of air contaminants such as stubble burning and crude oil production.

We concluded that the department needed to strengthen its processes to regulate air emissions and made several recommendations for the department to do so. I will now discuss briefly our finding and recommendations.

On page 146, the first recommendation requires the department to establish processes to obtain minister's orders for waiving permits for minor sources of air contaminants. The department did not have a process to obtain minister's orders for doing so.

We noted instances where the department gave permits to operators without obtaining a minister's order.

Our second recommendation required the department to set sound and consistent terms and conditions for permits to regulate air emissions. Because the department had not done so, staff described different terms and conditions for permits for similar sources of air contaminants using consistent periods for permits and stipulated inconsistent monitoring and reporting requirements.

Our third recommendation required the department to establish processes to ensure permits are properly approved and expired permits are followed up promptly. Because the department did not have any such process, authorized staff did not always approve permits and staff did not promptly follow up expiring permits. Also staff routinely extended the expiry permits of old permits without reviewing and accessing renewal requests.

On page 148, a fourth recommendation requires the department to set sound and consistent processes for monitoring compliance with permits and for handling air emission complaints. Because of the lack of written guidance, staff monitored compliance by permit holders inconsistently. Also staff did not always comply with the department processes for recording and investigating complaints. Staff did not always document complaints or inform the complainants about the resolution of those complaints.

On page 149, our fifth recommendation requires the department to complete its human resource plan including a plan for employees training to regulate air emissions.

On page 150, our sixth recommendation requires the department to establish systems to collect and maintain information to prepare reliable reports. The department maintains minimum records on each of its permit holders. However, these records are incomplete. Those records do not always include inspection reports, records of complaints, and emission reports. The department should keep adequate records to allow staff quick access to information on any permit holder to help monitor operators and compile reports.

Lastly, on page 151, a similar recommendation requires the department to improve its internal and external reporting on air emissions. The department should prepare reports indicating how well it's maintaining air quality and provide accurate information on the number of permits issued, results of monitoring, complaints investigated, and enforcement orders issued. The department must also establish processes to ensure such information is collected, maintained, and available when needed.

The department provides some information to the public about regulating air emissions but it needs to do more. The regulator provides the public information such as emissions limits set, actual emissions, permit holders, compliance with permit terms and conditions, investigation of complaints, and their enforcement activities. And that concludes my remarks. Thank you.

The Chair: — Well thank you, Mr. Ahmad, for that summary

of chapter 10 in the 2004 report volume 1. Again, welcome, Ms. Stonehouse, and would you introduce your colleagues and respond, if you'd like, before we go to questions.

Ms. Stonehouse: — Okay thank you, Mr. Chair. On my right is Dave Phillips, assistant deputy minister of resource and environmental stewardship division. On my left, Joe Muldoon, the executive director of environmental protection. And just behind us, Donna Johnson, our director of finance and administration.

The department appreciates the work the Provincial Auditor has done in reviewing our regulatory processes for air emissions in the province. We are in agreement with the conclusions in the Provincial Auditor's report. And we are pleased to report progress on most of the seven specific recommendations.

Our department undertook a major restructuring in February 2004, shortly after the audit period. And this restructuring replaced the former system of eco-regions with vertically integrated program management, so that we were able to clarify and increase accountability within each branch. We were able to improve alignment with the government's environmental strategy. And we were able to increase provincial consistency in program operations and outcomes with just a single, line-of-sight management structure and some work we've done within the branch since that time.

As a consequence, our air quality program has been delivered centrally through the environmental protection branch since March 2004. And we've seen increased consistency in permitting, inspection, and monitoring of industry as a result.

In addition, during 2004, we've been able to accomplish specific progress in a number of areas. We have a formal process now established for waiving permit requirements for minor sources of contaminants. We have a draft air quality strategy provided for, to guide our action over the coming five years. This strategy does include an assessment of the human resource requirements in the area.

We held an air quality workshop in April to train department staff who issue clean air permits on the best available technologies to control air contaminate emissions.

We've begun some preliminary work in terms of air shed management which would enable us to engage communities in terms of testing, monitoring, and monitoring compliance activities in pilot air sheds.

We have an air quality permitting and compliance working group in place to coordinate the department's actions and to deal with the deficiencies noted in the Provincial Auditor's findings.

We have assigned additional staff resources to the air quality program, including the reassignment of a senior policy manager in April 2004, and we are recruiting for a senior scientist position to oversee air shed management and emissions monitoring.

We will continue to work diligently to fully satisfy the issues raised and the recommendations made by the Provincial

Auditor. Thank you.

The Chair: — Thank you, Ms. Stonehouse. We'll open the floor for questions. I recognize Yogi Huyghebaert, the Saskatchewan Party Environment critic.

Mr. Huyghebaert: — Thank you, Mr. Chair, and welcome officials. Mr. Chair, if I heard right, that we no longer have the five eco regions, is that correct? Because one of my questions, or there's a couple of questions in the auditor's report that talks about the eco regions and two of them that did their own monitoring permitting. So that's all now under the department?

Ms. Stonehouse: — Well it was already always part of the department but the management structure was a matrix so that we had five eco regions with their own directors, and then we had the program branch responsible for policy. And as a result, there was this matrix function in terms of managing issues like this. It meant that there was a fair degree of autonomy at the eco region level for the director to determine processes and priorities.

So the change now is that we have a direct line of sight from the program policy setting right through to the delivery of the program in the field.

Mr. Huyghebaert: — Thank you, Ms. Stonehouse. In the former eco regions of grassland, did that also take in the Grasslands Park?

Ms. Stonehouse: — Yes, it would have.

Mr. Huyghebaert: — And from that, would it be fair to assume by reading both sides that the department would be responsible in some way for the management of Grasslands Park?

Ms. Stonehouse: — That's a federal responsibility.

Mr. Phillips: — The Grasslands National Park area is a federal responsibility through Parks Canada. There is, though, coordination and planning that involves Parks Canada staff based in Shaunavon-Eastend area and both our park manager at Cypress Hills for joint marketing and with our park systems planning in terms of representation of native prairie areas. So it's a federally administered park, but we do communicate with Parks Canada in ongoing management of our own lands in relation to that park.

Mr. Huyghebaert: — Okay, well I know it's a national park, but I was wondering what kind of an input we would have from the provincial level to the park. And the reason I'm asking these questions, Mr. Chair, is because there's parts of that park that's an absolute sham. It's terrible. It's an ecosystem disaster in some areas. And what I'm trying to establish is, do we have any input that we could either discuss with the federal department that something needs to be done or if we have any management capability within the province to have some leverage to get something done within that park?

Ms. Stonehouse: — We don't manage the park, so we don't have direct ability to intervene. But we certainly could raise issues if you wanted to bring some specifics to our attention.

Mr. Huyghebaert: — Well I would definitely like to do that because the east block of the park is a hazard. Without getting into a whole pile of detail, I can tell you that the grass is so matted it's a fire waiting to happen. And it's got so bad that the animals . . . here's a national park that the wild animals don't even go into. We've discussed this in other venues, where you need wildlife habitat or habitat in there to regenerate the grass. And if you've seen prairie wool get so matted that the animals won't even eat, that's in the east block.

Now the west block, it seems like fences have been down. And animals have been in there a little bit more often, and it looks like it has been grazed. But the east block is not that way. And I think something needs to be done — at least people go down and visit it.

So if we could, even after, if we could talk about . . . or at some time because I would really like to see something addressed there.

Mr. Phillips: — We certainly can raise issues directly with Parks Canada. There's been occasions in the past, during the land assembly phase, where the relations between the Parks Canada officials and local residents were just terrible. They weren't welcome on their property, and in some cases we were able to act as intermediary.

We are aware that in the east block, Parks Canada's long-term vegetation management plan calls for placing bison in the park area to implement grazing and also for the disturbance that, you know, hoof activity does in maintaining the natural diversity in the ecosystem. But I don't believe there is any, any bison present on the site yet. But we can certainly take the information and get in touch with Parks Canada.

Mr. Huyghebaert: — Well, Mr. Phillips, I wish you would because I've heard the introduction of bison has been forecast, but I think it's been forecast as far back as maybe 15 years ago. And like I say, I would invite people to go down and have a look at it because it is bad.

Mr. Phillips: — We do have some best practices I think that we could offer based on our own management experience at Cypress Hills. We have a very active, rotational grazing program with pasture managers moving cattle around, also experience with prescribed fire, especially for eliminating shrubby cinquefoil. I'm not sure how much of our management practices have been really explained in detail to Parks Canada, but it would be helpful to make that contact.

Mr. Huyghebaert: — Well, thank you. In the air emissions, I know the auditor's report has identified that the department did not have adequate processes to regulate emissions. And I'm somewhat curious as to how we monitor and what we do with emissions that are a result of stubble burning, for an example. And who permits, who directly permits stubble burning and if there's an enforcement aspect to stubble burning?

Mr. Muldoon: — There is a working committee that has been in place for a number of years, dealing in particular around the Regina area, as comprised of the various agencies — Agriculture, Environment, Health, etc. And it's been a . . . it's not a regulatory; there's not a regulatory application. It's more

of an education, having conservation officers go out and contact the landowners and let them know that, you know, there's times when it's appropriate to burn and there's times when it's not and to watch the wind — that kind of thing.

That committee had done work over the last four or five years. They are reinstituted, have been reinstituted now and are now out responding to those kinds of complaints and looking at potential actions that might be taken in terms of whether it be further public education, or whether there's further work that needs to get done down the line. But there is a very active committee that has been in place.

There are not regulations in place to deal with stubble burning. The way it has been dealt at this point is through public education alerting landowners, and it has been successful. You know there are always issues, but to a large extent it has been successful in that respect. It's more a matter now of pushing it out across the province.

As we start to move into this air shed management approach which is . . . again we're going to be doing that a bit at a time. There's a good opportunity then to bring in all the parties that impact the air quality in that particular area and have them all come, you know, to the table and then basically discuss ways of improving that air quality and managing it. So there's good opportunities there as well to deal with that issue.

Mr. Huyghebaert: — So, Mr. Muldoon, what basically I hear you say then is a permit is not required.

Mr. Muldoon: — That is correct.

Mr. Huyghebaert: — So if a permit is not required . . . I know it's an issue around Regina area because we see in the fall a fair bit of smoke within this area. Do we have a method of monitoring the air quality when this is being burned, when the stubble is being burned?

Mr. Muldoon: — We have an air monitoring station located in Regina that does monitor the air quality and that information is available. There's an air quality . . . That feeds into a national program where we have an air quality index, and that basically will tell you if, you know, the health . . . what the air quality is on a given basis. So when the stubble burning is taking place, that information would be part of that air monitoring system and then would feed back out.

Mr. Huyghebaert: — Thank you. That's right here in the Regina area which I understand. But if somebody is going to burn stubble in a more remote rural area, if they don't need a permit and from what I would take there's no monitoring devices to measure air quality if, for an example in the southwest part of the province, somebody goes out and wants to burn their flax fields, there's nothing said. Just go do it. And we don't monitor it.

Mr. Muldoon: — No. In terms of monitoring at that level, that level of monitoring is not carried out across the province. What we hope to do is as we get into this air shed management approach that we will, in fact, have mobile stations that we can move around in a given area. These areas are quite large that we would be looking at.

And we also . . . Our local officers and environmental protection . . . our environmental protection officers, technicians, and so on, they have a good relationship with local agricultural and food reps, etc. And when we run into situations that are specific to an area, in many cases they're dealt with you know at that local level, through public education at this point.

But we're hopeful that by moving into this airshed management approach that we're going to be able to deal with that problem and many other problems that, you know that crop . . . that we have out there, but do it in such a way that where we're not . . . the department isn't prescribing the solution. It's more of where the . . . all of the people that are living in the area and that contribute to the emissions are sitting down and working out solutions that make sense.

Mr. Huyghebaert: — Thank you, Mr. Chair. I have an awful lot of concerns raised from small villages and towns with reference to landfill sites and the burning thereof. And it's a policy or directive or legislation that states that they're not allowed to burn landfills. And here we have a non-policy, if you wish, for burning stubble fields, but you can't burn landfills.

And one of the reasons I understand of not allowing landfills is because of the possibility of pollutants going into the air. It's very difficult for small communities. It's extremely difficult. You could burn your flax stubble field, but if you carried your straw into the landfill you can't burn it, the way the legislation is at the moment . . . or the regulation is at the moment.

And I'm wondering if there'd be any comment from the officials as to . . . if there's any changes or what is being done with communities that still wish to burn their landfill sites? And if there is an issue with pollutants in the air, how do we gauge it if we don't have the monitoring at all of these facilities? It's very difficult for some of these communities — and I get numerous calls on them — as to why it's so restrictive in one area, and yet you can go out and burn stubble fields.

Ms. Stonehouse: — There's a number of questions here, and we'll try to get at all of them. Maybe we can start with the question of why we would be more concerned about landfill burning than we are about stubble burning, just in terms of what the contaminants are that we're managing, and then talk a little bit more about the actual approach we're taking to landfills. Now I'm just going to check . . . Which one of you? Joe?

Mr. Muldoon: — With respect to the contaminants, when you're into a landfill situation — and, you know, literally it's a hole in the ground for most of the small rural ones, an area where they have the landfill — when you go in and start and have that kind of a burn, there's a couple of things that happen. When you look at a commercial incinerator, for instance one that the department may licence for incineration, it's a very hot burn. And that ensures that any of the contaminants — in most cases carcinogens, cancer-causing agents, that kind of thing that can be emitted — if it's an extremely hot burn, many of those are eliminated through the process. They're eliminated and they don't go into the air.

In a landfill situation where you've got plastics . . . It's primarily plastics. It's not the wood. It's all the different kinds of waste that you have in the landfill. When they are burned and

because it's in a landfill situation where you don't have enough heat down underneath and it's not, you know, a properly burned . . . it's not a proper incinerator. You get a very slow burn, and it's not a very hot burn. And as a result there's lots of contaminants. Never mind just the nuisance smoke and the nuisance smell, but you also have a very slow burn and you have . . . it results in a much higher level of contaminants going out into the air that can actually from a health perspective can have quite an effect.

We do allow the landfills, under permits that are very specific, that if they want to sort — now they would have to come to the department to have this — if they want to sort out the clean lumber, you know, that doesn't have . . . that isn't wood treated, wood treated lumber, that kind of thing, but the clean lumber and wood and so on and put that off to a side and burn that, we do allow that under permit. But the reason that we don't allow the burning in the landfills is because of the contaminants.

Now with the stubble because it's . . . Again the primary issue there is there's the particulate matter which is a constituent which does, in terms of asthma and so on, there are impacts. It just depends on how significant. Also particulate matters release dust on roads. Saskatchewan has had some cases because of the wind and so on, our levels of particulate matter are high and then they do drop. That goes very much up and down.

With the stubble burning, we are looking at and encouraging our counterparts in other departments and of course the landowners to look at alternatives, especially with respect to flax; that there are opportunities, you know, for use of that flax straw. But we're just not there yet. The science isn't there yet.

If I can just touch on the monitoring, we do a lot of our work on the environmental side across the country. We belong to the Canadian Council of Ministers of the Environment, and Saskatchewan is a very active member. And what we've been able to gain from our regular involvement in that organization is we gain a lot of the science that we don't need to necessarily replicate in Saskatchewan because we don't have the population and the dollars. And it doesn't make sense to replicate a lot of the science that we gain from these broader organizations.

So in many cases, we go out to CCME (Canadian Council of Ministers of the Environment), get their science, provide our input and then can bring it back and are able to apply it provincially.

Ms. Stonehouse: — The last part of the question was in terms of where we're going, the future in terms of landfill regulation.

Mr. Muldoon: — With respect to landfills, it is something that we do go out and we are actively . . . as education is always the first level and we always tend to get the best results from there — where we go out to the landfills and want to make sure that they're managed in the right fashion; that there is sorting; that they, you have, have removed the tires and those kinds of things; and put those into programs where they can move them.

So we do have an active program in terms of helping to assist the communities in managing their own landfills. And burning is one that's just, there's too many health impacts on it, and it's not a good way to manage in terms of their waste.

Mr. Huyghebaert: — Well thank you for that. I also would like to ask a question in relation to the monitoring of the fluvial system because there's a sense in some communities that we've got our head in the sand if we think that burying is the panacea for trash control, if you wish. And I'm wondering about the monitoring systems that we may have of landfills and the trash that's in landfills and as it decays and rains and water, how much of the contaminants are actually getting into the fluvial system of this province.

And I use the example, Mr. Chair, of one of the states in the United States where they have actual access to underground aquifers where you can go down there. And they have found in the last 25 years that the water quality in these aquifers is actually deteriorated directly related to contaminants from the surface, and it takes some time for it to go down there.

So I'm wondering if we have a monitoring system where we do that. And I know it's impossible for all the smaller centres, but I also sometimes feel that we, we are ignoring the fluvial system at the expense of saying we can't burn because of air quality, where our water quality might be deteriorating because of such things as landfills.

Ms. Stonehouse: — The member points to the difficult balancing act that's involved in managing the environment, and I think a number of things here. We've been working to reduce the number of landfills precisely because the old style of management of landfills did increase the risk of problems with the water system.

I'll ask Dave to speak a little bit about the Watershed Authority and the water monitoring that we do do. And Joe can provide some information, if you like, on the monitoring of the newer landfills and the larger landfills that we're doing.

Mr. Phillips: — Now maybe a little bit more about the burning of landfills to start with. The incomplete burn that Joe was talking about often leaves liquid residues in the bottom part of the landfill that can become mobile in groundwater, particularly if the landfill is sited on soils that are in close contact or communicating with the groundwater table.

The Saskatchewan Watershed Authority has a groundwater assessment and monitoring unit in their organization. I know that they are in the process of characterizing the various aquifers from a risk point of view and are planning in the future to get into a much more active assessment of contaminants in groundwater.

I think the present assessment that I'm aware of is that the condition of those groundwater resources that are accessed for human supply are not showing evidence of contamination. But there are circumstances where our department becomes involved with contaminated sites, for example. There's been a number of sites cleaned up in the last three or four years through funding in the Centenary Fund, where contamination on the site of a former industrial plant begins to be expressed, where springs come out of, out of valley walls or begin to move, move in the soil.

Mr. Muldoon: — And in our larger landfills, which of course you've got larger volumes, we do have active monitoring

systems around, around them and require the local governments to, you know, to carry out that monitoring and report on it and then to adjust accordingly in terms if there are issues.

