Standing Committee on Public Accounts

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
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Milton Wakefield
Lloydminster

Mark Wartman
Regina Qu’Appelle Valley

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The committee met at 9 a.m.

The Chair: — Good morning, everyone. We'll call the meeting to order.

First of all, welcome. I know it's been a while since we've had the opportunity to meet as a committee and I thank you for being present.

As everyone knows, we had the notice that the session will be recalled for next Tuesday and that did create some changes. And I appreciate the fact that we had substitutes come in for the two new cabinet ministers, Ms. Lorje and Mr. Trew. And I want to welcome the three substitutes from the government side and the substitute on the opposition side as well. So today, we'll be operating with four different people.

With Ms. Lorje acting as Vice-Chair or the Vice-Chair and her being absent today, I would suggest that we agree that we have someone from the government side act as the Acting Vice-Chair for today's meeting. And I'm sure then, once session is in place, we'll have the full replacements and then the proper procedure for selecting a new Vice-Chair.

So is there someone on your side? Mr. Wartman. Okay, Mr. Wartman, noted will be the Acting Vice-Chair for today's meeting. Thank you very much, Mark.

Okay. Then the agendas, as I indicated to you by way of the fax, with the cancellation of Thursday's meeting we did not alter the agenda at all that was agreed to a number of weeks ago, and that the agenda for Tuesday, for today Tuesday, and tomorrow Wednesday, is the same as what it was agreed to.

There was some suggestion that we would try to move some of the business from the 15th into the two days and that's just not fair to members and also not fair to officials to prepare. So the agenda is the same for both of the days as was previously agreed to, and then the business for the 15th will be moved to the next meeting.

Mr. Wartman: — Thank you. Just a question regarding the cancellation of the Thursday meeting. It is my understanding that there was no consultation around that date and around the cancellation. And I'm just wondering why it was cancelled. We were anticipating meeting for the full period. Can you fill us in on that, please?

The Chair: — Sure, sure. No, I did not contact anyone. I just took it upon myself that with the opposition members being unable to attend on the 15th — all of the opposition, including myself — so we were needing to shorten it up. And rather than move the business, the two days that were still in place or the existing two days that were agreed upon, with no changes to those two days, and the business of the 15th will be moved to the future.

I wasn't sure who to contact regarding . . . with Ms. Lorje. I've talked to her in the past about the February meetings when she was going to be absent, and the discussion around the agenda was approved by her for today and tomorrow. So there was no . . . I was not changing any of the agenda; I was not, except for the date, just saying we're not having it, you know.

And I understand that, you know, catching you off guard is maybe not appropriate and hopefully . . .

Mr. Wartman: — I appreciate that. I think it just to be noted that . . . I mean, whether Ms. Lorje was available or not, consultation with this committee would be very, very much appreciated. It is part of the terms of reference. And I think from my understanding you have a reason why you would not be here on the Thursday. In fact we have exactly the same reason why we shouldn't be here on the Wednesday.

And so I think consultation would be most appropriate and we'll expect so in the future. If one person isn't available, please to contact the other or our staff. Thank you.

The Chair: — Good. I recognize that, and I thank you for your comments.

Okay, let's move into the agenda that we have before you. Okay, we're into the section on finance and specifically chapter 8 from the Fall Report of volume 2. And the other point that I noted was that . . . and I didn't remind you and I'm hoping everybody managed to find their addendums that were sent out from the auditor's office for volume 3, all of the additional materials from volume 3, and in this case it's chapter 11 that was added to our collection of information.

So with that I'll turn it over to Fred or . . .

Good morning, and welcome. I'd ask Mr. Wendel to introduce the number of people from the Finance department.

Mr. Wendel: — Thank you, Mr. Chair. I'll introduce the people from our office. I have . . . over here I have Charlene Paul, on the far left sitting with three of them there. And Charlene's a new graduate with our office. She's here observing. She's just graduated from the CA (chartered accountant) program in December.

Leslie Wendel who works in our department on the Department of Finance audit and on the summary financial statements. No relation. Unusual, but . . . Rodd Jerasak who's here at all meetings and he co-ordinates our activities with the committee. Andrew Martens, he works on the Department of Finance audit and the summary financial statements, CIC (Crown Investments Corporation). Brian Atkinson, the acting assistant provincial auditor, and he makes sure what we report is sound and supportable. And Ed who leads our work at the Department of Finance, and he's going to be making the presentation as well — Ed Montgomery.

The Chair: — Good, thank you very much Fred. And Mr. Boothe, welcome and I'd ask you to introduce your officials.

Mr. Boothe: — Thank you, Mr. Chair, I'd like to introduce Brian Smith, who is executive director of PEBA (Public Employees Benefits Agency); of course you know Terry, the provincial controller; and Chris; Jane Borland; and Tamara Stocker, from Terry's office . . . is Lorie here? And Dennis Polowyk, is assistant deputy minister of Treasury and Debt

Management; and Naomi Mellor, who is head of the accountability group.

The Chair: — Great, welcome. Thank you. Okay as far as the chapter 8, the presentation's going to be made . . . good, go ahead.

Mr. Montgomery: — Good morning. This morning you have two chapters dealing with the Department of Finance on your agenda, and to help you to get through that agenda, I will give you a brief overview of what's included in these chapters, and advise you of any progress on these matters.

The presentation I'll go through will include all our recommendations that are involved in both the fall '99 chapter and also the 2000 chapter. And as I go through those slides, I can either pause at each recommendation, or I can go through to the end of the presentation and you can deal with the recommendations at that time. I'm going to ask for your preference when I get to the end of the first recommendation.

For your convenience you should all have a copy, or a hard copy, of all the slides that will be included in the presentation and it should be double-sided as well.

Okay, the first thing I want to bring to your attention is the key issues section that's set out in chapter 8, of our 1999 Fall Report. We identified these key issues to help MLAs (Member of the Legislative Assembly) and the public understand the key issues facing the Department of Finance.

We also consulted with the officials at the Department of Finance to ensure that the key issues we had identified were appropriate. At the time of identifying the key issues, the Department of Finance did not produce an annual report on its activities. From our point of view, key issues are those issues that the department must manage well in order to be successful. In total we identified seven key issues that the department must manage well in order to be successful.

The department provides financial and policy analysis which assists Treasury Board to prepare the estimates and to manage and evaluate its plan. Therefore the first issue we identified is that the department must provide accurate and useful information to Treasury Board.

Also the department prepares several of the government's planning and performance reports, including the *Estimates*, the budget address, the Public Accounts, the mid-year financial report. Useful planning performance reports provide information for making informed decisions and also for evaluation of performance. Therefore the second issue we identified is that the department must publish useful planning and performance reports.

The next two issues the department needs to manage well are the government's debt and investments. Debt costs make up a large part of the government's costs, and management of the debt includes meeting the terms of existing debt, refinancing debt when it's cost effective to do so, minimizing the cost of new debt, managing currency and interest rate risks, and ensuring the cash is available when needed. The department must also manage a significant portfolio of investments, including about 1 billion in sinking fund investments, which will be used to retire debt.

The fifth issue we identified is the need to ensure that the department collects all the revenues due to it. The Department of Finance receives a significant amount of revenues, including tax revenues and transfers from the federal government. Last year these revenues totalled about $5 billion. To ensure the government meets its financial goals, it is essential that the department has systems and practices to collect all the taxes and revenues due.

The next issue we identified is the need to ensure compliance with Treasury Board directives. Treasury Board issues directives to ensure there are good financial practices and proper administration of public money. The department is responsible to ensure that government entities comply with these directives and to do this, the department directs how entities are to comply with the directives and monitors compliance. If entities fail to follow these directives, it can result in the loss of money or public money being improperly spent.

The last issue we identified is the need for the department to manage the pension and benefit plans for which it is responsible. If these plans are not well managed, the government faces several risks. These risks include the risk of poor investment returns, which can lead to smaller pensions or higher costs for the government to fund the pension promises.

So having briefly outlined the key issue section, I now want to direct your attention to the recommendations set out in our 1999 Fall Report and our 2000 Fall Report.

The first recommendation I want to bring to your attention is set out in slide 7. We recommend that the department properly account for pension costs in the General Revenue Fund financial statements. This recommendation appears in both our 1999 Fall Report and also our 2000 report.

We've made this recommendation for several years and we continue to reserve our auditor's report on the General Revenue Fund's financial statements for this matter. The General Revenue Fund is responsible for the liabilities of several pension funds. These include the teachers' pension plan and the public service superannuation plan.

We reserve our audit opinion because the General Revenue Fund does not record all the costs related to these pension funds or their unfunded liability. Generally accepted accounting principles for the public sector require that these pension liabilities be recorded in the General Revenue Fund. At March 31, 2000, the unfunded liability for these pension plans was about 3.8 billion.

Our auditor's report on the General Revenue Fund's financial statement states that pension liabilities and the accumulated deficit are understated by 3.8 billion, and that pension costs for the year to March 31, 2000 are understated by $52 million.

The Public Accounts Committee reviewed this matter in January 1999. At that time PAC (Public Accounts Committee) did not concur with our recommendation and noted that the government records its annual pension cash requirement in the General Revenue Fund; that the unfunded liability was disclosed in the notes to the General Revenue Fund; and that all pension costs and liabilities were properly recorded in the summary financial statements.

We continue to encourage the department to fully record the government's pension costs and liabilities in the General Revenue Fund's financial statements.

Now as I said earlier I can pause at this point which will enable you to deal with our recommendation on slide 7, or I can keep on going and you can deal with all the recommendations at the end.

The Chair: — What is your wishes? Do you want to deal with recommendation 1 as it's identified on page 233 right now? Or do you want to deal with all recommendations at the end of the . . . I would like to have the opinion of the Finance and a report from Mr. Boothe at the end, or whenever we're going to deal with it, before we actually get into discussion on a recommendation. So I think I'd suggest that we continue with all of the presentation from the auditor's office and then have the presentation from the Finance and then go back to each one. I see agreement? Okay.

Mr. Montgomery: — I'll proceed then.

The next recommendation I want to bring to your attention appears on page 234 of our 1999 Fall Report, and also on slide 10. We recommend that the department properly account for the cost of the Agricultural Income Disaster Assistance program in the General Revenue Fund financial statements.

The next few slides provide the background to our qualifications in the General Revenue Fund financial statements for 1999 and 2000. In 1999, the governments of Canada and Saskatchewan agreed to provide Agricultural Income Disaster Assistance to Saskatchewan farmers who experienced farm income shortfalls in their 1998 and 1999 calendar years. The program was administered by the federal government.

At the time of our audit, the federal government estimated the Saskatchewan share of the AIDA (Agricultural Income Disaster Assistance) costs for the 1998 calendar year to be $70 million. However the General Revenue Fund recorded $140 million of expenditure in its 1999 financial statements. In our opinion, the General Revenue Fund 1999 financial statements overstated agriculture costs by $70 million.

At the time of our audit for the General Revenue Fund 2000 financial statements, the costs for the 1999 calendar year were estimated at $105 million. However the General Revenue Fund's financial statements for 2000 recorded expenditure of 35 million. In our opinion, for the year 2000, the General Revenue Fund understated agriculture costs by $70 million.

Having discussed our reservations related to the agricultural expense for the General Revenue Fund 1999 and 2000 financial statements, it is important for the committee to point out that the errors do not continue into the future and that it will not impact our General Revenue Fund 2001 financial statements. That's because the 70 million overstatement was cancelled out by the 70 million understatement, and at the end of 2000 it doesn't continue further. And that's why we do not have a recommendation on this matter in our 2000 Fall Report.

Our 1999 and 2000 Fall Reports also report progress on recommendations made in previous years. We continue to recommend, as noted on slide 14, the department include the General Revenue Fund's total pension costs for the year in the estimates.

Currently the department does not include the estimated pension costs in the *Estimates*, but includes only the cash amount that the government expects to pay members or transfer it to a pension plan for that year. The Public Accounts Committee considered this matter in January 1999 and did not concur with our recommendation.

We continue to encourage the department to record the pension costs in the *Estimates* on an accrual basis and include the total estimated pension costs in the *Estimates*.