The smaller landfills, in most cases if you've got those in an area where there's clay base and where they're not . . . and where they're situated properly and managed properly without the burning, as Dave mentioned, they're actually . . . from an environmental perspective you're sealing that in, and the process of, I guess, the earth reclaiming, it happens over a long period of time. But from an environmental management perspective, if that site is managed properly and it's sealed, located properly, the issues of waste management are very minor in terms of outside impacts.

Mr. Huyghebaert: — Thank you for the answers. I also have a question about monitoring, air quality monitoring in the vicinity of our coal- and gas-fired electrical generating stations. Could you discuss what we have for monitoring and where we're going on depolluting the air from these facilities?

Ms. Stonehouse: — We've made good progress.

Mr. Muldoon: — Yes, we have. I mentioned earlier about the Canadian Council of Ministers of the Environment. There's a number of standards, national standards that are set, where again all of the 14 jurisdictions sit down and work out the science behind and develop Canada-wide standards.

A number of those have been developed, and we continue along with that process. Industries are also involved with that. There are a number of committee structures available to them, where they come in and can make sure that from an economic perspective that there's balance in terms of working into their business, into their business schedule. So we've been very successful in Saskatchewan and, I think, the country, but certainly Saskatchewan has been very successful in being able to work through that process.

With respect to monitoring of some of those larger sites, the ones that you've described, we have the national pollutant release inventory, which is a federally funded program that requires any of these large, any of the larger industries . . . they hit a threshold in terms that once they hit a certain point of emissions, they are required by law to report their emissions. And those emissions are then put into an inventory that's Canada wide. That information is openly available to public. Anybody can come on to the Web site and draw down to industry and look at it from an annual perspective what their releases are of the various constituents.

We also have our own permitting system, that we will go out and work with each of the . . . with the larger industries, and we have . . . it's a comprehensive permit that covers all of the various operations, environmental perspectives around the site, which would include air. And so for any of the industries where we have, where there are air issues, we have it covered through the permit. But again it's not duplicated. They report through and we use that national pollutant release inventory data to allow us to help manage.

Mr. Huyghebaert: — Thank you, Mr. Muldoon. I'm curious because of the Kyoto accord and where we're going on a

national basis. And I think we all understand that Russia looks like it's onside now, which will be enough countries that the Kyoto accord will be implemented. And we don't have any direct figures, I don't believe, as to what we will have to do in this province, but we do know that part of the CO₂ emissions from our coal- and gas-fired electrical generating systems do not and will not conform to the Kyoto standard. And I'm wondering if the Department of Environment has undertaken any cost analysis of what it would require the department or industry — in this case, government industries — to conform to Kyoto.

Ms. Stonehouse: — There's number of elements here that I'd like to get at. First of all, conforming to Kyoto is a sort of national challenge, not necessarily a province by province. And so one of the things we want to be able to do here is work with the federal government and other jurisdictions in the country to ensure that as we move forward to meet the Kyoto Protocol requirements, it is not disadvantaging any one jurisdiction more so than others. So there are opportunities in provinces that have hydro power, for instance, to show more progress on some of these issues than in those provinces where coal-fired power generation is at issue.

So one of the first things that we are looking to work with the federal government on is to ensure that the expectation of Saskatchewan's contribution does not in fact significantly damage our economy vis-à-vis the harm that's done in economies of other provinces.

In terms of the overall approach here, we have been working closely with SaskPower and encouraging their work on clean coal technology. There is already evidence that it's possible to remove some of these emissions through use of technology in the plants. At the moment it's cost prohibitive, so the research now is turning to, is there a way to make this more affordable? So one of the things we're hopeful of is that we will in the long run still be able to use our natural advantage in terms of our coal for creating energy, but do it in a way that doesn't in fact create more greenhouse gas emissions. So that's, you know, it could take us 10 years to get the technology to the place where it's workable, but we're hopeful about that.

In the meantime we've moved forward with a number of other initiatives as a province in terms of ensuring that we are doing what we can to contribute to reducing greenhouse gas emissions on one side and conserving energy use and making available carbon sinks in a variety of ways, ways of capturing carbon dioxide, so that we've got a more well-rounded approach to climate change than just a focus on emissions.

Mr. Huyghebaert: — Thank you. As I understand it, carbon sinks aren't part of the Kyoto . . . We don't get credit for carbon sinks in this province as part of the national agreement, is my understanding now. You may want to correct me on that if I'm wrong.

But also I would like to comment on . . . I never did get an answer about what the expected costs might be, and I understand they are prohibitive. But negotiating or working with the federal government and other jurisdictions, it is my understanding that there are jurisdictions now that are buying credits from other countries. There are even negotiations going

on, probably as we speak, with countries or jurisdictions that are looking around the world to buy credits. And in my estimation this isn't solving the problem. This is a transfer of wealth from a country that can afford to buy credits to those that like to sell them, but it's not helping the air quality.

And so I didn't really get a sense that you answered what my original question was. With all of these emissions from our coal-fired and gas-fired facilities, what are we doing, what are we looking at? And I also understand the clean coal technology, and I'm a very strong proponent of advancing that, but it's extremely costly. But we know that the Kyoto agreement is going to . . . protocol is going to be implemented. And here we are as a province that is . . . we have to either get credits from someplace or reduce our emissions. And that's where I'm going with the question is: what are we doing; how are we going to be able to comply with the current federal protocol, if you wish?

Ms. Stonehouse: — Well you may have a different understanding than I do. I'm unaware of a federal plan that's been finalized. There was a proposal for a plan, but my understanding from Environment Canada and Natural Resources Canada is that there will now be a process, bilateral and interjurisdictional, whereby we have opportunity to revise that plan to be more practicable from each jurisdiction's perspective. At the same time there are negotiations going on with some of the major sectors in which the same questions are being asked: what sort of progress is practicable given the sector's situation?

In terms of the actual cost for the province, I don't have that information. There is a range of variables here that make it difficult to come to an actual dollar figure, but I would agree with you that if the expectation was that we would shut off our coal-fired plants and find alternative sources for power, that that would be very costly for the province.

I'm not sure if I'm missing another part of your question.

Mr. Huyghebaert: — Well yes, thank you. And you're correct; I was referring to the federal proposal, not that they've implemented a plan yet. I mean we're dealing the proposal same as the protocol itself. There's an awful lot of unanswered questions and I would hope that we're negotiating.

Ms. Stonehouse, I've heard a figure when I sat in the Crown Corporations Committee of about \$2 billion that it would cost if we wanted to clean up the coal-fired electrical generating facilities. And I would submit there's far cheaper ways of doing business if it's going to cost that much. And a prime example is a nuclear generating station that would cost far less than half of that, is totally compliant with the proposed protocol, Kyoto Protocol emission standards, and we do have a period of years before it would need to be implemented.

And I know it's not directly under the Department of Environment, but it sure has a play in it — not in the decision making of where to go on a nuclear generated electrical system, but I would think that from the department there would have an influence in other departments as to how and where we can go with this. And it would comply nicely with Kyoto.

Ms. Stonehouse: — One of the things we'd want to be sure of,

as we move forward to make these kinds of decisions, is that we don't trade one kind of environmental problem for another one. So we would want to have some certainty that there is a workable means of addressing nuclear waste, for instance, and management of the facility before we'd be comfortable with sort of moving one way or the other. But you're quite right, there are alternative ways to generate power.

Mr. Huyghebaert: — And I would submit on the nuclear side, the science is there for the safety of the disposal and the use of it, and the whole cradle to grave aspect of it, the science and technology is there.

Mr. Chair, I would like to turn it over to somebody else and I'll jump back in at a later moment.

The Chair: — All right, thank you, Mr. Huyghebaert. Mr. Hart.

Mr. Hart: — Thank you, Mr. Chair. I have a few questions surrounding the issue of air quality, and the auditor's reports, and some . . . maybe some follow-up questions on to some of the discussions that took place with response to answers to Mr. Huyghebaert's questions.

The Department of Justice has recently put in place a special prosecutor that will be dealing with occupational health and safety violations and WCB's (Workers' Compensation Board) violations. What role will your department play in aiding that individual's work, particularly surrounding air quality issues in the workplace? Is there any formalized arrangement with this special prosecutor?

Ms. Stonehouse: — No we don't have a formalized arrangement here. Should the Department of Labour need information in terms of the air quality monitoring in a particular area, we would provide that information. But there isn't a formal arrangement.

I think much of the occupational health and safety issues around air quality are internal, within buildings, and we would have no role there.

Mr. Hart: — Okay good, thank you. Do department staff, I would imagine, monitor activities in the oil and gas industry? And is air quality part of their duties, monitoring compliance with . . . I would imagine that the department issues permits to companies to burn flare, you know, flare gas and that sort of thing, and department staff monitor compliance with those permits? Was that a correct assumption?

Ms. Stonehouse: — That's accurate, yes.

Mr. Hart: — As a result of the downsizing in this year's budget, I understand that there was a number of department staff were bumped and there are people in new positions, and so on. How many staff members are new in that particular area, monitoring activities in the oil and gas industry, as a result of the bumping? Would you have . . . I mean I don't need an exact figure, but I understand that there are some, a number of staff people that are assuming new duties. Would you have an idea of approximately how many?

Ms. Stonehouse: — We had less change in the environmental

protection area than in many other parts of the department. And I think the discussion that just occurred here was that there was . . . there is one new person in this area, yes.

Mr. Hart: — So this individual that's new, did that individual . . . And that's as a result of the bumping process; is that correct?

Mr. Phillips: — No, it was a reassignment of a displaced senior policy person. So she was reassigned into air quality.

Ms. Stonehouse: — Okay now, are you talking about two different people? Because maybe there's two. She's in . . . or who are you talking about? Okay, so it's . . . so this is not directly related to oil and gas, this is in the policy section of the air unit.

Mr. Phillips: — If I could continue, Lily, this person is leading our assessment of what our strategy needs to be, assessing, for example, contracting a consultant to design a pilot air shed, modelling and management, management approach. The skill set that she brings is she's a science degree person, 20, 30 years in with the department, very experienced on consultation and project management.

We also have an air quality scientist position that we ran one series of competitions right through to the job offer stage, at which point the candidate chose to stay in California. We have since re-advertised the position. We're in the process of interviewing right now. One of the candidates is in Kuwait, the other is in the United States. We're hopeful that we'll have that person on staff quickly.

But what we're finding is that this type of expertise is not typically resident in Western Canada and it's new territory for us. So we would hope by the end of maybe the end of this month that we're in that we'd have a new person starting, with the modern university air quality credentials that would complement the work that the policy manager is doing right now.

Mr. Hart: — If I'm understanding you correctly, you're telling me that the people that have been reassigned are people within management and policy but no field . . . there aren't any people on the ground field staff that have been reassigned, is that right?

Mr. Stonehouse: — In the area of oil and gas and environmental monitoring, and working with the gas industry, there has been no reassignment.

Mr. Hart: — Well, that's doesn't exactly jive with the information I have. I understand that there was some staff people that were . . . whose positions were declared redundant and they were reassigned in southwestern Saskatchewan and part of their duties are that they are out in the field monitoring oil and gas activities.

Ms. Stonehouse: — Is that . . .

Mr. Phillips: — I think we're kind of talking about two different aspects of environmental regulations affecting the oil and gas industry. We have, we call it upstream but the development proposals, sighting of exploration sites,

development of new properties. Typically major concerns relate to disturbance, access into native habitat areas. There were changes in that component of our field program.

There was one manager who was reassigned, I'm aware of. Our most senior field person working out of Swift Current, coincidentally earlier this year left to a job in industry so he's no longer with the department. And there have been, you know, reassignments of duties to cover off the ongoing need for review of development proposals.

So the earlier answers were in relation to air quality monitoring related to the oil and gas industry. These other changes relate to development proposals for our new installations.

Mr. Hart: — Okay. Out in the field you have a number of department staff; some are conservation officers. Other staff I understand part of their duties are to monitor oil and gas activities in the oil and gas field and so . . . And I would image that part of those folks, those department people who are monitoring activities in the oil and gas field, one of their duties would be to monitor compliance with permits and one of them being air quality permits and not necessarily that be the only one, but I would imagine they are in that whole range of permits.

And my question is, those individuals that are performing those duties out in the field, how many of them are new to those positions and took up those duties as a result of the bumping process?

Ms. Stonehouse: — I think we're talking about conservation officers then to describe what you're talking about.

Mr. Hart: — Okay.

Ms. Stonehouse: — And we had 18 positions eliminated and there was significant bumping as that worked its way through the system.

Generally speaking though, they wouldn't come with no experience. So I don't know . . . I mean, these would be people, these would be more senior people in the department and they get experience right around the province during their career. So maybe there's a specific incident that you want to bring to our attention.

Mr. Hart: — Well I guess perhaps I didn't understand the process fully, in that part of the conservation officer's duties is to monitor the compliance with permits in the oil and gas field. Is that . . . I just thought perhaps the department had some other staff that dealt with that, but, so . . .

Ms. Stonehouse: — Okay. So we have two kinds of staff who inspect and monitor in the field, environmental protection officers and conservation officers. The oil and gas permitting and regulating is also . . . Industry and Resources is also engaged in terms of some of the permitting there. So this may relate.

Mr. Hart: — I think we've clarified it, so I guess it's probably the conservation officers . . .

Ms. Stonehouse: — I think so.

Mr. Hart: — What role then do the conservation officers play in the monitoring activities in the oil and gas industry and particularly with . . . well, you know, with regards to air quality but not necessarily limited to that activity?

Mr. Phillips: — There's sort of two complementary roles in the two field jobs that Lily explained. Our environmental project officers typically are expert in environmental management, chemistry, regional systems engineering. Our conservation officers are expert in compliance.

And so, in a conservation officer's duties, they're guided by two or three important things; one being the demands of the local populace in the area that they're interacting with, the other is their annual work plan and compliance priorities. So for those conservation officers who have oil and gas facilities in their field area, if there's a public complaint or, you know, a landowner wonders what's going on, normally their first contact would be with the CO (conservation officer) that they're accustomed to dealing with.

The actual response, depending on what the concern is — if it's an air emissions issue, it would be natural and expected that the conservation officer would connect with the environmental project officer and then they would jointly respond.

Mr. Hart: — Okay, that certainly cleared up the way activities are conducted in the field. And I guess the only other question I would have with regards to this particular issue is, did the people, the conservation officers who were reassigned to new areas and who perhaps had little or no experience in that particular part of their work, what type of training, if any, did they receive prior to assuming their, I guess, expanded duties in their new areas?

Ms. Stonehouse: — Over the coming months we'll turn our attention to some of those training issues, but the actual conclusion of the bumping process wasn't reached until near the end of September so that we weren't sure ourselves who was going to be in what place until the fall. And now we'll do this process of assessing who needs what training and we will attend to that.

Mr. Hart: — Sure. Good. Thank you. I just want to follow up on an issue that my colleague raised and that is to do with waste management and landfill sites and so on. One of the issues that are raised with a number of small communities across Saskatchewan — and in my constituency I have certainly a number of them — is this whole area of handling waste and waste management and so on. And whenever we pursue the issue on their behalf, we're told by your department and your minister that the answer is regional waste management authorities in the areas.

Now very recently some members of our caucus met with representatives of these regional waste management authorities and they are telling us that there are a number of these regional waste management areas that may have to discontinue their operations due to finances, which is very concerning and surprising in view of the fact that we hear quite regularly from the Premier about a green and prosperous economy in the

province.

I think the regional waste management model is a good model and I think it should be supported. There are a number of issues that the people that are involved in this area raised — the lack of . . . or the downturn in prices of the commodities they recycle and so on. What is your department's plan to make sure that these waste management areas do not discontinue their operation, and in fact that we see an expansion of that model?

Ms. Stonehouse: — So there's a number of elements to this as well. The basic landfill operation is not the issue here; the issue is the incremental cost of recycling activities. Recycling activities in the long term are beneficial because it reduces what you have to put in the landfill, and that lengthens the time the landfill is useful to you, and so it reduces overall management costs.

But what we have basically here is a situation where the regional authorities are, with some pressure I think from the local citizen, moving ahead with recycling initiatives before there's a supportive program in place to help them with the materials that they collect through the recycling activity. This becomes fundamentally a question of being able to resource the recycling activities on one side.

And the second issue is that some of these materials cannot be managed within a province; we actually need a national approach. You take something like paper, or even plastics, it's very difficult to identify the source of the material. You can't . . . with waste oil for instance, or with scrap tires, or even with computers, you can identify a limited number of suppliers, and then you can go with a stewardship program that requires the suppliers in fact to fund the recycling initiative. But with things like paper and plastics, they're so pervasive that we really can't go with a stewardship program, and much of the source of these materials is outside the province. So it's more difficult to manage from that end.

So I think what the regional waste authorities association is raising are some legitimate questions in terms of the challenges they face. I think another aspect of this in the long term will be a need for society to come to grips with its need to pay for waste management, and that then becomes a question of what is the municipal responsibility here in terms of those costs.

Mr. Hart: — In your answer you mentioned that it's the recycling aspect of the waste management that's the problem. But it does impact on the landfill side in a very dramatic way, and the two are absolutely linked and they are one issue in my mind. We are told by the people operating in that area that the fewer products they put into their landfill site, which is . . . Building and maintaining the landfill site and monitoring it is very costly, and so the longer you can expand the life of that landfill site, the more cost-effective you are. And you do that by reducing the amount of material going into that landfill site.

So again, and this whole issue is very important to me and to my constituency, because there are a group of municipalities, both urban and rural, who are at this time in the process of trying to establish a landfill site, a regional waste management area. And so if the people that are in that process are hearing from other areas and these other areas are telling them, look, we

can't maintain our operation, we're going to have to cease operations here within a matter of months if something isn't done.

I think it's very important that your department and your minister deal with this issue in a positive way so that these management sites continue to operate and we see the expansion of these type of various . . . And so, I know there has been . . . the association has met with your minister and those sorts of things, and I would just like to put it on the public record that I would urge your department and your minister to deal with this issue in a very expeditious way.

The other thing is, I understand that there is some monies collected in the form of deposits and so on. I don't have the figures before me. I'm referring to, probably to the fees collected with regards to the sale of oil and filters and batteries and the environmental charges and so on. What's the total amount of revenue that you receive from those environmental fees?