Also we previously recommended the department should report important accountability information about its own performance. And in this regard we're pleased to report that the Department of Finance now prepares and publishes an annual report on its activities and performance.

Next I want to bring to your attention two recommendations concerning SaskPen and SP Two. We raise these issues again in our 1999 Fall Report because we want to ensure the new committee, this new committee, is aware of these issues. We have not repeated the issues in our 2000 Fall Report.

SaskPen and SP Two are corporations whose major shareholders are the Minister of Finance for the teachers' superannuation plan, and government-appointed boards for the other pension plans.

These corporations invest in and hold real estate on behalf of those plans. We think all government corporations should table their financial statements in the Legislative Assembly. We also consider these corporations to be Crown agencies that are subject to The Provincial Auditor Act. However to date we have not been able to carry out audits of these corporations.

The Public Accounts Committee has considered these matters previously and concluded that these corporations are not subject to an audit under The Provincial Auditor Act.

The last two recommendations in our 1999 Fall Report relate to the MLAs' superannuation plan. The first recommendation set out in slide 17, we continue to recommend a department should pay allowances to surviving spouses as required by the Act, or seek changes to the Act to allow for these payments.

When pensioners die, the department pays surviving spouses 60 per cent supplementary allowances. However when it grants new supplementary allowances, it pays 100 per cent of these new allowances to the surviving spouses. We think the law only permits 60 per cent of supplementary allowances to be paid to surviving spouses and we recommend either the department change the law to permit these payments, or pay the allowances as required by the law.

The Public Accounts Committee has also considered this matter previously and has agreed with our recommendation. We continue to report this matter in bold in our reports because for the last 10 years, government officials have told us they are seeking legislative changes.

The department also underwrites annuities for members and pays these annuities out of the plan. However the law does not contain direction as to how losses that arise from annuity operations should be funded, nor does it direct the use of profits that might arise from these activities. At March 31, 2000, the accumulated profits from underwriting activities were $253,000.

Again the Public Accounts Committee has considered this matter previously and has agreed with our recommendation. And again we continue to report this matter in bold in our reports because for the last 10 years government officials have told us that they are seeking legislative changes.

That ends the presentation I have, and thank you for your attention.

The Chair: **—** Thank you very much, Mr. Montgomery.

Any immediate questions right now for clarification purposes, just? Okay, seeing none, then Mr. Boothe or Mr. Paton.

Mr. Boothe: **—** Thank you. I'll keep my comments very brief to start, only partly because I am suffering with a little bit of laryngitis, which is perhaps to the benefit of all committee members today.

I will say that one of the things about the approach that we take in these kinds of presentations, and rightfully so, is to outline our differences. And I have no immediate comments on those because I'd be happy to respond to questions. But I think that one of the things that I do want to underline is the tremendous amount of agreement between the Provincial Auditor's office and our office. I want to acknowledge the work that they do not just in conducting our audit but in developing the audits right across the government, and the tremendous co-operation that we get and also the support that we've had from the Provincial Auditor's office, particularly in the accountability project.

So I'd be happy to respond to questions, and of course I do want to talk later in the proceedings about pensions, particularly to give a report on that.

But I guess I would just close by underlining I think there's a tremendous amount of agreement between the Provincial Auditor and the Department of Finance. And we view our relationship, our working relationship, with them to be an excellent one. Thank you.

The Chair: — Thank you very much. Let's turn to page 233 and I think we have before us eight recommendations from chapter 8 on Finance, and we'll deal with each one in rotation.

And at this point I would ask for questions of either Mr. Montgomery or Mr. Boothe or any further comments from each of those two gentlemen as we look at recommendation no. 1.

And as already pointed out, this recommendation was dealt with by a previous PAC committee. And PAC at that time did not concur with this recommendation, and we need to deal with it at this time.

Open to the floor. Mr. Wartman.

Mr. Wartman: **—** Thank you. I would like to hear Finance's position on this recommendation at this time.

Mr. Boothe: **—** Mr. Chair, I guess I would simply say that our view has not changed on this. We understand the auditor's position on this, and we do account for pensions in the way that he recommends in the summary statements.

However in the GRF (General Revenue Fund) statements, we continue to record them on a cash basis. We disclose the other relevant information in the notes to the GRF. And I don't think that there's any change in the government policy regarding that.

Mr. Wartman: **—** When you say that there's no change in government policy can you help us to understand why we would not want to change that practice?

Mr. Boothe: **—** Well maybe since we're straying deep into the area of accounting, I'll ask for help from my colleague, the Provincial Comptroller.

Mr. Paton: **—** As the committee knows this is something that's been addressed for a number of years. I think the underlying premise here is that this is the basis on which the government and previous governments have managed and balanced budgets over the last 10 years and the last 30 years in terms from an accounting perspective.

It's a basis that shows the current fiscal demands in the province. Granted that when you bring the whole picture together you want to see the full amount of the exposure for the province and that's where you look to the summary financial statements. But when you look at the General Revenue Fund and how we've, how — not only this government, but all governments — have accounted for pensions, it's always been on a cash basis. So that's the current demand that we have to budget and record in the estimates of the General Revenue Fund. But if you want the full picture, the picture that the auditor's promoting, it is provided in the summary statement; so it's kind of trying to I guess suit two purposes.

Mr. Wartman: **—** Thank you.

The Chair: **—** Any other questions? I have one then.

The current method of stating it on an actual cash basis then, does this continue to increase the unfunded liability because the actual cash position that is needed is not the full cost of the pensions that are incurred by the pension plan?

And further to that, we've seen that the unfunded pension liability has grown according to the auditor's report by I believe almost a billion dollars over the last 15 years. Is that due to the fact that the actual costs as stated in the estimates are . . . I guess the revenue that is obtained is not equivalent to the expenditure of the plan?

Mr. Paton: — Mr. Chair, that's correct. The liability does grow because the cash payments are less than the current benefits that are being earned. I don't want to deflect this discussion but this afternoon you do have pensions as a major topic and I think when you see Mr. Boothe's presentation it may lay some of these ideas in a clearer fashion for you.

Mr. Wakefield: — Looking at the, Mr. Chairman, looking at the key issues right at the beginning of Mr. Montgomery's presentation, his assertion is that the department must provide accurate and useful information. Do you feel that reporting it that way is actually doing that?

Mr. Boothe: — Mr. Chair, I guess I would answer yes because, first of all, all the information is available in two places in the Public Accounts. First of all, all that information is available in the way that the Provincial Auditor recommends in the summary financial statements. And in addition, although it's not in the format that he recommends, the same information is available in the GRF statements, although in the notes.

So all that information is laid out very clearly for members of the Assembly and the public at large to see. So I don't think that . . . I think that there . . . you know, we do have a difference with the auditor on the accounting treatment vis-à-vis the GRF statements, but I don't think there's any question that that information is laid out very clearly before the public and members of the Assembly.

Mr. Wakefield: — Just further to that then, Mr. Chair. Is it easy for me then to be able to determine a changing position as we compare year to year by using the information that's presented there?

Mr. Boothe: — Absolutely. I mean you can look at either the notes to the General Revenue Fund statements or the summary financial statements themselves, and you wouldn't have any problem there.

I guess the other thing — and I don't want to stray too much into the later proceedings — but you know there's two . . . one of things that I want to estimate . . . want to emphasize is that pension liabilities are a bit less . . . or a bit less certain than, let's say, the bonds that the government issues. We can only estimate these pension liabilities. And so for example, in response to the Chair's question, I mean unfunded liability grows when the, you know, the contributions aren't enough to match the current and future outlays.

But of course the other reason that unfunded pension liabilities might change — and substantially — is simply because of a change in the assumptions that we use to estimate them, like assumptions about rates of return or inflation or things like that.

So both of those kinds of things can impact our current estimate of pension liabilities. And there's really nothing that we can do about that; that's just the irreducible uncertainty about what's going to happen in the future, especially on the financial side. But I would say that with that caveat, yes it is possible, in a very simple way, to see what's going on with those liabilities from year to year.

Ms. Draude: — When the government goes to have their credit rating looked at in the States, is this something that's raised as a concern?

Mr. Boothe: — Of course I've only been doing this for two years now. But in my visits to credit rated agencies, no, it's never been a problem. They can see . . . they have a very clear idea of what our pension situation is. And I think the key issue is — do we have a plan to manage those pension outlays over time? And I think it's fair to say that rating agencies are confident that we do.

Ms. Draude: — Do other provinces, is this the way they report the pension liabilities?

Mr. Paton: — My understanding is that while it's not completely consistent, you also have different budgeting methods in other provinces. Some provinces budget simply on their summary financial statement basis and they would include their pensions in it on the basis that the auditor's recommending. And some also budget on the same basis in their general revenue funds. So there is a mixture across, but there are a number that account for it in the fashion that the auditor recommends.

Ms. Draude: — Quite a number? Like is . . .

Mr. Paton: — I don't have the exact numbers but I know there are some.

Mr. Wakefield: — From my earlier question, and thank you, Dr. Boothe for your answer, Mr. Montgomery, would you care to comment on maybe the question that I posed to Dr. Boothe?

Mr. Montgomery: — I'll just make a couple of overall comments, and if I don't get your question, just feel free to ask me to expand on that.

But one of the things I'm hearing here is that it's okay because it's disclosed in the notes, and it's okay because pension liability is disclosed in the summary financial statements.

Unfortunately from our point of view we have to follow the rules as laid down from our profession with regard to the pension liabilities. And when you look at one of the key fundamental things that we're told is note disclosure is not a substitute for proper reporting of a liability or an asset. So from that point of view, I just wanted to bring that out.

Your question was . . . Sorry I couldn't quite . . .

Mr. Wakefield: — I wondered if it was easy for me, looking at the reports, to determine if there was a change ongoing or not.

Mr. Montgomery: — I think you have to be a knowledgeable reader when you read the general revenue funds to realize that. I don't think the average person would know that the pension costs are not fully in there. And I realize, I think certainly I would know, but I don't think the general non-accountant would be able to tell.

Ms. Draude: — Maybe I can pose the same question too then. Can you give me an idea of the number of provinces that do state the liability the way Saskatchewan does and how many don't?

Mr. Montgomery: — Unfortunately I could only just reiterate what Terry has told you in that for those that don't really have the General Revenue Fund they do fully record their pension liabilities.

I also understand, and I guess it's just my understanding, that Manitoba previously did not fully record their pension liability, and I think they do that now. So that's a change. And I think that's in their equivalent of the General Revenue Fund.

But to be most helpful I think we would probably have to return and do a little bit of research across the country to give you that information. And we could do that if we were asked by . . .

Mr. Wartman: — What I was hearing you say is that though this reporting that we are using is adequate, the information is available, you are under obligation by your own association, by CICA (Canadian Institute of Chartered Accountants), to report in a particular way and to seek reporting in a particular way. Is that accurate?

Mr. Montgomery: — Well I'm saying two things. One is our profession clearly states that note disclosure is not a substitute for proper recording of an asset . . . a liability.

And I think I'm also saying that I'm not sure that a knowledgeable reader, like a non-accountant trained, would be able to pick out the fact that all the pension costs are not there and the liability is not there.

I think certainly all the accountants in this room and the people that have training and are used to dealing with government financial statements. But I couldn't say that for people who are not.

Mr. Wartman: — I mean I think on the other side of that, for people who are not knowledgeable about accounting practices, reporting in the GRF fund would not give any clearer picture to those who are not . . . who don't understand how pensions are handled, how pension liabilities are developed. It just simply would give another way of recording the figures.

I mean if we're going to have knowledgeable understanding, it takes time to sit down, work through, and figure out what it means that you've got unfunded liabilities. And the fact that they are reported and reported accurately in the summary statement isn't misinformation; it doesn't take away from the information that's available for people who need it and want it.

So it seems to me that part of what's happening here is just kind of a struggle between our practices of over 30 years of how we have reported pension liabilities, and the methodology which is recommended by your professional association. Not to put it down; it's just that we've got a tension between two different ways of reporting. Neither one, from my perspective, which is not an accounting background, simplifies it.

The Chair: — Okay. Thank you for those comments.

Mr. Wakefield: — Thank you, Mr. Chair. Maybe just one other question if I could then, for my clarification. Because I don't have an accounting background, would I be better able to determine the total debt under the way it's reported now or the way it's being recommended by the auditor?