Ms. Stonehouse: — So just to clarify, the only place where we receive revenues related to recycling initiatives is in the beverage containers area. So when you think about oil or scrap tires or our future efforts in terms of paint or electronic waste, the cost and the fee that's built in to pay for the recycling is managed by the, well I'll call it the supplier, the industry that creates the offending material in the first place.

So in terms of government's revenues here, there's two kinds of charges. One is the deposit, which is refunded when people turn the beverage container back in, and the other is the environmental handling charge. In the deposit, 2003-04 this says there's about \$32 million were collected in 2003-04, which is the latest year that I have information for. And in terms of the environmental handling charge . . . Did I say 32 million or 32,000? I should have said 32 million, whatever I said. Okay. And in environmental handling charge, 14.3 million.

Mr. Hart: — Okay. The deposit now, is this money then paid out through when these containers are returned through the SARC (Saskatchewan Association of Rehabilitation Centres)?

Ms. Stonehouse: — That's right.

Mr. Hart: — And so you're collecting \$32 million on deposits. What are you paying out?

Ms. Stonehouse: — The deposits, about \$28.8 million.

Mr. Hart: — So for round numbers, 29 million?

Ms. Stonehouse: — Yes, in '03-04.

Mr. Hart: — Now the \$14 million in environmental handling charges, is that money also . . . what happens to that money?

Ms. Stonehouse: — So we pay a grant to SARCAN for their operations in the order of not quite \$10 million.

Mr. Hart: — So between the two, if I do some quick math and hopefully I'm correct there, there's about \$7 million that's collected and not paid out. Would that be a fair statement?

Ms. Stonehouse: — So Donna's correcting me that the SARCAN grant is ten million, seven hundred . . . 10.7 . . .

Mr. Hart: — Well let's make it 11 then. So for round numbers . . .

Ms. Stonehouse: — Okay, but anyway, yes . . .

Mr. Hart: — So we have about \$6 million surplus, we could say, that's collected as a deposit or an environmental handling charge, and then there's funds paid out to SARC and to the people who return bottles and so on. But like as I said, there's about \$6 million that's net revenue then. Would that be fair?

Ms. Stonehouse: — Yes.

Mr. Hart: — So if the regional waste management people are coming and telling you that they need \$2 million to help with environmental issues and maintain their operations and they identify that that money could come from the \$6 million surplus, would you not agree that they would have a pretty sound argument?

Ms. Stonehouse: — They have the numbers right in terms of the money comes in to the General Revenue Fund and it's collected from the perspective of a recycling charge. However it is the General Revenue Fund and the funds are used for environmental purposes on a range of things.

Mr. Hart: — Okay, good. I think . . . I thank you for that answer. So I just wanted to confirm that their facts were correct and the numbers are right.

Ms. Stonehouse: — Yes.

Mr. Hart: — Good. Thank you. Mr. Chair, I have no further questions.

The Chair: — Thank you, Mr. Hart. I'm going to sneak in with just a couple of questions before I go back to Mr. Huyghebaert. Just generally on the quality of air in Saskatchewan, we have how many monitoring stations in the province?

Mr. Muldoon: — We have two in . . . one in Regina, one in Saskatoon, and we're expanding to Prince Albert and Swift Current. We have an acid rain monitoring station for acid rain up in the North. It's part of the federal system as well. Sorry, and then the NPRI, the national pollutant release inventory, which is . . . it's not an actual monitoring station but it requires the specific industrial emissions from any of the large emitters. So that certainly is part of the monitoring system as well. So that would be any of the larger industries have to report through NPRI. So they either have to monitor themselves and submit or have a consultant monitor or do the calculations.

The Chair: — And how many full-time equivalents would your department have that are responsible for the monitoring of air quality in the province?

Mr. Muldoon: — Two.

The Chair: — Two. Can you tell me, with these resources, whether the quality of air is improving or deteriorating in the

province both from the point of view of contaminants and greenhouse gases.

Mr. Muldoon: — In terms of . . . if I had to speak to the science of that, I wouldn't be able to tell you at this point in that we're just getting the system set up to be able to long-term track. We do through the NPRI, the national pollutant release inventory, we can track the emissions. We do have our air quality index in the Regina, Saskatoon. We've not seen a change in trends over the last number of years. They have been a pretty steady state.

The Chair: — That's for both contaminants and greenhouse gases? Or just contaminants?

Mr. Muldoon: — That would not be the greenhouse gases.

The Chair: — Just contaminants. So we don't measure greenhouse gas in the air. Is that because it's always moving or is that a national or federal responsibility and your department doesn't concern itself with that?

Mr. Phillips: — Mr. Chair, it is . . . data is assembled at the national level. The most recent information that we have with us today is a 2002 Canada-wide survey by Environment Canada. It shows between 1990 and 2000, the change in emissions actually increased in Saskatchewan. So from a point of view of, I think your language was deterioration, there's an increasing rate of greenhouse gas emissions in Saskatchewan.

The Chair: — So we have more greenhouse gas now than we did two years ago. Is that what you're saying?

Mr. Phillips: — No. In 2000 we had more than 10 years prior to that . . .

The Chair: — Okay. All right.

Mr. Phillips: — . . . so that I couldn't extrapolate to now.

The Chair: — All right. Okay. What do you call a minor source of air contaminant? What is that?

Mr. Muldoon: — Wood stoves; if you've got some of the elevators, dust controls around some of the elevators; some of the minor emissions, very, very small industry in some of the centres — either Regina, Saskatoon, or some of the smaller centres — that are minor, not measurable, or very small numbers. I don't have the . . . I don't have it with me, the actual thresholds that . . . the stats that would trigger reporting through the NPRI, but we can certainly make those numbers available.

The Chair: — So if a person or entity is emitting contaminants into the air, how do they know when they've gone from being an emitter of a minor source of air contaminant to something greater than that?

Mr. Muldoon: — That would be the job of both the . . . In many cases industries come forward or the manufacturers will come forward. In other cases our compliance staff or our environmental project officers are out and we will alert them that they need to report. We also have our assessment process, where as new industries come on stream . . . and we would

review what sort of environmental impacts might be associated with that particular industry development. And then based on that, that would then trigger whether or not they need to, what sort of permits they would need or what sort of reporting they would have to undertake.

The Chair: — The auditor talked about the need for more training of staff in the monitoring of air quality in Saskatchewan. I assume then that's just staff then in your department. Do you also contract with industry to . . . Because industry is also monitoring air quality. Do you contract with them? Is there any movement of goods or of fees? Or certainly there must be some movement of information back and forth between the private sector, who are concerned about this area, as well as yourselves. Could you just — and I don't want a long answer — just briefly tell me how that happens?

Ms. Stonehouse: — It's not contractual; it's regulatory.

The Chair: — Okay.

Ms. Stonehouse: — So when we permit an industry, we require them to monitor and provide us with the information.

The Chair: — The only other question . . . The auditor did talk about improving the quality of reports, both internal and external reports regarding air quality, in one of the recommendations. Is it possible for your department to provide our committee with a copy of an internal and an external report so we know what things look like and . . .

Ms. Stonehouse: — Certainly.

The Chair: — It would just give us a better basis from which to determine whether you're doing your job in the future. So it's possible for you to make those reports available to the committee? Thank you very much.

Mr. Huyghebaert, you still . . . you had more questions?

Mr. Huyghebaert: — Yes thank you, Mr. Chair. Mr. Chair, you've been discussing some of the recommendations from the auditor's report and I just have one question that I would like to add on to that. And I think we've covered most of the recommendations through some form of questioning here today, Ms. Stonehouse, but is there any of the recommendations put forth by the auditor that the department does not agree with?

Ms. Stonehouse: — No, there's not.

Mr. Huyghebaert: — So you're working . . .

Ms. Stonehouse: — We will work to all of these. Some of them will take us longer because it requires resources and we'll have to try to secure those.

Mr. Huyghebaert: — Well thank you. And my next question deals with resources. What was the cost for firefighting in this past year — rough?

Ms. Stonehouse: — I'll just do the math here — \$41 million.

Mr. Huyghebaert: — Forty-one. Now this may be a very

difficult question to answer, and I wouldn't expect you to have it right off the top now. But what would be our base cost for our forest fire fighting assets if we did not have a forest fire to fight throughout the year? And I know that's not likely but I would like to know what our base cost would be.

Ms. Stonehouse: — It's in the 37 . . . Yes, it's in about the \$37 million range. This enables us to have the firefighters on standby. It provides for the equipment, it provides the planes on the tarmac, not flying.

Mr. Huyghebaert: — So base cost, a delta cost, \$37 million. I thank you for that.

And we know it was a year where we didn't have a lot of forest fires. And as a result of that, I think there's in the vicinity of \$24 million that was forecast in the firefighting estimate that we did not use. And my question relates back to the budget in the spring where there was significant reductions in some areas in the Department of the Environment, such as conservation officers and added taxes in various areas. Was there consideration within the department rather than put the \$24 million back into general revenue or wherever it went, into looking at the replacing of some of the resources that were eliminated in the spring budget, such as COs, such as reducing the very popular wiener roast tax and that sort of thing?

Ms. Stonehouse: — No, the fire situation is one time, and so to attempt to redirect those resources to what are ongoing costs would create a bigger problem for us in a future year. So the answer is no, we have not attempted to redirect those resources to what are our ongoing costs.

Mr. Huyghebaert: — Thank you. When we look at base cost of \$37 million . . . and I know we discussed this yesterday in the House and I did not get an answer from the minister, a clear answer. When we are looking at resources to replace our firefighting fleet and I had asked specifically about the P-3 program if you wish — the public-private partnership — and if it was considered, and a roundabout answer, well we consider everything.

But I'm wondering, when you look at a base cost of \$37 million and you're looking for ongoing resources, to me there's a way that it can be addressed by using a P-3 system for forest fire fighting. And I'm wondering to what extent the department looked at the P-3 program or the SEAT (single engine air tanker) program, when it was looking at replacing the firefighting fleet at a tune of about \$200 million vis-à-vis a zero cost outlay and a zero base cost if you looked at a total P-3 program.

Ms. Stonehouse: — Well of course a P-3 program isn't a zero cost; I'm sure you didn't intend that. I mean, you still have to pay a contractual amount or some sort of price for the service, right? The department had extensive investigation of P-3s, supported by the Crown Investments Corporation. We feel that we have examined this quite significantly. So you've raised two issues, and I'll come to the SEAT program as well.

One of the, I suppose, advantages of taking a long time to examine these things, is that things change. And this is what in fact happened to our examination of a public-private partnership

for the full fleet renewal. We were examining what a partnership would look like to purchase planes for the entire 18 planes, to replace the entire fleet. And the indication from the private sector was that that was a sufficiently large-scale endeavour that the private sector investors would be interested, you know.

And so when it became clear that there was an alternative to replacing all the planes — and in fact for the water bombers we could replace the engines not the whole plane and that would re-life those planes for another 25 years at significantly less cost than replacing them — when that became available and that would scale down the kind of plane purchase that we were talking about, it was judged that that would no longer be a commercially viable or a commercially . . . of interest to the private sector.

At the same time we had a change in accounting practices in government — I'm sure you're aware of them — which enabled us to move to an amortization approach for this kind of purchase. That makes available government's preferential borrowing rates to a project like this, and makes it much more difficult for the private sector to be competitive. And so the combination of these two things really did mean that a P-3 was no longer a preferred option for us, although we did start there.

On the question of the single engine air tankers, the work that we'd done in conjunction with some other jurisdictions to look at a review of the use of these planes, because they are in use in some other jurisdictions, identified a number of things where they are best used. They are best used where the fire can be fought within a 30-mile radius of the base.

In our case in the northern forest, we need to go much further than that to reach fires from where the airstrips are. And in those cases, this is not as effective an approach. And secondly, because of the distances we're covering — it's half the province — because of the distances we're covering we needed . . . So we needed flight distance and speed, and we need capacity in terms of what they're able to carry.

The work we've done with the single engine air tanker group is to encourage them — and we've worked with the municipalities as well — to encourage them to see what partnerships might be possible in working with municipalities, where in fact they could work within the radius where they can be most effective, and on smaller fires where they can deliver enough payload to have an impact.

Those two reasons and the third, which is the need for us to position the province to work inter-provincially . . . So when we have a hot fire year and we need additional resources, we look to other provinces and the territories to send us their planes. And they look to us similarly.

And there are standards that we have to meet in order to have a plane that can be used in this way. And the seat planes do not meet that standard. They are looking for the big tankers.

So where we've landed here is that we need land base tankers and water bombers — two different kinds of planes. The land base tankers need to have speed and capacity to be able to take off for instance from Meadow Lake and address a fire in the La

Loche area for instance or to take off from Hudson Bay and get into the area up towards Creighton from there.

So they need speed, but they also need enough carrying capacity that when they get there they can make an impact on the fire. And so that's what we have gone for is for a configuration here where the land base tankers are faster and are bigger than our current planes, and also have one other thing, also have an ability to portion out the payload. So our current tankers . . . we need three in order to go after a fire and they actually hit it . . . they actually create a triangle around the fire. So one plane goes like this, and the next one lays there like this, so that they surround the fire with a sort of triangle of retardant.

The reason we have to use three planes at the moment is because they can only dump once. They just dump and that's it, right. The new technology that's available allows it to dump a little bit at a time so that in fact we could use one plane to circle the fire instead of using three.

And so that's why we've gone with the configuration we have. It does mean that the single engine planes are not meeting the requirements we have for forest fires but that doesn't mean that they can't be useful in Saskatchewan for smaller fires, closer to base.

Mr. Huyghebaert: — Well thank you for the answer. I think there's an awful lot of points you bring in there that are extremely debatable. And my question was, have you looked at other — the single engine for an example — in other jurisdictions?

And just for edification, Manitoba which has probably greater distances . . . because I don't think . . . well there is some activity in the northern part of Manitoba, but we seem to stretch a little bit farther north in our province for inhabited areas. And the single engine tanker program works extremely efficient and effective and cheaper in Manitoba. Now it is in concert with the public aircraft; they work together. But it's extremely effective. This is also extremely effective in Ontario which also has some pretty large distances to travel, so I think there's a little bit of leakage in that argument.

I believe, again, if your department, I would ask if they checked with New Brunswick because I think they use 100 per cent SEAT program. Now granted it's a smaller province, but there's still some large distances to travel in New Brunswick, and I'm sure that they have a proportionate number of fires to put out to the size of the province.

So my question is, how much did your department look at these other jurisdictions before the decision was made and if in fact there was a database that you worked from and if that would be available to us if we could see what, what consultants' reports or whatever, if we could be privy to those to see what promoted the decision to go with the way we've gone.

Ms. Stonehouse: — So there's a partnership of jurisdictions in the area of firefighting, and through that partnership a study was conducted. I can't remember if it was the Yukon or Alberta that had the pen. But a study was conducted of single engine aircraft, and I'll make that available to you.

Mr. Huyghebaert: — I would appreciate that, Ms. Stonehouse. And I would like to, Mr. Chair, thank the officials for their answers and for the materials they will provide in the future. So I'd like to thank you and the officials.

Ms. Stonehouse: — Thank you.

The Chair: — Thank you, Mr. Huyghebaert. We have some recommendations to deal with. I'm hoping there might not be any more questions. Is there anyone else that feels an area was not touched on that they could raise briefly?

Seeing none, there are seven recommendations in chapter 10 of the 2004 report volume 1 beginning on page 146. I'll let you turn to in your copy to these recommendations. The first one reads:

We recommend that the Department establish processes to obtain Minister's Orders for waiving permits for minor sources of air contaminants.

Is there a motion?

Mr. Yates: — Thank you, Mr. Chair. I'll move concurrence and note progress.

The Chair: — A motion to concur and note progress. Is there any discussion on the motion? Seeing none. All in favour? That's carried unanimously unless Mr. Trew is late there because he was opposed, and I don't think he was. So I think he's okay there.

Second recommendation, same page:

We recommend that the Department set sound and consistent terms and conditions for permits to regulate air emissions.

Again is there a motion? Mr. Hagel.

Mr. Hagel: — To concur and note progress, Mr. Chair.

The Chair: — Again a motion to concur and note progress. Any discussion? Again seeing none. All in favour? That's unanimous. Carried.

Recommendation no. 3, same page:

We recommend that the Department establish processes to ensure permits to regulate air emissions are properly approved and expired permits are followed up promptly.

Is there a motion? Mr. Borgerson.

Mr. Borgerson: — I'll move that we concur and note progress.

The Chair: — Again a motion to concur and note progress. Is there any discussion on the motion? Seeing none. All in favour? Carried unanimously.

We will turn to page 148. Recommendation no. 4 reads:

We recommend that the Department set sound and

consistent processes for monitoring compliance with permits to regulate air emissions and for handling air emission complaints.

Is there a motion? Mr. Yates.

Mr. Yates: — I move we concur and note progress.

The Chair: — A motion to concur and note progress. Is there any discussion on the motion? Seeing none. All in favour? None opposed? That's carried.

Recommendation no. 5 on page 149 reads:

We recommend that the Department complete its human resource plan including a plan for employee training to regulate air emissions.

Is there a motion? Mr. Hagel.

Mr. Hagel: — Concur and note progress, Mr. Chair.

The Chair: — A motion to concur and note progress. Is there any discussion on the motion? Seeing none. All in favour? None opposed? That's carried.

And we will go to page 150, recommendation no. 6:

We recommend that the Department establish systems to collect and maintain information to prepare reliable reports.

Is there a motion? Mr. Borgerson.

Mr. Borgerson: — I concur and note progress, Mr. Chair.

The Chair: — Again a motion to concur and note progress. Is there any discussion on this motion? Seeing none. All in favour? None opposed? That's carried.

And the final recommendation is on page 151. Recommendation no. 7 reads:

We recommend that the Department improve its internal and external reporting on air emissions.

Again is there a motion? Mr. Yates.

Mr. Yates: — Yes, Mr. Chair, I'll move and . . . concur and note progress, pardon me.

The Chair: — A motion to concur and note progress. It is a tongue twister, isn't it? Is there any discussion on the motion? Again seeing none. All in favour? That is again carried unanimously.

And that concludes our discussion and dealing with the chapter on the environment. I want to thank Ms. Stonehouse and her officials for doing a very good job of answering a number of questions. We even strayed a little bit beyond air quality although you could always connect the dots, so I appreciate your flexibility in that regard. I want to thank the auditor, Mobashar Ahmad, for his input to us, and members for their

questions. We will recess over the noon hour and reconvene at 1 o'clock.

The committee recessed for a period of time.