To understand the provincial position, financial position at any one time, I think I have to understand what the total debt of the province is. And my understanding is that the way it's reported now, it's not generally included in total debt that you report. Is that correct, Dr. Boothe?

Mr. Boothe: — Terry can help me if I go astray here. Although I am not embarrassed to say that I don't have an accounting background, so I'll start with that, but I — with the greatest of respect to all the accountants, the legions of accountants that are in this room — the thing that I would say is that I think that you do get a good picture of what the province's liabilities are from the Public Accounts.

Again I would emphasize that this is a complex issue because, as I say, when we're trying to account for the government's bonds outstanding, that's something that we can account for very precisely.

When we're accounting for our pension liabilities, all we have is an estimate of that. And for example, I think I saw a calculation by the auditor that estimated that if, for example, we changed the assumption regarding inflation by even three-quarters of one per cent, it would change unfunded pension liabilities by approximately $200 million. That shows you how sensitive these things are.

But I think that we have to be careful. The one thing that I have learned is that, you know, there are different kinds of liabilities and we have to understand the complexities of that. That said, I think that you do get a good idea of what the total debt of the province is by looking at the Public Accounts.

Terry, do you want to add something to that?

Mr. Paton: — Yes, just to further confuse the issue.

Mr. Wakefield: — So far, so good.

Mr. Paton: — Yes. Government financial statements I think are anything but easy to read. And just trying to address the question that you asked directly, looking at the accounting for things in the fashion that the auditor recommends and which we use for the summary financial statements, does that show a clearer picture of the debt of the province? And I'd have to say not necessarily.

And I've got before me the last year's Public Accounts. There's two main aspects of debt of the province. One being the bonds and debentures and the other one being the pension liabilities that we look at, that we're talking about today.

When you look at the summary financial statements, they show the public debt of the province at approximately $8 billion, and they show the pension liabilities at approximately 3.8. So combine those two, there's just under $12 billion. And in addition to that, there's notes to other information that are included in the financial statements.

When you go to the General Revenue Fund's financial statements, the ones we're talking about, the pension debt isn't disclosed but there's a reference to the notes that it's included. What you do see different here is that the public debt of the province on this statement is much higher. It shows at almost $10.9 billion and that's compared to the 8 billion on the summary statement, the recommended method.

Now those numbers are a little bit confusing, but what I'm trying to say is that, when you simply look at the face of the financial statements, you don't necessarily get a complete picture. The recommended method that the auditor supports and is adopted by the accounting profession also requires you to go into the notes and schedules of the statements to get a full picture of the debt. We account for it in accordance with the recommendations of the Canadian Institute of Chartered Accountants. But there's some offset or netting presentation, so when you just look at the balance sheet you don't get the full picture.

In both cases you have to go to the supporting schedules, the supporting notes. And in either case the general public, I think just looking at one page, would be confused as to what the debt of the province is. Each method has its pros or cons, but you do need to have some knowledge of the financial statements.

Mr. Wakefield: — I think I understand what you're saying, but you're right, you did confuse me; but that's really for a different discussion I think.

The Chair: — Any further comments or questions from members or from auditor's office or Finance? Are we prepared to deal with recommendation no. 1? Okay, seeing no further questions or comments . . .

Mr. Wakefield: — Just for clarification, Mr. Chairman. In the recommendation you use the word properly account. My assumption is that it's both proper. What is meant by proper?

Mr. Montgomery: — Well I guess we're following the rules as suggested by the Canadian Institute of Chartered Accountants. So for proper, is to . . . would be to record in the General Revenue Fund the liability of 3.8 billion on the balance sheet of the General Revenue Fund, and also to record an additional $52 million worth of expenditure for pension costs on the statement of revenues and expenditures. So there's true relevance. And it's set out really in our detailed auditor's report on the General Revenue Fund.

Mr. Wakefield: — Thank you.

The Chair: — Okay.

Mr. Wartman: — Just a couple of comments. The word in there is a bit of a hook, the word properly, because as you . . . I'm glad you asked the question because it does point out that that is according to the standards of the Canadian Institute of Chartered Accountants, but we've already heard that there are other proper methods of accounting which are being operated under. So I think it's a little confusing to have the word properly in there.

The Chair: — Okay, as we've dealt with recommendations before, we can concur with the recommendation or we cannot concur, as was noted on page 233, in that the PAC committee of January 1999 also did not concur at that time.

Resolution? Yes or no? Or is there another one?

Mr. Wartman: — There was just a conundrum raised here and that is, you know, we could almost vote for it, with properly being an ambiguous word in there. But given the definition that the auditor is recommending that it be the Canadian Institute of Chartered Accountants method, I would have to record mine as a no.

The Chair: — Did not, okay. Are you moving that, Mr. Wartman? That the PAC committee did not concur, do not concur in recommendation no. 1?

Okay, for discussion. All in favour? Not concur — the resolution before you is that we not concur in the recommendation. Okay? Opposed? The motion is carried.

Let us move to recommendation no. 2 and that is on page 234. Questions at this time, of either Finance or auditor's office? This is dealing with the AIDA account and the sort of, I guess, confusion. I'd like to hear what the interpretation is of the 70 million one year and understatement and overstatement in either of the two years, from Mr. Boothe's office.

Mr. Boothe: — Thank you, Mr. Chair, I'll just start.

This is an area where we respectfully disagree with the auditor. We've discussed this, not without lots of debate, back and forth. Basically what it comes down to is when the program was announced, the government made available the funds and paid it into the stabilization fund in the full amount, the $140 million, and recorded it as an expense at that time.

The auditor's view is for the GRF we should estimate how much would be actually taken up by farmers in that year and how much would be taken up in the subsequent year because it is a two-year program. So the auditor's view is that if I — and I hope I'm reflecting this accurately — that we should have recorded an expense of 70 million in one year and 70 million in the next and so that . . . And we recorded an expense of 140 million when we put the whole $140 million or made it all available in the ag stabilization fund.

So it's the auditor's view that we are overestimating the expense in the first year and underestimating the expense in the second year, but that the two cancel one another out.