Public Hearing: Finance

The Chair: — Ladies and gentlemen, we'll call the meeting of the Public Accounts Committee back to order after our recess.

We have but one item on the agenda for this afternoon, but it might be an interesting item and it is. It's Finance and there's an entire book put out by the Provincial Auditor that we'll be looking at. It's the 2004 report volume 2; fortunately, not as thick as some of the auditor's reports that we have to go through. So hopefully we'll be able to be successful in the time allotted for this adventure.

Colleagues, we will have a report from the Provincial Auditor's office. Ed Montgomery, the deputy provincial auditor, will be giving, I think, a PowerPoint presentation as well. Following that presentation, we would certainly invite the deputy minister of Finance, Mr. Styles, to respond, also to introduce his colleagues including the two that are regular attenders of this committee. And then we'll open up the meeting for questions by committee members.

So we will turn the floor over to Mr. Montgomery, please.

Mr. Montgomery: — Thank you. Good afternoon, Mr. Chair, committee members. Our presentation will take about somewhere between 10 and 15 minutes. For your convenience, I think we've also handed out some hard copies of the slides we're going to use in that presentation. And at the end, we'd be pleased to answer any of your questions.

In this report we focus on the government's financial condition at March 31, 2004. To report on the government's financial condition, we look at three things. First, we measure whether the government is living within its means. Second, we measure the government's flexibility to meet its commitments by increasing its revenues or borrowing more money. And third, we measure the extent to which the government relies on the federal government to pay for existing provincial programs.

We concluded that the state of the government's finances remains stable over the year to March 31, 2004. In 2004 the government did not live within its means. The government spent 147 million more than it raised in revenue. However, on the positive side, the provincial economy grew and the accumulated deficit as a percentage of GDP (gross domestic product) decreased from 27 to 25 per cent. Also, interest costs remained stable at 12 per cent of revenue and the government relied less on the federal government to pay for provincial government programs.

However, significant risks to the government's financial condition continue. Saskatchewan's accumulated deficit of 9.3 billion is large for our population of 1 million people. Also, the provincial economy remains vulnerable to the risks of low commodity prices, higher interest rates, and bad weather. The government must manage carefully to reduce the potential impact of these risks.

Our report has several graphs measuring the financial condition of the government. Those graphs will help you and others form your own conclusions about the government's financial condition. This will allow for a more informed debate on the affordability of new and existing programs and a level of taxation.

The first graph I want to highlight appears on page 11 of our report. This graph shows that after seven years of living within its means, the government did not live within its means for the last three years. By that we mean the government's revenues were less than its spending.

The next graph I want to highlight appears on page 12 of our report. This is a graph that shows the size of the government's accumulated deficit as a percentage of the provincial economy. It helps you to assess how much debt the government can afford to carry. The thinking behind this indicator is that a person with a 50,000 per year income can afford to carry more debt than a person with a 30,000 per year income. Therefore, the larger the economy, the more debt the government can afford to carry.

The graph shows that the accumulated deficit was 49 per cent of the provincial economy in 1993. This accumulated deficit was not sustainable. As a result the government had fewer borrowing sources, paid higher interest rates, and needed large amounts of money from the federal government to pay for provincial government programs.

By 2001 the size of the accumulated deficit to the provincial economy had improved to 24 per cent. This was a result of the government reducing accumulated deficit by 2.5 billion between 1995 and 2001 and a 10.7 billion growth in the economy in that period. As a result, the government improved its ability to carry its accumulated deficit and to afford its existing programs with the money it raises from the provincial economy.

From 2001 to 2003, the accumulated deficit as a percentage of the economy, grew from 24 per cent to 27 per cent due to increases in the accumulated deficit and a slowdown in the growth of the provincial economy. In 2004, the percentage improved to 25 per cent because the 5 per cent growth in the provincial economy more than compensated for the annual deficit of 147 million.

The next graph I want to highlight appears on page 14 of our report. This graph shows a cross-Canada comparison of debt to GDP at March 31, 2003. You'll note that we use 2003 for the interprovincial graph; this is a year older information than the rest of the information in that report. And that's because it's the most recent information available.

We have to congratulate the Department of Finance — the Department of Finance does an excellent job of reporting the public accounts in a timely manner, and this year they were tied with Alberta and BC (British Columbia) for the earliest release of the public accounts of all the Canadian provinces. As you can see from the graph, Saskatchewan compares favourably with the other provinces.

The next graph I want to highlight appears on page 15 of our report. This graph shows how much of each dollar of revenue

that the government raised went towards paying interest on the government's debt. In 1993, 24 cents of every dollar went towards paying interest; since 1993, however, that has improved to 12 cents of every dollar of revenue.

This improvement is a result of larger revenues, lower interest rates, and a smaller accumulated deficit. However, the 928 million the government pays for interest on its debt remains significant, and it is the third largest expenditure after health and education.

The next graph I want to highlight appears on page 17 of our report. Graph 8 shows the government's revenue demands on the provincial economy. This graph shows that since 1991, the revenue raised by the government as a percentage of GDP from sources within the province has remained fairly constant. The two years when the percentage was above 18 per cent represent two years when there were sales of Cameco shares in one year, and the sale of Bi-Provincial Upgrader investment in the other year.

The last graph I want to highlight appears on page 19 of our report. This graph shows how much the government has relied on the federal government to pay for provincial programs. The graph shows that in 2004 the government is less reliant on the federal government to pay for programs than it was in 1991, but that it is more reliant than it was in 2001. Our report also contains many other graphs showing trend lines and interprovincial comparisons that will help you understand the financial condition of the government.

I want to talk briefly about the government's financial plan. In previous reports on understanding the finances of the government, we have criticized the government for not producing an overall financial plan.

We were pleased that in March 2004, the government published its first overall financial plan. This information will help legislators and the public to understand the impact of the budget on the entire government's financial condition and on the affordability of new and existing programs. The overall financial plan also improves the government's accountability by allowing legislators and the public to assess whether its financial performance is better or worse than what was planned.

We are also pleased that, for the first time, the government published mid-year financial results for the entire government. The mid-year results show significant improvement in the government's financial condition. The government had planned for a 297 million annual deficit for 2005. The mid-year results are estimating a 585 million annual surplus for 2005. It's a significant improvement from the plan published in March 2004.

We encourage legislators to look for this information when the government provides updates on its fiscal progress. Rather than focusing on the GRF (General Revenue Fund) which only reports part of the government's operations, you should look to see how the government is performing against its financial plan for the entire government.

In summary, our report contains three messages. First, the government's finances remain stable over the year to March 31,

2004. Second, we urge continued careful management of government revenues and spending because significant risks to the government's financial condition continue. And third, we are pleased that the government has published an overall financial plan for the entire government. This has improved the government's accountability and allows for a more informed debate on the government's financial condition.

Mr. Chair, that ends our opening comments, and we'd be pleased to answer any questions from the committee.

The Chair: — Thank you, Mr. Montgomery, and I'm sure there will be questions. But first of all, Mr. Styles, deputy minister of Finance, we'll give the floor to you.

Mr. Styles: — Maybe I'll start with introducing my staff. First, Chris Bayda, on my far left; he's the executive director of the financial management branch. To my left, immediate left is Terry Paton, the provincial comptroller; to my right is Joanne Brockman, who is the executive director of the economic and fiscal policy branch.

And really I have no statement or no comments on the presentation that has been made or the documents that there. It's a good, sound analysis. And it's always a question of interpretation and understanding the broader context that it's developed within. So with that, be open to questions.

The Chair: — Thank you very much. We'll open for questions. Mr. Krawetz?

Mr. Krawetz: — Thank you very much, Mr. Chairman. And thank you to Mr. Montgomery for providing us with that summary. I guess the difficult part that many people have — and I as a legislator, I'm sure, am no different than many of the people in public — is to take the information that's contained in the public accounts documents and try to visualize those numbers in the Auditor's report that is published and is entitled, *Understanding The Finances Of The Government*.

Because when you take a look at the broad public accounts document, the numbers are in different categories and in different tables and then when we see the summarized version in the Auditor's report, there's a consolidation of numbers and there's a putting together of different things, and it's difficult to try to take the charts and the numbers that are in this document and relate them back to the public accounts, which is, of course, where the numbers actually came from to begin with. So that's my first question to Mr. Wendel and Mr. Montgomery. The information that people who would want more information on the numbers that you present in your charts, would all of that information be contained in the public accounts document volumes for March 31, 2004?

Mr. Montgomery: — Most of the information in our report is contained in the public accounts documents. Occasionally we talk about things a little broader in terms of statistical things, growth in the economy. That type of information would not be included in the public accounts.

One appendix that we put at the back of the report is appendix 2 and that usually relates . . . it's basically the income statement or the statement of revenue and expenditure and annual

surplus/deficit. And we show that over the 14 years of information that we have produced in this report. And in there usually you can compare that on a line-by-line basis with the information in the public accounts for the government's income statement.

Mr. Krawetz: — Thank you, Mr. Montgomery. Mr. Montgomery, the other question that . . . You used, you used the phrase, accumulated deficits. And in the documents that you see, the government refers to government debt, that is debt of both the General Revenue Fund and the Crown corporations' debt. Could you explain the differences by what you mean by accumulated deficits versus what is used to describe the word, debt.

Mr. Montgomery: — I'll start. I guess there's a few terms we use. One is the annual surplus/deficit and that's the difference between the government's revenue and expenses in any particular year — revenues and expenditures. The second one is the accumulated deficit. And from our point of view, that's the difference between the government's assets and the government's liabilities. And that's the accumulated deficit that has basically been accumulated over the years since the province began, or it's the sum of all the annual surpluses and deficits.

Debt is different in the . . . there are some differences between the summary financial statements and the General Revenue Fund. The main difference in the summary financial statements is the accounting for the government business enterprises such as SaskPower and SaskTel. And in those, in the government summary financial statements, they follow the accounting principles set out by the Institute of Chartered Accountants, and there, in those we do not gross up or do not show the gross amount of the debt for those government business enterprises, for the SaskPower.

You'll see in the Public Accounts that one line appears on page 45 of the Public Accounts. On the balance sheet it shows investment in government business enterprises, and the amount is 2.4 billion or two four, two five, sixty-five million. And how that's made up is that's the government's . . . that's the assets of those government business enterprises minus the liabilities of those government's enterprises.

So when you look at the public debt below in the liability section, that does not include the debt of those government business enterprises, which include SaskPower and SaskTel, etc. In the General Revenue Fund, it also includes debt of Crown corporations. But we tend to focus specifically on the summary financial statements because we believe that that's the set of financial statements that you should look to when you're trying to understand the finances of the government.

Now hopefully I explained that.

Mr. Krawetz: — Thank you. That's helpful. There are two other areas that I'd like you to give me a definition. When the government . . . When you indicate in your documents that there is something called guaranteed debt, could you explain what is meant by guaranteed debt?

Mr. Montgomery: — Okay. First of all I looked to see if we

had a definition and we didn't, so I guess what I would say for guaranteed debt is that from time to time when the government makes investments — the biggest one I can think of is where it's made investments in the NewGrade upgrader — it has guaranteed the debt of NewGrade.

Now I guess that doesn't mean to say that there's a liability for the government. It just means that should NewGrade not be able to meet its obligations — its financial obligations — then that debt will fall to the government to pay that debt. But providing NewGrade operates on a going concern basis and discharges its debt on a normal basis, it should not fall to the government to make those payments.

So it's not debt that it's really a liability yet or it's not a liability that we record on the balance sheet, but we would note that for the readers of the financial statements so that they're aware that the government has made guarantees on debt beyond that which is disclosed on the balance sheet of the government's summary financial statements.

Mr. Krawetz: — Thank you, Mr. Montgomery. I was looking at page 72 of the Public Accounts document, volume no. 1. And there it itemizes the various entities who are covered by the category of guaranteed debt.

Now when I look at that schedule — schedule 11 — and then compare it with the debt of government, that is a combined debt of Crown corporations and bonds and debentures, I'm wondering . . . And I've been asked this question by a, you know, just a person on the street to say, well I thought government was responsible for all of its debt and therefore all of its debt is guaranteed. So how do you . . . what would the answer be to that question or that comment?

Mr. Montgomery: — Well I think probably all the government's debt is guaranteed. But in addition it does guarantee the debt of certain other organizations where it's entered into an investment. And the guarantee with NewGrade would be 50 per cent owned by the government but it's also guaranteed the debt for all of NewGrade, essentially.

Mr. Krawetz: — The question then, dealing with schedule 2 . . . And we can see that over the course of the year ending March 31, '04 the guaranteed debt declined. So that must have meant that there was revenue received.

Where would I find revenue received to offset this decline in guaranteed debt or would there not be such an actual number appearing in these statements?

Mr. Montgomery: — I'll use the NewGrade example again. For NewGrade there would not be . . . There will be some revenue but it won't correspond. We only own 50 per cent of the NewGrade investment so obviously we wouldn't expect to see NewGrade's revenues and expenses going through the government's financial statements. But we would . . . In addition you've got the change in the value of the US dollar versus the Canadian dollar, and I think a lot of their debt is in US dollars. So that, as that changes that will affect the amount of debt that they've got and the amount that's left that would be guaranteed by the province. But there's no real number that you would see, certainly in a line-by-line basis, that would

correspond to the changes in the guaranteed debt.

Mr. Krawetz: — Is this a normal decline in guaranteed debts from '03 to '04 or was this due to the tremendous change in the value of the Canadian dollar? In other words what I'm asking is, is this an abnormal change because the dollar fluctuated so rapidly?

Mr. Montgomery: — I don't have in front of me all the components of that change; I'm just going from memory. But in part it would be that . . . You know, if we talked to the NewGrade one again, part of it would be the operations of NewGrade have been a lot better than they were in the past because of the higher oil prices and in part it would also be the change in the US dollar impact on their debt.

Mr. Krawetz: — I noticed that the Meadow Lake pulp plant changed by \$10 million. Is that due to the dollar or is that due to revenue received? There's indication that some of the debt, for instance from Luscar Ltd, the 21.7 million owed at the end of March 31, '03, was in fact completely paid off. So that would have meant that that loan in fact . . . the outstanding amount of that Luscar loan was received by government, is that correct? Mr. Wendel?

Mr. Wendel: — None of this is received by government. This is just the outstanding debt of these individual organizations that the government has guaranteed. And those organizations could at any time be repaying their loans, as they go along, through their profits. So this is the outstanding amount that we're still exposed to at any given time. Just no different than if I went down and co-signed one of the loans for my children to do something, I'm not responsible until they don't pay it.

Mr. Krawetz: — I think you've said that quite well, Mr. Wendel.

Mr. Wendel: — I think we've all been there. But when they pay it off your liability disappears, or as they pay it down. So that's really all this is. That's exposure that year and then the exposure the next year. So there would be nothing going through the government's income statement on these revenues or expenses.

Mr. Krawetz: — A company has informed you that they have paid off their financial institution, and therefore they do not owe the money that the Government of Saskatchewan has guaranteed.

Mr. Wendel: — That's correct.

Mr. Krawetz: — Thank you. Good. Now that leads me to the Fiscal Stabilization Fund, okay, where we note that at the conclusion of March 31 in this document, I don't see mention of the Fiscal Stabilization Fund. And I'm wondering, Mr. Montgomery, and to Mr. Styles, it was indicated by Mr. Montgomery that the last three years expenditures have exceeded revenues.

Now for someone who is not an accountant, that would mean that we've have had a deficit. And as a result we see the growth of debt or accumulated deficits I guess is another way of indicating that. So we when we talk about the Fiscal

Stabilization Fund, both before March 31, 2004 and now subsequent to March 31, with the mid-year report and the document that you've indicated will actually show a transfer to the Fiscal Stabilization Fund . . . But that fund really doesn't exist. So could you explain how the public would have a full understanding of what is meant by the Fiscal Stabilization Fund. Where does the revenue for this year, where will it actually end up if it's transferred to the fund, and what happens at the conclusion of March 31 when in the government's Estimates document we actually see a transfer from that fund when in fact it contained no . . . it did not contain any money?

Mr. Montgomery: — I wonder if I can start with just talking about the Fiscal Stabilization Fund and the summary financial statements and maybe ask Mr. Styles to talk about the impact on the estimates. But I think it's a key point with the summary financial statements and the Fiscal Stabilization Fund to realize that the Fiscal Stabilization Fund has no impact whatsoever on the summary financial statements because what happens in the summary financial statements is it only shows transactions that occur outside the reporting entity — in other words with individuals and other organizations outside the reporting entity.

When you have two items in the reporting entity, you have the Fiscal Stabilization Fund and the General Revenue Fund, those transactions are eliminated. So really what the summary transaction, the summary financial statements portrays is no impact on the Fiscal Stabilization Fund. And it portrays the government's operations or the government's operations with entities and people outside the reporting entity.

Now the one that impacts is the General Revenue Fund and that one we qualify the . . . our auditor's report each year for transactions between the Fiscal Stabilization Fund and the General Revenue Fund. And really we believe all that should be is a due-to and due-from. And we don't believe that changes in the amounts due to or due from the Fiscal Stabilization Fund to the General Revenue Fund should impact the revenues or expenditures of the General Revenue Fund.

And I think it wouldn't be in accordance with generally accepted accounting principles for governments to include those as revenues or expenses. And I think the government even acknowledges that or says that in the notes to the General Revenue Fund where it indicates that . . . On page 16 of the General Revenue Fund, or page 16 of the Public Accounts, I should say. And it's right at the . . . Yes, transfers to and from, it says that:

These financial statements are prepared in accordance with . . . generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, with the following exceptions:

And the exceptions are transfers to and from the Fiscal Stabilization Fund and also the pension liabilities that are not recorded in the financial statements.

So the General Revenue Fund is not prepared in accordance with generally accepted accounting principles with regard to the Fiscal Stabilization Fund. And that's why you'll find the reservation each year in our auditor's report for any amounts of

revenues or expenditures between the two funds.

Mr. Krawetz: — Thank you. Mr. Styles.

Mr. Styles: — Yes. The only comments I think I would add to it is that it's really a question of policy. Okay? The fund was put in place by legislation. The design is to address the volatility that we have.

From your own experience over the past three or four years, you'll see that our revenues go up, go down, you know, go in every direction, partly as a result of federal decisions. The federal government quite often at the end of a fiscal year, March or whatever, all of a sudden will tell the provinces that we have another \$1 billion for you, okay, to split up. You obviously can't spend the money in the last five days of the fiscal year, so that creates a particular problem in terms of application of the dollars to a particular program area.