We believe that the best way to account for this is when the money was put into the fund and made available for farmers, and the auditor's office disagrees with us on that. And so we have accepted this qualification based on our disagreement on the way that this should be properly, properly accounted for.

As the auditor has . . . as Ed made clear in his presentation, this is a two-year issue, it's a timing issue, you know, because the two years cancel one another out, and this will not, will not go forward into the future. This disagreement will not be material in the future I guess I would say.

The Chair: — Yes, Mr. Paton.

Mr. Paton: — Mr. Chair, if I might just add a little bit to that. The part that the auditor's qualifying here is the transfer payment that was made from the General Revenue Fund to the AIDA fund.

The other thing the committee might want to note is that the way AIDA accounted for their part of this expenditure is in agreement with what the auditor recommends. So in other words, the General Revenue Fund made a grant of the full amount of $140 million from the GRF to AIDA. Subsequent to that, AIDA estimated the amount that the take-up would be in each of the particular years in the same fashion that the auditor believes is appropriate and recorded that expense accordingly.

What that means is that when we consolidate all of this into the General Revenue Fund, the result that the auditor wants to see is properly reflected . . . or into the summary financial statements. So when things are all brought together it's consistent with what the auditor would want.

It's kind of like a bank account transfer. We've got two different funds in government. We've got . . . In this case we're only talking about two of them. But we have General Revenue Fund and the AIDA fund, and the qualification is between the two funds. And subsequent to that the AIDA fund recorded the appropriate amount of expenditure for the year or the amount that the auditor believes is appropriate.

The Chair: — If I might? I know, Mr. Wartman, you're . . . How do you get the terms understating and overstating then if the AIDA fund is operating differently than what the GRF is?

Mr. Paton: — Again accountants like to make things really confusing, but this is, this is a type of a transfer payment. It's a grant basically that one fund made to the other. And the GRF transferred money to AIDA to deliver this program.

AIDA took the money and during the year estimated the amount of expense that they thought was appropriate, the amount that would be paid out to farmers for the . . . in respect to that year. But the General Revenue Fund by moving the money into AIDA, I guess has fulfilled all their responsibilities. They're not going to manage it or administer the money beyond that. It's now up to AIDA to deliver the program.

The Chair: — Mr. Wartman.

Mr. Wartman: — I think my question was answered already. Thank you.

The Chair: — Any other comments? Mr. Wakefield.

Mr. Wakefield: — Maybe just one then. Was it anticipated, was it anticipated that the cost would be about $70 million per year over a two-year period? And if it was, why was . . . I guess the fundamental question I still can't grasp is why was 140 transferred to the AIDA fund in that very first year? Was there a particular advantage in doing that?

Mr. Boothe: — No, I don't think it . . . I don't think that there was a particular advantage to it, but rather that this was the commitment that the government made at the time that we would provide $140 million as our . . . You know, as you recall this is a matching program, and that was our matching amount. So it was simply a question of this is the amount that we need to match, we're going to transfer that out of the General Revenue Fund and call it an expense, it will go into the AIDA fund — it's not actually called the AIDA fund, it's called the agricultural, something stabilization fund — and then they would disburse the money, you know, as demanded by farmers.

The $70 million figure was an estimate, and my understanding was that in the event it actually wasn't a bad estimate of what, of what it was.

The Chair: — Okay. Seeing no further questions or comments, resolution no. 2 is before you. Motion. Anyone prepared to support or oppose?

Mr. Wartman: — Yes, I think given the circumstances, considering the recommendation that is made by the auditor, and considering that in its reports the Department of Finance did account fully for the AIDA program in accordance with the rules of the . . . that the government follows, and since this fund no longer exists in 2001 financial statements, we've just acknowledged the recommendation. And I guess in this case, we just amend it to acknowledge and note that it will no longer exist in the 2000-2001 financial statements. So that would be an amendment is my understanding, or would it be just . . .

The Chair: — The resolution . . . I mean we have sort of three choices. We either recommend or approve of the recommendation, not to concur in or receive, and for information.

There is a fourth choice, as pointed out by Ms. Woods here. It's indicating that, in the case of a committee would rather make an independent recommendation, it's almost like you're disagreeing with it and because of . . .

Mr. Wartman: — . . . what I'm doing. Because I'm speaking about the practices that are followed.

The Chair: — It's over and it's passed.

Mr. Wartman: — Yes. So it's not just receiving it. It is actually making an alternate statement. And I would draft that statement for you.

The Chair: — So the resolution before you is that we are . . .

Mr. Wartman: — Let me just read . . .

A Member: — Read the new statement.

Mr. Wartman: — Okay.

> In consideration of the recommendation, PAC notes that the Department of Finance has accounted for the AIDA program in accordance with accounting rules that government follow. PAC also notes that this issue will no longer exist in the 2000-2001 financial statements.

The Chair: — Okay. Any questions on that resolution as Mr.

Wartman is recording?

I think it's pretty clear. I don't think I need to reread it. Moved by . . . Yes, Mr. Wakefield?

Mr. Wakefield: — I guess that means in basic terms — out of sight, out of mind.

Mr. Wartman: — I don't think so because . . . I'd really like to make clear that it's not out of sight. The fact is that it has been properly accounted for according to government procedures. And that is not out of sight; it's available in the summary statements as our Finance department told us. What it is . . . the fact is that we're not dealing with it again in upcoming years. And I think that's important to note.

Mr. Wakefield: — We're not dealing with it in upcoming years on this situation. I wonder if there's something that we have learned or could suggest in the future. I don't think I disagree with what you're saying, is that this is what has happened. It's been explained.

If the situation arose again, would we be able to take guidance from your recommendation?

Mr. Paton: — Mr. Chair, the one thing I might want to add to this is this situation may differ than some of the other recommendations that you deal with. In this case, both the auditor's office and our office believe we've applied the proper accounting treatment. And we're looking at the same standard and we're just interpreting it differently. So it's actually a matter of professional judgment on how a rule should be applied.

Just for further information for the committee, this committee. This is a section of accounting that is causing problems across Canada and the Institute of Chartered Accountants is currently looking at it to try and provide clarification so that these types of problems don't occur.