Resource revenues in our province — again we have the second most volatile set of resource revenues in Canada, behind Alberta. That also creates some challenges. You can get very large swings up and very large swings down. If you look at oil prices, I believe, over the last 15, 16 years, the average has been, I think, around \$22 over that period of time. But as you're aware, right now oil's around 49-something, I think, on the world market. It's been down as low in my tenure around \$15. So again you get these large swings.

Expenditures and government policy, okay, do not adjust well to those kind of swings. If you put a program in place, a safety net program for instance, okay, for the poor, for whoever else, you want that program to be in effect for a number of years to have the desired impact. If you were to change your expenditures, okay, on an annual basis to adjust to that kind of volatility, you obviously have a bit of a problem.

So it's a policy decision; it's a mechanism or a fund that gives you an ability to manage that volatility over a period of time. In Saskatchewan, essentially, it's a four-year time frame. The balanced budget legislation talks about a pure balance over those four years. And what you can do if you can have, you can have imbalances between revenues and expenditures in any one year, on a plus or minus side, but again it's whether it balances over the four years. So it's a policy issue.

If you look at the rating agencies and how they view it, and you were to go to some of their materials, you'd find that they believe it to be a very prudent, a very conservative approach to fiscal policy and are quite comfortable with it, quite supportive of it, actually. Other provinces do it; I believe there's four, if I remember correctly, four that actually have a similar type of fund or arrangement, Alberta being one of them. And then there's a number of others that deal with the volatility through the use of contingency funds, the federal government being one of those, BC being another. So again, it's really a policy issue; it's a decision — how do you want to deal with that kind of volatility, how do you want to provide some stability to your expenditure side because that's very, very important.

Mr. Krawetz: — Thank you, Mr. Styles. I think we had this discussion a number of times in various discussions. But to get a clear understanding of the policy that is used by government,

and that is the credit for the Fiscal Stabilization Fund is not really money on deposit in a bank account, what it really means is that the province of Saskatchewan is lowering its debt by applying this credit to its debt. Is that a fair analysis of that?

Mr. Styles: — It's a cash management issues in terms of, if you have surplus cash, what is the best use of the cash? Would it be better to put it into an account and try to get a return on it, or is it better to defer your borrowings. And by quite a considerable margin, if you defer your borrowings you're going to save yourself millions of dollars. So it's truly, it's a cash management issue. Really what . . . in the discussion we kind of mix up accounting, okay, with cash management and the two are, in essence, very separate.

Mr. Krawetz: — Thank you. And I think that clears up the fact that they're . . . people believe that the Fiscal Stabilization Fund has, is a bank account located in some financial institution that is drawing interest and that's not fact. In fact, what it is, is a management of cash through lowering of debt.

Now you mentioned Alberta, and it's my understanding that the fund in Alberta, I believe it's called the Heritage Fund, that they operate slightly different. That in fact there is money on deposit, and they actually withdraw a certain amount each year based on interest that that fund has earned. Is that correct?

Mr. Styles: — I don't know all the details of the Heritage Fund. They actually have two different funds. There's the Heritage Fund which is kind of the old fund that was set up, I believe, in the early '80s by Premier Lougheed, if I remember correctly. There's also a new fund, something along the lines of a sustainability fund . . .

Ms. Brockman: — It's called the Sustainability Fund.

Mr. Styles: — Sustainability Fund. It's a brand new one that has been set up by them. They take surplus revenues in any one year, transfer it into the fund, and then they pull dollars out of it on an ongoing basis to try to stabilize the revenue stream — no different than our Fiscal Stabilization Fund, in fact, exactly the same.

Again, I don't know the policies around the Heritage Fund. I can relate to some of what I saw happen in the 1980s when we were reading a little bit about it. But at one point in time, the claim was made the Heritage Fund was basically broke, had no cash — completely accurate description of it. The money was fully invested.

So again, it's a question of, again, accounting versus the cash management. Because you don't have cash in a fund, doesn't mean the fund doesn't have resources, okay. It's how it's set up and how you use it from a policy perspective.

Mr. Krawetz: — Thank you. The other question then that comes to mind of course is that based on the mid-year report, and as indicated by the auditor, is that for this fiscal year there is a significant change. No, I'm sorry, it's not the auditor. It was you that indicated that the mid-year report has changed the financial position significantly, where the surplus of the government will indicate that there will be a significant improvement or transfer to the Fiscal Stabilization Fund. And

again, for clarification on the record, what this really means is that the debt of the province will be lowered by the equivalent amount that is being assigned to the Fiscal Stabilization Fund. Is that correct?

Mr. Styles: — Look on page 13 of the major report. I don't know if you have it with you. My apologies if you . . .

Mr. Krawetz: — Yes, I do.

Mr. Styles: — If you look at page 13 of the mid-year report and you have a look at the line, GRF debt for government, it shows at mid-year, GRF debt for government is going to fall by \$715.8 million. We've recognized, both in the report and in our communications, that not all of that is going to be permanent debt reduction, that a portion is tied into the Fiscal Stabilization Fund. We will pull money out of the Fiscal Stabilization Fund in the future, okay, and there's going to be a bit of a rebound on the debt.

The second part of it is, we've talked about a permanent debt reduction of about \$179 million, so we've correlated what we think that rebound will be with where we think the debt line will be after the rebound occurs. And this does come back a bit to the question on the one-time capital projects.

In terms of building a jail, you're not going to build a jail, you know, the last six months of this particular fiscal year. It takes time to get your design work done, to get it tendered and actually carry out the construction. Therefore what you're going to do is, you're going to make your announcement. You're not going to hold the 40, I think it's \$40.7 million for it in an account. But rather you're going to pay down your debt, save yourself some interest costs, and you'll make your borrowings as you need them over the next years; that way again saving money for the taxpayers of Saskatchewan.

Mr. Krawetz: — And that is something that I haven't argued with in terms of lowering debt. I think I and maybe the opposition members, we've always been told that there is a balanced budget when we know that expenditures exceed revenues, so it's not balanced — unless you're talking about the General Revenue Fund only. But as we've seen, as indicated by the auditor's office, we're moving to . . . For the first time, we've moved to the summary financial budgeting of the entire government, and we'll know where that takes us. According to the media report, it should be, it should be a positive year.

But when you look at the transfers that you show in your mid-term report for future years — '05-06 and on to '07-08 — when that \$381.2 million, if it is in fact, you know, taken from the Fiscal Stabilization Fund, what that will really mean is that we are borrowing that money again and enlarging the debt, which was previously reduced by the monies that were transferred this year, is that accurate?

Mr. Styles: — Essentially what we're doing is we're repaying debt at this point in time and we'll borrow debt in the future when the money's actually required for the expenditures, the capital projects that we've approved.

Mr. Krawetz: — Not only the capital projects but other things that government may be spending money on, since we are then

borrowing to maybe pay the amount of monies that have been allocated to Education or Health or Highways or any of those other departments, correct?

Mr. Styles: — It could be the case. Some of the money put aside if . . . when you go through the mid-year report, it's very specifically, okay, for those capital projects. So again you could have both situations.

Mr. Krawetz: — Okay, thank you. I'll defer to my colleague, Mr. Hart, for a couple of questions. Sorry.

The Chair: — All right, Mr. Hart.

Mr. Hart: — I'd like to thank Mr. Krawetz for giving me an opportunity to ask a couple of questions that pertain particularly to this area of Fiscal Stabilization Fund.

I guess my concern and the concern that I've heard from citizens of the province, is that there isn't a double counting of the fiscal stabilization monies. This mid-term report shows the GRF debt to government of \$7.6 billion. Now I guess a couple of questions. What . . . Okay, that number then reflects all monies supposedly allocated to fiscal stabilization, and you've reduced the debt by the amount in the Fiscal Stabilization Fund. Is that what that number represents, that 7.6?

Mr. Styles: — Only . . . no, 7.6 is total debt that we have; \$7.6 million.

Mr. Hart: — Yes, yes, okay.

Mr. Styles: — If you look to the number to the right — the 715.8 — some portion of that is related to the money that is going into the Fiscal Stabilization Fund and being set aside.

Mr. Hart: — Okay.

Mr. Styles: — 210 million, Joanne, would be a . . . 210 million of that, the remainder are tied to many other things. Again, we're going to run a surplus this year of \$289 million, okay? That also generates, in a sense, excess cash, okay, by which you don't have to borrow so . . .

Mr. Hart: — Okay, just so I can kind of get my head around this. What is the . . . What are the number of dollars in the Fiscal Stabilization Fund, based on these projections? What I'm trying to get at is, okay, what's the total long-term debt; what is the amount of dollars in the Fiscal Stabilization Fund? And from listening to your response to some of Mr. Krawetz's questions you say, rather than having that money sitting in a bank account drawing very little interest, you use it to pay down some of the . . . for a short period of time, pay down some of the debt, so you get a bigger bang for your buck. You were talking about cash management, is that . . .

Mr. Styles: — Maybe I could rephrase it to . . . it's rather than pay it down, it's not borrow.

Mr. Hart: — Okay.

Mr. Styles: — Our annual borrowing program is roughly \$1 billion, depending which year you're talking about. So instead

of having to borrow \$1 billion, you maybe have to only borrow 750 million. In case in point, in this year we are finished our borrowing program. Normally we'd still be borrowing into, you know, into early next year. But we're finished our borrowing program. So it's not really paying down debt, it's not incurring new debt or refinancing new debt.

Mr. Hart: — So okay, when you talk about borrowing on an annual basis of \$1 billion, is that like a cash operating loan that your revenues . . . your expenditures are coming in at a faster rate than your revenues, or is this adding to the long-term debt?

Mr. Styles: — Yes, this is historical debt; this is our total amount of debt. So the debt that we have out there in the market, let's just go back, is 10 . . . \$11 billion, roughly, okay. The debt that we float in the market has many different maturities to it. Some of it is very short-term, one year, two years; some of it very long-term . . . 30 years. And so again, at any point in time your debt comes due, you roll it over, okay, and you issue new debt instruments. So that's what the \$1 billion refers to, okay, it's not in essence, new debt from the perspective of the province taking on something that's incremental. It's a reference to our overall borrowing program.

Mr. Hart: — So you said that your long-term debt is about \$11 billion?

Mr. Styles: — In total, that's Crown and debt for government.

Mr. Hart: — Okay. And, okay, what is . . . How much money is in the Fiscal Stabilization Fund now? What's the total amount?

Mr. Styles: — I refer you to page 28. Oh sorry, the mid-year financial report. My apologies. The mid-year closing balance, what we think will be the closing balance at the end of the year, is \$576.1 million. So that's our projection at this point in time.

Mr. Hart: — Okay, so if you're projecting that you're going to have this \$576 million in the Fiscal Stabilization Fund, but you're saying that for cash management purposes you use that money to help, or not borrow as much money as you normally would have to if you didn't have that cash available, I guess as I said earlier, people are concerned that you're double counting the advantage of the Fiscal Stabilization Fund.

So if you're making the statement that as of this particular date, then this table you'll have \$576 million in the Fiscal Stabilization Fund, the long-term debt will be 576, the published figure for the long-term debt will be \$576 million greater than it actually is at that point in time. Because in fact for cash management purposes you're using the 576 million so that your long-term debt isn't quite as large. Is that . . .

Mr. Styles: — The statements are a static view of where everything is at one point in time.

Mr. Hart: — Yes, well that's what I'm saying. Let's take a snapshot for a moment in time and . . .

Mr. Styles: — Well to make the assumption though that your net debt would be that much larger, it requires that, you know, you believe that into the out years, that into the out years you're

going to fully draw it down and then everything else will balance. So, you know, it requires a certain set of assumptions to move to that particular conclusion. But it wouldn't be the conclusion I would draw.

Debt moves up and down for, you know, again for a variety of reasons. So I don't think you can draw that immediate conclusion but . . .

Mr. Hart: — But if we take a snapshot which is, you know, a few seconds or a second in time, and you're saying that there's \$576 million in the Fiscal Stabilization Fund . . . And what you've been telling us is that there really isn't a bank account with that amount of money in it because it's not wise money management — you use it to borrow less . . . you know, lend less money; you've used that money to the advantage of the province.

But for accounting purposes, if you're providing a snapshot picture and you're telling the citizens of this province we've got this Fiscal Stabilization Fund, it will have \$576 million in it, it's okay, if we buy that argument. Then on the other hand, the long-term debts — because you've said that's what you use the money for, most of it, or let's assume it's all used, just for argument's sake — then the long-term debt should be \$576 million larger than what it actually is, and what is that figure? If you're saying it's 11 billion currently, and if there's \$576 million in the Fiscal Stabilization Fund, then my question to you is, is the actual long-term debt 11 point . . . 11 billion 576 million? I mean you can't count the money twice, and that's what people are concerned about.

Mr. Styles: — No. The long-term debt is again exactly as was stated on page 17 . . . sorry, page 17. So that's the big table break, it gives you all the breakdowns, okay. But that is exactly what the long-term debt is.

If you're talking about, is there a potential for that debt to increase as you utilize the Fiscal Stabilization Fund, absolutely. And in the major report we talk about the fact that, it's being driven down by again \$715 million, I think is the number. But we recognize that of that, really there's only \$179 million that is permanent debt reduction. So we do recognize that, we've been transparent about pointing that out. You know, yes, the actual statements show it down 715, but we're telling you that's not all long-term debt repayment — 179 is; the rest, yes, we believe in the next little while we're going to continue to borrow and that number will rebound a bit.

Mr. Hart: — But what I'm concerned about, if someone picks up this report, looks at page 17 and sees the long-term debt, or the 11, about \$11 billion, \$11.15 billion, then they turn over to page, whatever it is, where the Fiscal Stabilization Fund is, and they see the figure of that there is . . . page 28, and they see the figure of \$576 million in the Fiscal Stabilization Fund. Now, is the true debt, my question to you is then, is the true debt \$11.15 billion or do we add on another \$576 million to that? Because remember we're taking a snapshot. This is what these figures are, are they not? They're a snapshot in time?

Mr. Styles: — That's right, but they're a completely accurate snapshot. They tell you the amount of debt that you actually have out there in the market, okay, in terms of the banks, the

rating agencies, the people that we borrow from, the insurance companies that I visit every number of months. You know, that is the actual amount of debt that we have out in the market. That's what they're interested. They are interested in knowing, you know, what our plans are for the Fiscal Stabilization Fund. They want to understand that because it does have some impact for your financial situation on a long-term basis, but it, you know, once again it's very transparent. They understand that we are going to borrow, okay, for those dollars to replace them, okay, to bring them back into the GRF. So you know, it's full disclosure. They fully understand that.

We even went the added step this year of explaining that we're not saying the 715 million is permanent long-term debt repayment. You know, we've said, lookit, only 179 million is; the rest we know is going to rebound over time. So that clear expectation has been laid out and it gets very transparent. All the agencies understand that.

Anybody who has read our, you know, statements, I guess, you know from a financial analysis perspective, okay, incorporates that into the analysis. So there's not a concern, is the way I would phrase it. And there is full disclosure. There's no misunderstanding — from my view, anyway — in terms of what the financial statements say on that particular issue.

Mr. Hart: — So just one more question just to follow up on that then. So if we took a snapshot of the actual ... For simplification purposes let's just say that these are loans and there's bank accounts. So if we took a look at the actual figures as far as this loan, this long-term loan which will, this \$11 billion; let's call it a long-term loan. Let's call the Fiscal Stabilization a savings account, a bank account. Would that be fair to keep it simplified?

Mr. Styles: — Okay.

Mr. Hart: — If we actually looked ... I mean these figures that we have in here are for accounting purposes. Because I believe you said, you know, cash management, you would do things differently. And I think people understand that.

So if we looked at the actual balance in the bank account and the balance on the long-term loan — let's assume that all the money is used to temporarily reduce the long-term debt so that you're not paying as much in interest; let's just make that assumption — if we looked at the actual account numbers in that context what would those numbers be then?

Well I could tell you that, according to what you said, Fiscal Stabilization Fund would have zero dollars in it. What would this \$11.15 billion figure be then? What would be the amount owing on that long-term loan?

Mr. Styles: — We're trying to overlap ... I'm not an accountant, okay, so I may not be the best person to explain this. But I mean, what we're doing is we're overlapping, you know, the cash management portion of it, our debt numbers, okay, with again the accounting representation of our financial statements.

The Fiscal Stabilization Fund may be another way to look at it, okay. It's in a sense an allocated surplus, you know. It's surplus

that is being set aside, we're not declaring in that particular year. We're rolling it forward to another year, you know. So it is an accounting concept, very much so, and we've kind of said that all the way along.

The debt is, you know, truly about cash. It's about the amount of money we have, the amount of money we've had to borrow and sustain over a longer period of time to deal with our Crown obligations, to deal with our GRF obligations. So the two don't match up perfectly. I don't know if Terry wants to take a shot at it, but they don't match up perfectly — again, two different concepts.

Mr. Paton: — Maybe if I could just make a couple of comments. I think Ron's exactly right on that. The concept that we're talking about when we talk about the Fiscal Stabilization Fund is a revenue concept; it is surplus. In this case we've taken some money and we've set it aside, or we've taken some surplus and set it aside. Going into maybe a simplified example, when you have \$10 worth of revenue during a year you could end up with \$10 worth of surplus. You could also have \$10 worth of cash.

The question you've been asking is, are we double counting? The answer would be no. We have \$10 worth of revenue or surplus at the end of the year; we also have \$10 worth of cash. In the case of the Fiscal Stabilization Fund, we've used that cash to pay off debt. We still have the surplus that's allocated and we've used the cash to pay down debt. So, as Ron has tried to explain, one is an accounting concept of revenue and surplus, what's happened from your operations perspective. The other is an asset management — do you have cash in the bank account or have you used it to pay down debt? They're not double counting; it's the two sides of the transaction.

Mr. Hart: — But in the minds of the average citizen, when they hear that there's \$576 million in the Fiscal Stabilization Fund, they believe that there's actually money there in that account, or in fact if they listen to what you've been saying and what the Finance minister has been saying and the Premier has been saying, is that we don't leave the money sit in a savings account drawing half a per cent interest, we use it to apply it to some short-term debt which we maybe would have to pay 6 or 7 or 8 or 10 per cent on.

What the citizens of the province want to know is, okay, when you give that snapshot of the province's financial picture, if you're telling them that there's \$576 million in the Fiscal Stabilization Fund, then they want to know is the long-term debt figure accurate?

Mr. Styles: — The answer is yes, the long-term debt figure is accurate. I'm not sure how to answer otherwise. It's an accurate number; and again, it's audited, so it's a perfectly accurate number.

Mr. Hart: — Okay, because the question that they also have is then, is if there isn't money actually in the account, is the debt figure being played with by that amount? That's the confusion that I hear from people that have talked to me about this.

Mr. Styles: — If I can, there's always a sense somehow that this is a relatively unique situation with the Fiscal Stabilization

Fund, that this hasn't occurred before. But I could draw you to page 26 of the volume 1 of the Public Accounts 2003-04, and schedule 5.

And schedule 5 shows a number of different entities. I guess the right word is entities. All of them are no different than the Fiscal Stabilization Fund. The money is . . . (inaudible) . . . I'm sorry, I'm moving a little fast. On page 26, deposits held, and for all of these entities, you know, they're all the same as the Fiscal Stabilization Fund. You know, we hold their deposits, we utilize their cash, and we keep our debt as low as possible. So the practice here for the Fiscal Stabilization Fund is no different than it has been for all the rest of the entities that are here. A lot of them, you know, were here a long time before the Fiscal Stabilization Fund was.

If you went back to the SLGA (Saskatchewan Liquor and Gaming Authority) and the SLGA always had retained earnings as you may remember, before the Fiscal Stabilization Fund, is exactly the same situation. They did not have \$300 million or 250 or whatever the case sitting in a bank account someplace. The money was used to make sure our debt was kept as low as possible. So the practice itself, you know, if you can divorce it from the Fiscal Stabilization Fund, is one that's used widely in government, has been for a long, long period of time, long before the Fiscal Stabilization Fund came about. So I would kind of divorce the two issues to some extent.

I know the media has kept the two kind of together but they're very much separate, okay. One is a policy issue around setting up the Fiscal Stabilization Fund, allocating a portion of your surplus to it, and then rolling it forward to future years, and it's a public policy debate. It is in other provinces as well. The other is a cash management issue. It is good management. I think the Provincial Auditor is on record as saying it's good management. It's been used for many, many years, used for a whole variety of entities as well. So it's not just the Fiscal Stabilization Fund, but hopefully maybe that helps a bit.

The Chair: — Mr. Krawetz.

Mr. Krawetz: — Thank you, Mr. Chair. Mr. Styles, I have tried to answer that question and I think maybe it might be useful for the constituents that are asking Mr. Hart that question, that based on the Fiscal Stabilization Fund . . . And I know the word fund I think causes some people some concern and I'll refer to it as that surplus credit, as Mr. Paton has. Next year if that surplus credit is . . . you access that surplus credit by \$300 million, the debt of the province, if nothing else changes, the current debt of \$11.1 billion will rise to \$11.4.

Mr. Styles: — All other things being equal, you know, everything else being stable, absolutely.

Mr. Krawetz: — Okay. So that's how I've answered the question. Because soon as you access that so-called surplus, line of credit, whatever you want, you are then reborrowing the money and you are adding to the debt of the province?

Mr. Styles: — Yes.

Mr. Krawetz: — Okay. Thank you. Let's move . . .

Mr. Styles: — If it's spent, if it's spent.

Mr. Krawetz: — Yes. No. And as I said, all things being equal, if you're accessing it and there's no other transfers to the Fiscal Stabilization Fund surplus, then the debt of the province will have risen if nothing else has changed to contribute to that debt.

Mr. Styles: — Yes.

Mr. Krawetz: — Mr. Styles, or Mr. Montgomery, could you explain what is meant by sinking funds. And there's a complete listing of sinking funds, and I'd like to have a definition of what is a sinking fund and how many such funds exist.

Mr. Styles: — If you'd like to take the first stab at it.

Mr. Montgomery: — Well I can start it off, and then I'll turn it over to the Department of Finance because they would have a little bit more information on that than I would.

Generally when the government borrows, it enters into also a sinking fund arrangement whereby each year, I think they usually each year they put 1 per cent or they set aside 1 per cent of that borrowing and they set that aside, that money aside. So over the years that amount in the sinking fund will grow 1 per cent each year. And hopefully at the end of the day when the debt matures, the amount in the sinking fund will meet or go a long way towards meeting the amount that has to be repaid in the market when they have to repay that debt.

So it's a way of . . . they borrow and then they also set aside some funds for repayment which they invest. It's just like, say you borrowed for something and then you had another savings account whereby you put some money in a tin or whatever and eventually you used that to pay off the debt. I mean their tin is the sinking fund, I guess, you know, so. It's a locked box.

Mr. Krawetz: — Is the purpose, Mr. Montgomery, to actually set aside funds so that when a debt becomes due you have the monies then to pay off that debt?

Mr. Montgomery: — That's what I think the purpose is.

Mr. Krawetz: — And, Mr. Styles, where do the sinking fund credits, where do they exist? Is it the same principle as the surplus credit that you apply that money against debt to lower your debt or are those sinking funds actually sitting in a bank account?

Mr. Styles: — I'll take an initial run at this, and then Terry may want to add a little bit, okay. But there is money actually set aside. The money is invested over a period of time, okay, you know, but it is more broadly still part of overall cash management — cash coming in, cash going out. But, you know, it is set aside.

Mr. Krawetz: — Then to Mr. Montgomery, on page 30 of your document, the volume 2, you've indicated that that graph that you showed everyone showed a closing debt which you, I guess, referred to as bonds and debentures of 11.9 billion. Is that net of those sinking funds that Mr. Styles refers to?

Mr. Montgomery: — Yes.

Mr. Krawetz: — Now when you talk about that 11.9 billion, and you indicated that the . . . I think the GDP has improved in relationship to debt. I looked back over the chart, and I see that at one time the highest point was, I guess, 14.2 billion for combined GRF and Crown debt back in 1994. So that looks like about \$2.3 billion. Is that what you meant when you said the debt of the province has been decreased by, I think you said something like 2.5 billion because I don't see a 2.5 billion that matches here.

Mr. Montgomery: — No, everything in our report, except for this particular question, is following the accounting principles for governments, whereby I explained previously that the debt is netted against the assets, okay. In this particular question, what we do is we set out to gross the amount up, to show you what it is if we actually followed a different set of accounting principles which showed the full amount of the government's debt.

And what we've done there if you look at the 11.9 . . . I think I can find that on page 70 off the Public Accounts. On page 70 you'll see at the bottom there . . . on page 70 you'll see the debt of 11.9 billion. Now that's the full debt which includes the Crown corporations.

The accounting principles for government would show just the 8.7 billion on the financial statements of the province, and that's shown on the balance sheet which is on page 45. So we prepare our report basically following the accounting principles for government on which the summary financial statements are prepared, and they would use the 8.7. We have been asked many times is, what is the full amount of debt that the government owes, and that's why we in this particular question gross that amount up, and we show you also the Crown corporation debt.

Mr. Krawetz: — Okay. Thank you, Mr. Montgomery. I think I understand that, but I was hoping you weren't going to introduce another generally accepted accounting principle that was different than the other two that we've been talking about today, or three or four. No, I just joke.

I know that there's the generally accepted accounting principles that indicate how you must report dollars and when we try . . . as I said in my opening remarks, when we try to understand this document which is the Public Accounts that obviously treasury agrees with, and then we try to see them in your documents, sometimes it's difficult to understand where the 11.9 billion came from when we look back in here. But I think I have an understanding of that.

Staying on that same page, when we look at unfunded pension liabilities — and I know we've had a chapter discussion on pensions at this very table awhile back — but you note that of course over the course of the last decade, the unfunded pension liability has continued to increase. Yet it is my understanding that, based on this document, that some of the plans are closed, and there's no longer any additions to those plans in terms of new people entering. When will we see, as residents of Saskatchewan, a levelling off of that so-called unfunded pension liability? Do you expect that, and what conditions will have to be taking place to ensure that that happens?

Mr. Montgomery: — From the information I'm aware of, we expect it to level off into the future. And I'm also aware that Mr. Styles has done a presentation on this more than once, so he has the better figures on as to when that levelling off will occur.

A Member: — 2014.

Mr. Montgomery: — Mr. Styles?

Mr. Styles: — Although Mr. Styles hasn't brought the figures with him. But I do . . . Yes, I mean, he's absolutely right. I think it's levelling off around 2012-2014, something in that range. The reason it continues to grow . . . Although there are still people that are in the plans that are employees of government, okay, the plans have been capped for any new employees coming into them.

But again I think with the old pension plan for government employees I think there's still 1,000, you know, 1,500 employees, something like that that are still active in government. So the longer they're in government, you know, the more liability still continues to accrue. Their salaries will be higher, you know, the best five years, things like that. So the liability continues to grow, but it does level off again, I think, at the start of the next decade somewhere. And after that it declines, you know, for I think the next 20 years after that, if I remember correctly.

Mr. Krawetz: — So, Mr. Styles, in the course of the next . . . being as this is 2004 and let's just assume 2014 is when things really start to change. Because again the closure of specifically the teachers' pension plan . . . I think 1979 was the last year, and therefore if you add a 35-year teaching career to 79, most of those teachers should be retired by 2014. So in the next 10 years could you . . . have you had an actuarial study done to project where we think 4.1 billion will be, in those last 2 or 3 years prior to 2014?

Mr. Styles: — Plans on a regular basis have actuarial studies done on them, okay. I think they have a full actuarial study, every third year is the requirement. Sometimes the plans will do it every second year. So I think those numbers would be available in terms of a projection of what that total liability would be at some point in time.

Just to follow up on the number of active members, the teachers' pension plan still has 4,424 active members. This is on page 52 of the Public Accounts '03-04 volume 1. The old pension plan for government employees still has 1,755 members. So it gives you — active members — so it gives you some idea I guess of, you know, there's still some growth and liability that will occur.

But if you like, I can get the presentation that was done previously; I can provide you with a copy. You know, it does our latest projections. What the rating agencies and the people that do financial analysis on the province are most interested in is how that growth correlates with the projected growth in both GDP and our overall revenues. So they want some idea as to how that's growing in relation to our ability to pay it. And they're quite comfortable, you know, that it's not growing out of proportion with our ability to pay it. And a point of fact, you know, past . . . (inaudible) . . . whether it's 2010, 2014,

whatever, it'll start to decline and be less of a burden, okay, on the provincial finances.

Mr. Krawetz: — My concern would be, Mr. Styles, if 10 years ago, if you look back at the projections that were made 10 years ago, and if they — they meaning the people who did the actuarial studies — did not project that in fact we were going to have an additional billion dollars worth of unfunded pension liability, then how accurate would today's studies be? And I know you've indicated to this group that you know there doesn't seem to be a concern as to whether or not the costs of pensions will be able to be met by government.

That is something that, you know, as you've indicated, will rise to a certain level. And I'd be very interested in knowing what the next actuarial study will say as being the peak at 2012 or 2014. If we would have an understanding, as a Public Accounts Committee, that the unfunded pension liability is going to go to a certain amount, but in reality for those who still might be here in 2014, whether or not that will begin to decline. I mean it looks like it will, but we've never seen those kinds of projections — at least I haven't.

Mr. Styles: — I should correct this. The actuarial study itself, okay, deals with the total assumed level of liability that the province has at that particular point in time. It doesn't necessarily deal with the actual cash payments that will be required, okay, at each point in time out there. But you can take the actuarial together with the rest of the assumptions — you know, the assumptions around the number of people that are going to retire in each individual year — and you can do projections going out.

And that's what we have done three years ago, I think, if I remember correctly . . . was those kind of projections. But the actuarial study itself doesn't do that. It creates a sense of what the total liability is, and that liability reflects in essence the present value of the stream of payments over the remaining life of the plan, so that the liability's a little different concept than the cash payments that will be required to make each year going out.

Mr. Krawetz: — Thank you, Mr. Styles. You know, I've noted this before and I know that you've made reference to it — we've seen the estimate document which contains the Department of Learning, we've seen vote (LR04) which deals with teachers' pensions and benefits — that that required payment has continued to rise.

And I've asked this question before, as we move towards 2014 where we see a far greater number of people who will be retiring, will this number rise significantly so that the legislative assemblies of the future, whether it be six years from now or seven or eight years from now, will in fact have to have a line item here that will be much, much larger than the number that we see before us today?

Mr. Styles: — There's no doubt that it's going to grow, and it will be larger than what you have presently in the annual estimates. And again, what I can do to give you a bit of a sense of what we think the growth is going to be is show you the last set of projections that we did, which was about three years ago, as I remember. That would give you some sense of where

potentially . . . but it does grow significantly, especially with the teachers, it's a much larger group of employees as well. But it does grow quite considerably; there's absolutely no doubt about it.

But you always need to take it in the context of what overall revenues are going to be. You know, if you assume the provincial revenue growth is going to be three per cent going out, and the growth in pensions is in that same neighbourhood, three or four per cent, and you know it's actually going to level off and fall over time, it does temporarily become maybe a slightly larger burden, but it's not going to be materially different.

Our revenues this year, I think through . . . 71 million was our revenue growth this year, okay. Most years it's more in the sort of two and a half to three percentage growth. But again, with that kind of growth, you know, pensions are growing at the same time. As long as they are not growing out of proportion, it doesn't become a large burden.

The problem we have in any expenditure category — I don't care which one you want to talk about — is the fact that if it's growing out of proportion with your overall revenue growth, then you need to do offsets, or you need to look at increasing the trajectory of your revenue line. But it's not an issue, but I can get you the last set of projections; that probably is the best I can do.

Mr. Krawetz: — That would be very much appreciated because I think it would give us an understanding, and I know I have estimates, documents, dating back to the last nine years. And I've taken a look at this number and have seen where it's going to today. But without knowing, you know, the number of retirements per year, it's difficult to project as to what the figure will be here for future legislators to be dealing with a set of estimates. So I thank you for that.

Mr. Montgomery, back to you, sir. On page no. 30, that same page, one of the other categories that you put into this total government liability is something that you call, other. And I note that the other category has risen to \$4.9 billion from 2.8. In your definition above, you indicate that other liabilities include trade accounts payable, accrued interest, and unpaid claims for government insurance services.

And I tried to take a look back in the Public Accounts documents and try to find \$4.9 billion and I got lost. So do you have a breakdown of each of those categories — trade accounts payable, the people or the entities that would have government owing them money, and as well as the unpaid claims for government insurance services? What things fall into those categories so that we could have a complete breakdown of really what that \$4.9 billion means. Or if that's available from Mr. Styles in a much shorter, condensed form, I'll accept it from him too.

Mr. Montgomery: — I'll start off with that on page 40. It's made up of two numbers, where we get that 4.9. And one is on page 45, summary financial statements again. I'll let you find page 45. Okay. And you'll see on the liabilities column, there's an amount for accounts payable of 1.3 billion, and there's 180,000 for other liabilities, and 216 for unearned revenue.

Those three numbers add up to about 1.8 billion.

The rest of it appears on page 61. And again, what you have here is now the government business enterprises. So under the liabilities for the government business enterprises, we've got accounts payable, going across to 120,873. Then you've got other . . . Sorry. Then you got 474 — right below that — 790; 180,418. And then you've got — if you ignore the next two numbers which are actually government debt, which would be covered in that debt schedule — the last three numbers there are 397,335; 1,724,415 and 247,715, and they add up to about 3.1 billion, all of those six numbers on that page. So essentially what you've got is the 4.9 that you were looking for. And you can do that each year, if you need to know where that . . .

Mr. Krawetz: — Good, thank you. Now in the category of unpaid insurance claims that you've indicated, there is \$1.724 billion. Is there a breakdown, a further breakdown of that, that would list whether that's one claim or 64 claims or what are we dealing with there and . . .

Mr. Montgomery: — As you move across from that total, you've got the entities that make up that amount, which are basically SGI (Saskatchewan Government Insurance), the 211 million, and . . .

Mr. Krawetz: — If I might . . . Sorry, Mr. Montgomery. Could we deal with each one individually? What do you mean now by \$211 million of unpaid insurance in SGI?

Mr. Montgomery: — There would be many . . . I mean I don't have a breakdown, but there would be many claims that would make up that \$211 million there.

Mr. Krawetz: — Would that be monies that are set aside to deal with no-fault provisions in terms of providing for future compensations for accident victims and loss of earnings?

Mr. Montgomery: — Yes, there would be certainly be loss of earnings in places like Workers' Compensation and maybe also in SGI. But there'd basically be the expected amount of claims that are due to be paid by those organizations. And they should be reflected in the financial statements of SGI, Workers' Compensation Board, and the Auto Fund at year end.

Mr. Krawetz: — See, I could see that, I could see that, you know, in the amount of money that you are indicating there, the 711 million . . . the 711.5 million in the Saskatchewan Auto Fund. I mean that's a large amount of future-risk claims that may not even be determined yet.

Mr. Montgomery: — Well there'd be two components. There'd be components where they already have determined how much the claim's going to be, and then they also have in the insurance industry something called incurred but not recorded or something like . . . IBNR (incurred but not recorded), and that would also be there. That's claims that they're expecting to come in based on past experience, for accidents or whatever. They're already happened.

Mr. Krawetz: — So could the 211 billion for SGI — that's property, casualty. That's not auto. So therefore when we're starting to look at \$211 million, is that for lawsuits that might

be pending where certain values have been set aside by SGI to be determined in the future?

Mr. Montgomery: — I'm really not aware of lawsuits. That would be SGI's estimate of the claims that they are aware about now that they have to pay out and the ones that, based on past experience, are going to come in that they will have to pay out, based on accidents or whatever that have already occurred.

Mr. Krawetz: — Okay, then let's move to the third category which makes up that large number, which is \$801.7 million for Workers' Compensation Board. What is involved in setting aside \$800 million for future liability?

Mr. Montgomery: — I would imagine it's the same thing for them too. On their side it's claims that have actually occurred but not yet been paid out. And there would also be some sort of calculation of claims that are maybe not yet in but have already occurred. There would be an estimate and an actual amount that would make up that \$801 million. But there would be many of them. There wouldn't be, you know . . .

Mr. Krawetz: — No, I understand that obviously Worker's Compensation Board deals with many such situations.

Now, Mr. Montgomery, as we've seen this \$4.9 billion figure grow or that figure grow to four point billion dollars, what — without doing a huge analysis here of all of the different categories — what would be the most significant contributor to enhancing this number say from 3.9 billion of only five years ago? What would have contributed . . . what would be the largest contributing factor to growing this number by \$1 billion?