But it's not like an out-of-sight, out-of-mind type of thing. It's actually where we've both taken the standard. We view it differently and we both believe we've applied it appropriately.

The Chair: — Motion moved by Mr. Wartman:

> In consideration of the recommendation, PAC notes that the Department of Finance has accounted for the AIDA program in accordance with accounting rules that governments follow. PAC also notes that this issue will no longer exist in the 2000-2001 financial statements.

Any further discussion?

Ms. Draude: — Maybe I'm not altogether clear on this, and I know what the members are saying when it comes to it was a difference in accounting and it really doesn't matter because it's finished now.

But what concerned me is that for the general public — and that's who we're here representing — there was a $70 million difference in one financial statement. The budget was actually . . . there was actually $70 million more. And even though it was something that we were looking at in next year's expenditures, I can't see there would be any difference in the one that you're going to be spending $70 million in, for example, treaty land entitlement. You know that you've got an expenditure the next year. You can't put that in this year's books just because you know you're going to spend it next year.

So even though I know that it's finished, I just don't think it's fair to the public to be able to underestimate or overestimate the bottom line of the province at the end of the year. And that's my concern.

Mr. Kasperski: — I think, Mr. Chair, if I'm not . . . My understanding is that, when this started though — and, correct me if I'm wrong, I thought I understood this — at the time the decision was made, it was not understood what would be the exact expenditure on this. I mean, we got the benefit of hindsight right now that, yes, it has worked out to roughly 70 million in each year. So I don't think, the way I understand it, I don't think the public is . . . I don't think it is a confusing issue of public.

If I'm understanding this right, we started out saying the obligation of the government is $140 million to AIDA, not knowing how much would be spent in year one. So our obligation was 140 million. The government made that transfer.

So I'm not sure . . . with all due respect to what the member across is saying, I don't think it's a matter of . . . you know, I think we just didn't know at the time. I think that's a statement made in hindsight, but I don't know whether it can be made now. I think a lot of this is arguing over hindsight too or having the benefit of hindsight, too, in this discussion.

So, I don't know if I've confused . . . Anyway, that's the comment I'd like to make.

Mr. Boothe: — Mr. Chair, I guess what I would say to try to reassure the member here is that when this program was announced the government committed to paying $140 million. And they said that it would be . . . they would give $140 million to the AIDA fund and that that money would be paid out over two years. Didn't say, you know, how much would be paid in the first year or the second year. But it was clear that it was a two-year program.

Now I guess where the area of disagreement between us and the auditor is that — and, this has to do with what accountants call fund accounting — basically, when the money left the General Revenue Fund and went to the — and, Terry showed me the real name of this.

Mr. Paton: — The Saskatchewan . . .

Mr. Paton: — The Saskatchewan . . .

Mr. Boothe: — The Saskatchewan Agricultural Stabilization Fund, then that was treated as an expenditure for the full $140 million from the General Revenue Fund.

Although when you go to the summary financial statements, which includes the General Revenue Fund and the Saskatchewan Agricultural Stabilization Fund, right, those two are put together and it has the effect of accounting for it the way the auditor recommends. Because, as Terry said, the stabilization fund accounted for it as the money actually went out, right, roughly 70 plus 70.

You know I think that there is a honest difference of opinion about what's the best way to account for this. But at the same time I think I would want to assure you that despite that accounting difference, there's certainly no . . . I think, no lack of information for the public to understand what's happening about this program. And if they want to look at the General Revenue Fund — which is the fund not only . . . that we use not only to help us account for what government does but to help us budget our . . . the expenditures of executive government — and when you look at the summary financial statements which brings everything in, including the Crown corporations, that you get the full picture.

So I think that, you know, this is an honest difference of opinion on what's the right accounting, but I don't think that the public suffers for lack of information about the workings of this program. So I hope that that assures you, gives you some assurance about, you know, the way that this was handled.

The Chair: — Mr. Paton, did you have a further comment?

Mr. Paton: — No. The only thing I would add is the question earlier about the estimate of the amount that would, you know, eventually be paid out in any of the particular years, did vary considerably throughout a six- or twelve-month period. It wasn't like everyone knew 70 million was going to be the expense. It was much, much lower at one time, the estimate, and moved a lot.

The Chair: — Okay.

Mr. Wartman: — I think it's important that we're clear that this would not be confusing to the public. I think that's what the . . . a member opposite is saying that it . . . you know, there's some appearance that it could have been confusing to the public because of the way that it's reported. But if I understand what you're saying correctly, the . . . when that money is transferred, that is recorded in the GRF. The $140 million is transferred. The summary . . . the year-end summary statement of the SASF (Saskatchewan Agricultural Stabilization Fund) would state how much was spent in that given year and would also account for the remainder of the fund which they were now . . . they were now holding. Is that accurate? And so the following year we would get the final accounting of the funds that were put into the AIDA.

So from that perspective, the public would have very clear, straightforward information about how the program is funded. And I think . . . very important for us as members of this committee who want the public to have clear information, to know where and how that information is available. It may not be all available in one particular fund — GRF fund, but that it clearly . . . I mean, all you have to do is follow the line. If it's transferred to SASF, then the summary statement— SASF has paid it out in this way.

So I think it's just important to note that there is clarity and that the information is clearly available to the public and to members of this Assembly.

The Chair: — We have a resolution before us that is a . . . an almost an independent statement of what will be recorded or reported to the Assembly, and I've read it to you. Is anyone requiring it to be read again? If not, all those in favour of this independent recommendation? Opposed? Carried.

Recommendation no. 3, I think we can still deal with that one before we have a break for . . . stretch your legs, is on page 235. Now I think this gets back to the pension ones. Are there any specific comments, Mr. Boothe or Mr. Paton to this resolution? I think we've heard from Mr. Montgomery.

Mr. Boothe: — Mr. Chair, I would only make the one observation and that is to make members aware that we, in fact, budget on the same way that we account for this. So that there is a correspondence between the way we budget for this, and the way we account for it in the GRF.

The Chair: — It is noted on page 235, that the Public Accounts Committee in January of '99 considered this matter, and did not concur with the recommendation at that time. Any further questions?