Mr. Montgomery: — Sorry to say I haven't got that with me, but we can provide that to you.

Mr. Krawetz: — Would Mr. Styles or Mr. Paton take a kick at that? What I'm pointing out is that in 1999 if the document chart shows \$3.9 billion of other unfunded, or not unfunded, but other liabilities and that number in five years time has grown to 4.9 billion. Mr. Montgomery has identified the various categories. So if I was to go back five years ago, which one of these or have all of them contributed to the \$1 billion?

Mr. Styles: — We haven't carried out the analysis so we really don't know. The one thing I just thought important to point out in the debate here or the discussion here, if you went and looked at Workers' Compensation Board, the \$801 million, okay if you go off to the assets section, Workers' Compensation also has assets set aside of \$800 million for this. It's not like it doesn't have an asset base, you know, associated with the liability. And so I think it's important to consider it's not the same as debt in a sense, okay, true debt. Again this comes back to the analysis, but there's money set aside to pay the claims.

Mr. Krawetz: — Right, because the debt of Workers' Compensation Board would not show up in the \$11.9 billion debt at the bottom of this chart, correct?

Mr. Styles: — I don't know if WCB has debt, to be honest.

Mr. Krawetz: — Or Mr. Montgomery?

Mr. Montgomery: — Yes it would, but it . . . well actually it doesn't have any according to . . . you know, what I'm really saying is that 11.9 also includes debt of these organizations. But in the case of Workers' Compensation Board, there isn't any.

Mr. Krawetz: — Okay. Let's turn to another chapter or another couple of pages in your document that we use quite often as legislators to explain — or at least I do — to explain to people the different circumstances because these . . . page 38 and 39 have been the numbers that have been presented on a summary financial basis — I guess is the best way of putting it — for a long period of time. Now we're moving to the budget before the legislature for this fiscal year, produced on the basis of summary financial budgeting.

And I wanted to first of all clarify a couple things to make sure that I'm explaining this correctly when people ask me. Under expenditures, when you have the category, the third category called debt charges, interest costs, you indicate that for the fiscal year ending back on March 31, '04, that that number was 928 million. And I tried to take a look at the accounts, at the Public Accounts document, to see whether or not that could be broken down as to which portion of the \$928 million was interest cost on Crown corporation debt versus interest cost on the GRF bonds and debentures debt. Is that somewhere in this Public Accounts document? I'm sure it is but . . .

Mr. Montgomery: — If you go to . . . There's two parts. First, if you start off at page 46 of the Public Accounts document, you'll see the \$928 million or 927 on page 46, the third line down under expenditures, and you'll notice that that's reference to note 9. And note 9 is on page 55. I think that's the only breakdown that I've got on the interest costs, but you'll see the figure there coming in reimbursed from government business enterprises of 267 million, so the 927 or 28 million is net of that amount.

Mr. Krawetz: — Okay. So that still doesn't help me to be able to explain to people which portion of 927 is actually Crown-related and which portion is related to General Revenue Fund, bonds and debentures.

Mr. Styles: — You can separate out the General Revenue Fund right from the Estimates document. Just give me a second.

Mr. Krawetz: — Is that this 614?

Mr. Styles: — To page 15. I'll use our mid-term financial reports if that's okay, page 15 of the mid-year financial report. Servicing government debt is identified there. So you know, if you went to our GRF financial statements . . . I assume in the Public Accounts you'll find a similar number as well. And so for '04, '05 our major projection is that servicing of government debt will be about \$590 million.

Mr. Krawetz: — So if I'm . . . Sorry. Mr. Styles, if I'm to compare apples to apples, I want to look at that figure from March 31, '04. So if I look at the forecasted estimates of expenditures . . .

Mr. Styles: — Page 14 in Public Accounts.

Mr. Krawetz: — Right.

Mr. Styles: — And actual 2003-04, servicing the debt is \$602 million dollars — 602.702 million.

Mr. Krawetz: — What page?

Mr. Styles: — Fourteen. Sorry, in the Public Accounts. I'm sorry.

Mr. Krawetz: — So from this document then, the General Revenue Fund portion was 602.702 net of cost. And then if we look at the Provincial Auditor's document of \$928 million net in total, then the difference between those two which would be 326 million more or less, would be the interest costs for Crown debt. Is that correct?

Mr. Styles: — Crown and government enterprises as well I assume would have some dollars in there. I don't know how much, but other government enterprises.

Mr. Krawetz: — Other government enterprises.

Mr. Styles: — Yes. The Milk Control Board and things like that, I don't imagine they have any, but those type of enterprises.

Mr. Krawetz: — Okay, good. Thank you. Mr. Montgomery, on page 38, 39, there is also the category of income from government enterprises. And you have in that column indicated that the source of income from government enterprises for the year ended March 31 is 734 million. And if I take a look over at the Public Accounts documents to try to get an understanding, and what I'm looking at is page 60 and 61. The \$734 million is before transfer of dividends. Is that correct?

Mr. Montgomery: — Yes. And our number, this just corresponds with the number directly on the Public Accounts, page 46, and it is before . . .

Mr. Krawetz: — Okay. What I was trying to get a correlation between the Department of Finance's estimates document — your document — and the Public Accounts. And I note that the liquor and gaming revenue for the year ending March 31 was 360 million, which matches the estimates document that indicates that, for last year, \$360 million was transferred as a line item in Saskatchewan Liquor and Gaming Authority. But below that, there's a number that does not match the 36 million from Saskatchewan Gaming Corporation and in fact I think was projected to be 53 million.

Could you explain the difference between \$36 million net for profit from the liquor and gaming versus what was received as a line item in the statement of revenue for the GRF fund, from the category called other funds, or other enterprises and funds? Something else must have been included in that category, and I'm wondering what it is, or maybe Mr. Styles would know that.

Mr. Montgomery: — You're looking at the estimates?

Mr. Krawetz: — I'm looking at the estimates document for the forecast for '03-04 which would have meant that March 31 there was expected to be \$53 million worth of revenue come from other enterprises and funds. And likewise for the current

fiscal year we're expecting 48.7. I don't know if that's been adjusted in the mid-year report. Yes, it has. It's been adjusted slightly upwards to \$49 million.

So for other enterprises and funds, we're expecting \$49 million this year, and apparently there was about \$53 million worth last year whereas the Gaming Corporation, which is sort of the only entity in any of these columns that would indicate a source of revenue to be moved to the General Revenue Fund, and I see that as only \$36 million.

Mr. Styles: — So it's 200 million from the Crown Investments Corporation, as you are aware; 360.766 million from Liquor and Gaming Authority; \$1 million from the Saskatchewan Grain Car Corporation; the Saskatchewan Gaming Corporation, 36.480 million; Community Initiatives Fund, 7.6 . . . 7.7 million roughly; revolving fund surcharges at the Department of Highway is \$261,000; the Automobile Injury Appeal Commission, reimbursement of expenses from SGI, \$392,000; and then Workers' Compensation Board, reimbursement for administration costs under The Occupational Health and Safety Act, for the industrial safety program, \$7.656 million.

Mr. Krawetz: — And you're on what page?

Mr. Styles: — Those numbers add up to 614.250 million, on page 32. If you get to page 32, and then half way down, transfers from government entities. And I don't believe the breakdown of the fifty-three million four eighty-four is in the Public Accounts. No, it's not in the Public Accounts.

Mr. Krawetz: — Again, could you tell me, on page 32 . . .

Mr. Styles: — On page 32.

Mr. Krawetz: — Yes.

Mr. Styles: — You go down to transfers from government entities.

Mr. Krawetz: — Yes.

Mr. Styles: — And under actual 2003-04, the 614.250 million, which includes that fifty-three million four eighty-four. So the fifty-three four eighty-four is comprised of \$1 million from the Saskatchewan Grain Car Corporation; the 36 million from the Saskatchewan Gaming Corporation; 7.7 million from the Community Initiatives Fund; a couple of small allotments, revolving fund surcharges in the Department of Highways, 261,000; the Automobile Injury Appeal Commission, it's a reimbursement of expenses from SGI, so it's revenue that came in from that, 392,000. And the other large one is for the workers . . . from the Workers' Compensation Board, reimbursement for the administration costs under The Occupational Health and Safety Act for the industrial safety program, \$7.7 million.

Mr. Krawetz: — So, Mr. Styles, do those entities that you just read into the record, do they appear as listed somewhere in this document?

Mr. Styles: — I understand from the Provincial Comptroller, they did not . . . As I understand it some are actually listed in the detail; some are consolidated. So we'd have to go back in

and try to have a look to sort out which are which.

Mr. Krawetz: — And my final question for this section is: are those the same entities that will occur in the projection for this year's other enterprises and funds? Will they be the same, or do you add new ones and delete some of those as the years change? And how will we know that?

Mr. Styles: — You know, generically it's the same entities, but lots of the entities do not provide revenue in every year. So there could be an entity that did not provide revenue last year that might provide revenue this year for instance. But you know generically, I mean it's the same category of entities that would be expressed in that particular line.

Mr. Krawetz: — Okay, thank you. Mr. Montgomery, you included a chart — and I'm sorry I can't put my finger on it — the chart that shows the revenue from gaming. Where is it? It is on page 26.

You've indicated that over the last 10 years, revenue from gaming has increased from 27 million to 263 million. And we noted in the most recent mid-year financial report, that the government intends to set aside \$75 million for loss of revenue from gaming or for . . . in the category of gaming. Was your office consulted as far as your projections here on this chart as to where gaming revenue is actually going? And what was used to determine that \$25 million for next year may not arrive?

Mr. Montgomery: — No, we were not consulted. I think this is an historical document — provides the history of the increase in the gaming net income. But I think if there's . . . Mr. Styles might . . .

Mr. Krawetz: — Would this chart have been used to sort of project where things have been going, you know, a straight line in the last five, six years to determine where it might have been at the end of March 31, '05, and then to sort of build in I guess the potential loss due to the smoking ban?

Mr. Styles: — This would be historical information. You know what they're looking at is where they believe the revenue line is going to be over the next three years, over the median term. And it's the loss from that, you know, from that base revenue line, that's right.

I mean when we prepare a four-year financial plan, as you can see from the original budget, we look at revenues and expenditures going out for the next number of years. Revenues in a sense are the, you know, projections, the real projections that departments are making or that agencies and Crowns are making for their particular line of business. Expenditures reflect kind of a status quo expenditure line, what you have to do to achieve your financial targets. So it's the loss from that projected revenue line.

Mr. Krawetz: — My next question is around the area of Education Financing Corporation. It still appeared in this document because it had a liability as of March 31, and it was one of the entities that you've included either in the \$11.9 billion or in some other facet, because it was monies that were sitting as debt. Now the question that I have is, sort of, I'd like an explanation as I've seen in the mid-year report that the

government plans to negate or zero out all of the Education Infrastructure Corporation and all of that debt. And I was looking in the Public Accounts document to determine as of March 31, what was the total amount of debt in the Education Infrastructure Financing Corporation? Could you point that out to me? Or Mr. Styles?

Mr. Styles: — Go to page 27 of the Public Accounts, and it's the third line down, Crown corporation purposes, Education Infrastructure Financing Corporation — no debt in 2004.

Mr. Krawetz: — Then, Mr. Styles, could you clarify what was meant by the announcement of monies for debt repayment of the Education Infrastructure Corporation of 10 days ago?

Mr. Styles: — The adjustment that was made at the end of '03-04 really had two aspects to it — I think two different OCs (order in council) if I remember correctly as well. One that negated the loan agreements with the universities and the school boards that were out there — okay so it eliminated those — and then the second that actually transferred the debt from that particular corporation into overall government debt. So there were two different things that occurred. So the Education Infrastructure Financing Corporation no longer holds debt, but that debt is now part of the overall debt of the province.

Mr. Krawetz: — Now, Mr. Styles, I don't have my estimates, revised estimates, that we just dealt with in the Legislative Assembly, but it is my understanding that in both Learning — I believe it was in Learning, K to 12 (kindergarten to grade 12) as well as post-secondary — that there was significant dollars that were assigned to debt to repay those amounts.

Am I accurate in saying that that amount of debt that was transferred to the GRF for those two things — both post-secondary and K to 12 capital costs — that as a result of the additional monies that were received by government, that that debt is now zero?

Mr. Styles: — If I can, I'll take a shot trying to explain it and then turn it over to the expert on it, okay? It's a question of appropriations. You need an appropriation to make a payment. The appropriation for zeroing out the Education Infrastructure Financing Corporation was not completed at the time of the '04-05 budget estimates. Therefore to make it, we made it out of the existing appropriation for the Department of Education. And there still had to be an incremental appropriation passed for that particular department to make sure that it was kept whole for '04-05.

So the appropriation essentially that we've made between the fall and the present set of supplementary estimates, supplementary estimates, covers in a sense '03-04 and '04-05. So it's a legal requirement underneath the Act. Now Mr. Paton will be able to maybe explain it even better.

Mr. Paton: — I think that's correct, Ron. If you have your Supplementary Estimates on page 14, there is a description of what that appropriation is intended for. And it states:

An appropriation was provided by special warrant for Education Infrastructure Financing Corporation loans that were written-off in . . . ('03-04). The loans were originally

provided to finance learning facilities . . . (etc.)

This amount was written off in the previous year, but there's a requirement that we can't pay funds out without a proper appropriation. And this allows for the monies to be properly voted through the Legislative Assembly. So anytime a department is over their appropriation — which Education would have been in '03-04 — by the amount that was written-off, this would require them to come forward and get proper authority through the legislature to pay for those amounts.

Mr. Krawetz: — Thank you, Mr. Paton. Now, Mr. Paton, my question . . . and I know why I wasn't able to answer this because when I looked at the Public Accounts document on page 27 and for '03 there was that debt of 38.224 million on page 27. And then when this document was produced as Supplementary Estimates that indicated that the forty-six million point three and the 30 million for K to 12, I'm assuming that those were the amounts in the Education Infrastructure Financing Corp, or is that wrong?

Mr. Paton: — I believe you're right. I don't have the exact numbers with me. The number of 38 million was the balance at the end of 2003. Additional funds would have been advanced during the '03-04 year, which brought it up to the roughly 76 or 77 million.

Mr. Krawetz: — Thank you. That explains it.

Mr. Paton: — So that full amount was written off.

Mr. Krawetz: — So there were additional expenditures made in '03-04 that enhanced the \$38 million debt to about a \$77 million debt, and then now due to the supplementary estimates, that entire \$77 million debt will not appear as a figure next year when the auditor's report shows . . . or the March 31, '05, numbers?

Mr. Paton: — Well March 31, '04, numbers . . . actually the debt is eliminated as of March 31, '04. I don't think the auditor has it in his numbers for '04.

Mr. Krawetz: — But it's still showed as a debt though in our Public Accounts on March 31, '04, that there was a certain amount of debt in the Education Infrastructure Financing Corporation. And I'm referring to . . .

Mr. Paton: — Page 27, he's referring to.

Mr. Krawetz: — Twenty-seven? Okay, I stand corrected. I thought that there was a number of like \$4 million that was appearing as an expense line.

Mr. Paton: — For last year?

Mr. Krawetz: — For the current year that we're in. Anyways, I think you've explained very well where the EIFC (Education Infrastructure Financing Corporation) Fund was in terms of the debt at March 31, '03, where it gained the additional expenditure, and now why the 77 million was needed to offset it. Mr. Styles?

Mr. Styles: — You're correct. I don't have the Estimates document with me. I think there's a copy here. But I would imagine if you go to Learning in the Estimates document you would find an appropriation in there, okay, to pay interest on those loans. The decision to change the Education Infrastructure Financing Corporation, and to in essence write off the loans, was made post-budget. So I think the Estimates document probably still had a line in it that would have made provision for that.

Mr. Krawetz: — Thank you, Mr. Styles. My final set of questions or request for explanations deals with the federal government transfers to the province of Saskatchewan. And, Mr. Montgomery, you've provided a chart that indicates the, I believe, it's the reliance . . . is it 19? Yes, that's the one I want — page 19, federal government transfers as a percentage of Saskatchewan government-owned source revenue. And of course with this year's new mid-year financial statement, you've made reference to the fact that that's going to grow.

And I don't know whether it's an answer that you can give or whether it's Mr. Styles. Based on the new equalization agreement that has been reached with the federal government, do you have federal estimates that have been given to you as to what our equalization payment will be projected to be for the next fiscal year, that is '05-06?

Mr. Styles: — Absolutely. I believe the number is \$82 million. It is a firm number as well. There'll be no adjustments to the number throughout the year and no adjustments following the year. So the allocations that were set up for '05-06 are one time. They will not be adjusted for economic changes, changes to natural resource revenues, any of the other potential variability that goes on out there.

This is a transitional or an interim arrangement. The panel that is being formed by the federal government is supposed to report back roughly October, November next year. And at that point in time, they're supposed to put a new equalization formula in place, a new equalization program in place. And then that one will hopefully, on a go-forward basis, begin to allocate the revenues . . . pardon me, the funds, you know, more in proportion to the needs of the various provinces.

Mr. Krawetz: — And so, Mr. Styles, as I look at your mid-year projection document for the equalization payments and the equalization one-time payment, if I add those two numbers together, we're talking \$581 million, or just for interest's sake, \$582 million. And you're projecting \$82 million revenue for next year, so the province will be short at least a half a billion dollars of equalization based on this year's revenues compared to next year's revenues.

Mr. Styles: — Absolutely. The equalization payments we received this year had essentially two one-time components.

There was an original \$120 million *ex gratia* payment that was incorporated into the original Estimates document. And then since then we received another \$367 million that I would frame as a one time. We would not have received that if the normal equalization program had been allowed to continue. So in total \$487 million, I think, in one-time payments.

The payments are in part to compensate Saskatchewan for excessive tax-back rates on natural resources in past years, years where our oil lease revenues were being taxed back at over 200 per cent . . . Mr. Courchene's study if you have a look at it. So it's that kind of a payment, in essence, that drove a lot of what we did during the mid-year report as well. A lot of the expenditures we're talking about are one-time expenditures, not adding to our expenditure line because we know those revenues will not be there for us in the future.

We do hope however that starting in '06-07, the new equalization program will take into account the problems that we've had in terms of our natural resources in this province. Again the tax-back rates have been horrendous in the past — not just oil and gas, but potash, uranium, sort of all the mineral resources. We hope that'll be fixed. And if that is, then you know, hopefully we'll get a larger allocation and sort of a normal year from the equalization program, if we're still in it.

Mr. Krawetz: — How was the \$82 million figure arrived at for next year? I mean, you talk about, you know, the problem with the clawback on oil and gas and those other revenue sources, and to arrive at 82 million almost suggests that we're getting the wrong end of the stick again next year so . . .

Mr. Styles: — The federal government utilized a three-year average of historical equalization payments to each of the individual provinces. They looked at the equalization payments on a per capita and on an entitlement basis, combined the two to get an average. If you look at Saskatchewan in the context of equalization in the past three years, our entitlements were essentially zero where — for the '02-03 and the '03-04 — the federal government, at the last point in time that they calculated on equalization, they still had us in equalization every so slightly because the large increase in oil prices really came into Saskatchewan in August, September, October, November. So they had us just slightly in equalization in their last set of estimates, and that accounts for how the \$82 million was derived.

The \$82 million is of some concern to the province, and we have already, I guess, entered into some discussions with the federal government to make our concerns known. If resource prices were to fall substantially, we would not get additional equalization payments in '05-06 as we have in the past, as a result of revenue volatility. So it is of concern to us. The federal government believes that, again, oil and gas prices are going to stay up and that that potentially won't be an issue in '05-06. But it's of concern to us.

Mr. Krawetz: — Were the concerns raised by Professor Courchene? Have they been addressed for future years, or are you expecting that panel to make recommendations to correct those discrepancies?

Mr. Styles: — We're told the panel has a completely open mandate. We've seen an initial draft of the mandate. Their job will be to look at the concerns that we have, for instance on this particular issue, to look at different models as well. We presently use a revenue, revenue base model. RBS, I think it's called an RBS, revenue base model. There's something called a macro model that looks at economic conditions in each provinces. That is something we hope they will look at, sort of a

little different approach to it.

The treatment of different revenues as well, we're a believer there's certain types of revenues across Canada that are not being treated on a level playing field with oil and gas and mining revenue.

So their mandate is wide open, and they'll be looking not only at the question of the model and sort of how revenues are treated, but they'll be looking at how the program is administered in the future as well — potentially taking it away from the federal government and maybe using an independent commission is one example.

The Chair: — Thank you, Mr. Krawetz. We had a viewership of thousands, and as we got into some of the details, I understand there are only 12 people watching now, and they're both in the Provincial Auditor's office and the Department of Finance. Nevertheless, fascinating information exchange and interesting trying to follow through on all of these manuals and books that we have.

Just before I go to Mr. Hart, I have a few questions. Most of them have been touched on, and so my list is shorter which I'm sure my colleagues are thankful for. But just on the equalization, since that's where Mr. Krawetz left off, how much equalization can the province of Saskatchewan receive and still be a have province?

I have noticed that we received equalization payments, you know, in the fiscal year the auditor reported on. You know, for a financial novice like myself, I'm just wondering when does the shoe go on to the other foot and perhaps we may have to contribute some funds to the equalization. How is that determined?

Mr. Styles: — Well let me start first with . . . the media characterize from time to time, as do a few other provinces, that provinces actually contribute to equalization. But in reality it's a program very similar to urban revenue sharing or rural revenue sharing. It's simply a pot of funds that's allocated out to provinces based upon a formula. So there's no real contribution in a sense, although again other provinces — Alberta, Ontario — will continue to make that case.

The second aspect around have and have not, have and have not really refers to the formula itself. And so when you run all your number through the formula for all 10 provincial jurisdictions, it relates to whether or not you meet the standard that's set in terms of fiscal capacity for a provincial jurisdiction. So it's not related necessarily to the payments that you receive in a particular year.

If you go back to — say 2003-04 for instance — 2003-04, the estimates that you have that particular year for your entitlement is then combined with a forecast on revisions to entitlements you may have received in the two prior years. And so the cash that you actually receive is sort of an amalgam of three or potentially four open years in the actual program.

Combined with that, with respect to us, is the issue of *ex gratia* payments. And this year a bit of an interim or transitional arrangement where again the cash that we received didn't really

correspond to the operation of the formula per se, so we ended up that . . . I think the number 581, if I remember correctly from Mr. Krawetz . . . \$581 million is what we received, and yet we are a have province. So there's a bit of an incongruity that's developed in the program just because of the transitional nature of what's been going on this year.

And you know, in terms of going to the future will depend on what the panel does. And if the panel is, if the panel looks at it and changes the standard or changes the way revenues are looked at, you know, it could change our position in the program.

What's probably more important is looking at the comparability between the provinces, and that won't change. Right now depending, sort of, who's released the most recent numbers between ourselves and BC, we're either third in terms of fiscal capacity or fourth. And you know, I believe that we'll stay in that sort of relative position or potentially could improve if our economy does better than BC's in, sort of, in a broad sense. We're also not very far away from Ontario in terms of fiscal capacity if you look at the last numbers. I believe, you know, we were at about 100 per cent of the standard, whereas Ontario was about 102.

And so the level of fiscal disparity has really collapsed in Canada a fair bit, and Saskatchewan is one of the provinces that has done very well over the last, sort of, 10 or 15 years in terms of closing the gap.

The Chair: — So are you projecting that you'll make representation to this inquiry? And can you tell us whether you are, for instance, suggesting we go back to a 10-province standard, or are you recommending that we exclude revenue from natural resources? What's your strategy in that regard?

Mr. Styles: — Well we're still going to wait to see who's on the panel, find out what the final mandate is for the panel. At that point, you know, we'll do a lot more work to assess what position we should be advocating.

I think as a minimum we'd make representation around the treatment of revenues, obviously oil and gas and mineral resources. In addition I think we would make some presentation or representation around the type of model that's used. You know, we believe that there are other models that can be used, and they should be given, you know, some examination and some scope. So we haven't firmly established what the nature of our presentation will be, but, you know, those will be the key issues from Saskatchewan's perspective.

The Chair: — For the year under discussion, would Saskatchewan have fared better under a 10-province standard versus a 5-province standard and by how much?

Mr. Styles: — I don't have a number, but we would have fared considerably better. Alberta is about 120 per cent of the standard, you know, so if the standard is — just the numbers aren't correct — but if the standard was 5,000, then Alberta would be at 6,000 in terms of fiscal capacity. So if you rolled them back into the standard, the standard obviously will jump considerably. And that would mean we would receive additional funds in three equalizations. But I don't have the

forecast around . . .

The Chair: — But you also have to include the Atlantic provinces which would be below Saskatchewan in capacity when . . .

Mr. Styles: — Yes, that's right. If you brought them in, that would have some offsetting balance as well. But Alberta is so dominant now in terms of the level it is above fiscal capacity, especially . . . or the standard for fiscal capacity, especially this year. I think the last number I saw for their natural resource revenues was \$9 billion. And so that 120, I think, was for last year; they're probably at 140 or 150 right now.

The Chair: — Changing gears, the auditor's report shows that there's been fairly stable deficit as a percentage of GDP over the last number of years. Is a large reason for that the fact that interest rates have been stable over that period? And if interest rates were to rise — say, let's forecast, say — 2 per cent over the next 12 months, what would that do to our deficit as a percentage of GDP — all other things being equal?

Mr. Styles: — Well interest rates, I mean they grew and we refinanced at about \$1 billion a year. It obviously will add to our interest costs. So it is a risk to us; there is little doubt about it.

The assumption that you just referenced, you know, about just looking at interest rates, there's no one variable that moves in isolation of all the rest. And if you get one variable moving, you're going to find you're going to have five or six others: the economy, the performance of the economy, growth in personal income tax, CIT (Corporate Income Tax), things like that as well. So you tend to look at risk from the perspective of all the variables and how they interrelate to each other.

And the most recent example that I can give you is oil revenues. And oil revenues obviously have grown tremendously. You look at the mid-year report, you know, and we're real happy to see in a sense that they're \$49. But the flip side of it is, oil revenues going up have driven the exchange rate up as well. And so the exchange rate right now is at 85 cents, and we lose 16 million per 1 cent increase in the foreign exchange rate. So yes, we're getting more money in terms of oil and gas, but we're losing money as well because of the foreign exchange rate.

So these things all move, you know, together in a sense. You really can't isolate one particular variable, but it's of concern to us. And paying down our debt is important. Just by virtue if you look in the mid-year report, the \$180 million paydown is important, but just maintaining debt at a stable level is also a very big achievement.

Saskatchewan, in the past 14 or 15 years, DBRS (Dominion Bond Rating Service Ltd.) has noted it's only one of two provinces in Canada that's actually reduced debt in the 15 years. Everybody else has had debt grow during the 15 years. So Saskatchewan has done very well from a fiscal perspective, and that's contributed to the way our ratings are set by the three rating agencies.

And if you look at how we trade in the Saskatchewan market

right now, or pardon me, in the Canadian bond market right now, we're essentially behind Canada, Alberta, and BC. We trade even, hopefully in the near future, above Manitoba. We trade above, so we get a lower interest rate than Quebec, Ontario, and any of the Maritime provinces. So we're seen as a very, very strong credit in the market and again just our fiscal performance has been the key to that.

The Chair: — And I understand you can't take one factor in isolation, but I was wondering what, just for information's sake, what 1 per cent change in interest would mean to the per cent of deficit versus against GDP?

Mr. Styles: — Just, you know, off the top of our heads, we would think about 7 to 10 million a year for each 1 percentage point increase.

The Chair: — And then my next question was going to be, what does the strengthening Canadian dollar mean, and you've sort of answered that. So if interest rates were to rise and the value of the Canadian dollar were to continue to rise and those two factors together, not considering any others, would tend to be a saw-off as far as the percentage of debt to GDP?

Mr. Styles: — Yes, I would think . . .

The Chair: — Generally?

Mr. Styles: — It's pretty close to it.

The Chair: — Okay. They counteract each other?

Mr. Styles: — Yes. It's always tough to make some of the assumptions. We've learned the hard way in the past few years.

The Chair: — Yes.

Mr. Styles: — The foreign exchange rate as being one example. The standard models that the federal government uses and the . . . You know, we tend to use a lot of the information in the models that they put forward only to deal with sort of 4 and 5 per cent movements in foreign exchange rates. And then in one year, they got a 20 per cent move in foreign exchange rates, and they threw all the models out.

So you know, as a general rule of thumb, but I would tell you, the volatility right now in all of our economic indicators is so significant, I'm not sure the rules of thumb really apply any more.

The Chair: — Okay. Just with regard to funding for health care, the report states that we're spending 2.73 billion on health care. What percentage of those dollars are our own-source revenue generated, and what percentage of that amount comes from the federal government?

Mr. Styles: — If I could draw . . . I don't know if you have the mid-year financial report, but if I could draw your attention to page 14 if you do have it.

The Chair: — Is that the mid-year report you're talking about?

Mr. Styles: — Yes.

The Chair: — Page 14?

Mr. Styles: — Yes, page 14. And if you have a look at the mid-year projection and go down to just below own-source revenue, the Canadian health transfer is \$469.9 million. And so, that is the money that is specifically targeted to health.

There is also a health reform transfer. This is one of the transfer payments from the 2003 agreements, as I remember \$46.7 million. And other has an amount in it. I would have to . . .

A Member: — It's about 16 million.

Mr. Styles: — About 16 million in other. And this is from the most recent agreements in September, and it is money designated for health capital, as medical and diagnostic equipment.

The Chair: — So we could ballpark it at around 20 per cent, give or take a little bit, maybe a little less than 20 per cent, federal dollars. Is that . . .

Mr. Styles: — About one-sixth.

The Chair: — One-sixth?

Mr. Styles: — About one-sixth.

The Chair: — Now, was it . . . A five-year agreement has been put in place. At the end of that five years, would the ratio be the same or, you know, are you projecting that the costs in health care are going to increase at a rate that the . . . at a different rate than it currently is so that that ratio may be either more in our favour or more in the federal government's favour?

Mr. Styles: — It'll depend upon the decisions made each year through the next four years.

The Chair: — So the agreement's not fixed then. It's flexible.

Mr. Styles: — Well the amount of money coming from the federal government is fixed.

The Chair: — Right.

Mr. Styles: — But our decisions on what we spend on health, you know, are the one variability in it. And so the government could decide to have 4 per cent growth in health next year, 6 per cent, or 8 per cent. And depending what you do . . .

The Chair: — So there are no projections. There's been no commitment to long-term funding that would indicate whether that ratio might change.

Mr. Styles: — No, no commitments that have been made to the federal government in terms of the level of health care funding in Saskatchewan. It's a budgetary decision and one that, you know, comes through the legislature as part of the estimates.

The Chair: — I just have two more questions because I realize time is of the essence here. And the first question of course is interest to me, but it doesn't fall into the auditor's report. With the out-of-court settlement for the SPUDCO (Saskatchewan

Potato Utility Development Company) issue, where would that come from? It's probably . . . would be unbudgeted. What department of government, what line on the, you know, on the estimates would that come out of, that seven point whatever million it was?

Mr. Styles: — As I understand it, the payment was made by SaskWater, and it came out of a reduced CIC (Crown Investments Corporation of Saskatchewan) dividend. So the dividend in the major financial report is \$193 million. That is down \$62 million. That incorporates the payment for SPUDCO together with the rebates, the utility rebate.

The Chair: — Okay. And now if my information is correct, there was also an out-of-court settlement, and it was likely the year before, likely in the year that the auditor has reported, or else it was before that with IPSCO. Can you tell me how much that settlement was, and what line of the estimates that amount came out of?

Mr. Styles: — I'm sorry, I assume it's either in CIC or in SaskWater, but we don't have the information nor is it contained in our documents.

The Chair: — Can you forward that information to me as to the amount and where it came from?

Mr. Styles: — I'll make the request to Crown Investments Corporation.

The Chair: — All right. And, Mr. Hart, you have a brief question, or one or two?

Mr. Hart: — I have just have a few brief questions surrounding some of the information provided by the auditor and the public accounts dealing with crop insurance and the Crop Insurance Corporation. The auditor on page 28, note 11, indicates that the Saskatchewan government shows total expenditures for crop insurance, but that figure actually includes the premiums paid by producers and also the monies received from the federal government towards that program.

So a question to the auditor, in the Estimates book that we dealt with, in this past June, there's an estimate here of \$80.2 million in crop insurance program premiums. Would that figure be the total of producer and the province's share, or is that just the province's share?

Mr. Wendel: — I think that would probably be best answered by the Department of Finance.

Mr. Hart: — Okay. All right.

Mr. Styles: — \$80.224 million is the province of Saskatchewan's program premiums.

Mr. Hart: — Okay, okay. On page 68 of the Public Accounts document that we're dealing with today, it shows the Crop Insurance Corporation gross public debt of \$177 million. Is that the total debt of the corporation, or is that just the provincial share of the total debt?

Mr. Styles: — That is the debt that we have issued on their

behalf. As to what their total debt is, you're probably better to look at their financial statements and get an answer direct from them. I don't anticipate that's all the debt, but you know, again I'd be hesitant to say that. The 177 reflects our debt that we've issued on their behalf.

Mr. Hart: — So the gross public debt is the debt, Saskatchewan's share of whatever that total debt for the Crop Insurance Corporation is.

Mr. Styles: — I don't know that for a fact. I just know that that's our portion. Whether there is more and whether the federal government has it, I just don't understand . . .

Mr. Hart: — No, that's fine. It's just I'm concerned about the province's share of the total debt.

Mr. Styles: — The 177.

Mr. Hart: — The 177.

Mr. Styles: — Absolutely.

Mr. Hart: — In the mid-year report, the budget update, on page 12, we have debt here for the Crop Insurance Corporation. The budget estimate was 165. The mid-year projection is 216. And then in the Public Accounts we have 177 million. Could you explain the discrepancy in those figures between the 165 and the 177?

Mr. Styles: — In a normal year, the Crop Insurance Corporation should turn a surplus. You know, if you have a regular crop year, they should turn a surplus. And the surplus goes to paying down their debt or to creating a pool of funds, you know, to pay out into the future. So that would be the difference between the 177 and the 165.

The amount of reduction is relatively small this year because they're still taking care of claims from, in a sense, the previous fiscal year — okay, the claims carry-over. So it's a relatively small reduction. So that would explain that portion of it. Their projection — based upon crop conditions, you know, the challenges the farmers have faced — indicate they're going to have to borrow more and move to a total debt of \$216 million. So it reflects the fact that they're going to run a loss again in 2004-05 — are they in a calendar year? — anyways either on a calendar year, fiscal-year basis.

Mr. Hart: — As far as the sharing of the debt between the two levels of government, the provincial and the federal government, would you have any information at your disposal as to how that's shared? Whether it's on a 60/40 basis . . . or is that question better asked to the officials of the Crop Insurance Corporation?

Mr. Styles: — Better asked to the experts, okay, rather than those of us who aren't.

Mr. Hart: — Okay, all right. No, that's fine. Thanks.

Mr. Styles: — And I know they have two components to their . . . it's not a straight cost-sharing arrangement. They have an initial set of insurance parameters, and then there is a

reinsurance as well. And I think the ratio changes on the reinsurance, okay, they'd be in a much better position to . . . sorry.

Mr. Hart: — Sure, thanks.

The Chair: — All right. Thank you, Mr. Krawetz. We are past our time of proposed adjournment. I understand, Mr. Krawetz, that you have a very short question, so we'll be very generous to you if you're very brief.

Mr. Krawetz: — It won't even be a question, Mr. Chair. Thank you.

No, I know that we're over, and we've gone 2 hours and 15 minutes, and I want to thank first of all the deputy minister of Finance and your officials and, of course, to Mr. Montgomery and Mr. Wendel and the other officials that have assisted.

For me it's been a useful two and a quarter hours to be able to provide information to the people of Saskatchewan accurately and factually. And I will use the documents provided today and the answers provided today. So I want to thank the officials on both sides for that.

The Chair: — Thank you, Mr. Krawetz. Have we exhausted our investigation into the auditor's second report of 2004?

A Member: — We have.

The Chair: — I want to thank each one of you for your contributions. Mr. Styles, as Chair, I also want to thank you and I want to thank you and your officials for your presentation and for so diligently answering a barrage of questions. I want to thank the committee members and the Provincial Auditor and his people, the Provincial Comptroller and his people. I want to thank our Clerk for providing me with the books here to try to keep up.

And at this point I would just like to wish each one of you a very wonderful holiday season. I know it's a few weeks away yet, but it's creeping up very quickly, and we'll see you in the new year as we press on with the business of Saskatchewan. I declare the meeting adjourned.

The committee adjourned at 15:15.