Mr. Wakefield: — Just a . . . just for clarification. This is just talking no. 3. It's just talking about budgeting is it? And our discussion on no. 1 was where it actually should fit in the accounting. Is that correct?

Mr. Wendel: — Yes, Mr. Chair, Mr. Wakefield. What we're recommending here is the same accounting principles we were recommending for the financial statements. And one of the things that we're saying in this section is if you were to follow these accounting principles, governments might have made different decisions when they approved pension increases for pension members.

Because if you only have to account for the cash when you're making those decisions, you don't have to acknowledge that you've incurred a large cost. But if you have to recognize the costs as you go along, when you make these decisions to give them to pensioners, then you might make different decisions. So that's what we're talking about in this section.

The Chair: — Mr. Boothe, were you going to comment to that? Could I ask a question then?

In the auditor's report we talk about the future. And I note the paragraph that indicates that PAC has requested a report as to how the government plans to address its pension obligations, which is what you're going to talk about in the afternoon. But I'm wondering about the actual pension costs for estimate purposes when we get to that magic year of — and I'm dealing primarily with the teachers' pension fund — I believe it's around 2014 or 2015, somewhere in there.

Will the current estimate for pension cost suddenly jump from the current, I believe it's around 80 or 85 million — and I don't have my estimates with me for this current year — will it suddenly jump to almost 300 million because that will be the actual pension costs that will be required for that year because of the fact that the revenue that is currently received will no longer be there as there will be no teachers in that old plan that will still be active in the teaching profession?

Mr. Boothe: — Mr. Chair, I think that you are essentially correct. You might be off by a couple of years.

But I think basically what you will see when I give my presentation this afternoon is that in terms of the yearly outflow of paying these pension costs that in the short run they'll decline. And then I think that it's . . . I think you're pretty close. I think it's about 2018 is my recollection, and they'll start to grow, and they'll peak in the $300 million range if I remember correctly — I'll correct myself this afternoon — and then they'll start to decline. And I think they get to the same level that they started out, as you've discussed, about 2038 or something like that.

But I think it's important to look at those, both in terms of what they would be in today's dollars, because those are nominal dollars, not constant dollars; and the other thing is, how much those will . . . those pension liabilities will represent as a share of government revenues in those years.

But I guess the other thing that I'll just go back to — and of course this is the economist not the accountant speaking — and that is that there is a lot of uncertainty around that estimate because we don't know . . . we know a lot about the pensioners and we have a . . . we can estimate fairly closely, you know, how long they'll be collecting pensions and things like that. But what we can't estimate very accurately is rates of inflation, rates of return, things like that. So there is a lot of uncertainty around that, but I think that you have the path pretty clearly in your mind.

The Chair: — With the path that you've identified and that you're going to explain more in the afternoon, how will the government of the day in 2018, how will it suddenly deal with the fact that, as you've indicated, the current actual cost of the teachers' pension fund as identified in the estimate is going continue to decline? And we've seen that from, you know, 110 million just a few years ago to probably in that $80 million range today, and it'll drop. And then when that bulk of teachers who are, I believe, 35 added to 1979, is about 2014, and then there might be some continuation there.

When that group of teachers suddenly leaves the teaching profession, that last group, how will the government of the day suddenly move from maybe a $75 million obligation for cost of pensions the year before and now have to have 300 million, which was your number, in the following year?

Mr. Boothe: — I guess I would say two things, although Mr. Chair, you are foreshadowing my presentation this afternoon. What I will say, it's probably . . . probably to describe it as suddenly is to overstate how fast it's going to happen. Suddenly probably works in pension discussions, but I don't think normal, non-accountants would consider it to be sudden.

But the other thing is, I think that what you'll see is how it fits with, with government revenues overall. And we're talking about a change, or a draw, on total government revenues moving in the range between 3 and 4 per cent. So we're talking about a range of less than 1 per cent of government revenues. So when you . . . at that time in the future. So I guess my opinion would be that when I look at the flow and it's not a constant flow, I still think that it should be relatively manageable. But that's something that I'll talk about this afternoon.

Mr. Yates: — You started to allude to my question, Mr. Boothe, but my question has to do with the fact that — it's two-pronged — that using the accounting principles that are being used by the government today, could an accountant or an interested party clearly determine the liability that the pensions have today in the province of Saskatchewan, the liability on the government?

And secondly, would any method in changing the accounting change the fact that in 2018 we are going to see a significant increase in the number of people who retire and years out from that. Would any method in changing the accounting change the actual liability, I guess, in the future?

And thirdly, is it not true that those dollars in fact as a percentage of the government's expenditures of that period would not be specifically greater than they are today? Because the economy will grow and the government's revenue will grow at the same rate roughly as a pension liability?

Mr. Boothe: — I guess I would say is that no change in accounting policy of the kind that we're considering will reduce the uncertainty we have at any point in time about pension liabilities — that's true. And that's no criticism of accounting policy. I mean these are things that are just generally uncertain.

Whatever accounting policy we have, I don't think that we could expect that it will change teachers or public servants retirement behaviour. I mean my wife is a teacher and I'm not sure that she pays much attention to that when she's making her plans into the future. So no, it certainly won't change the time path of that.

And I'm sorry, the third question was?

Mr. Yates: — The third question really had to do with the fact that ballooning number in that period of time, we have no numbers reflecting the growth of our . . .

Mr. Boothe: — Yes, and that's something that I'd like to talk about in detail this afternoon, but basically that's the point that I'm trying to make.

Mr. Wakefield: — Concerning, Mr. Chairman, concerning the word uncertainty that you use in trying to estimate or working these particular figures — I'll direct this to the auditor — how do you incorporate this uncertainty that we've been talking about into the pension, total pension cost? There seems to be a difference in determining something which I think is kind of hard core and something that is uncertain. How do you bring those together?

Mr. Wendel: — Yes, Mr. Chair, financial statements have a lot of estimates in them. It's not unusual to have estimates in your financial statements as to what your expenses are. You take a large lending organization such as Saskatchewan Opportunities Corporation, you have to go through and assess what you think is going to be the bad debts for that organization.

If you go to places like Saskatchewan Government Insurance or Workers' Compensation Board, they also have to estimate large liabilities on their long-term claims and determine how much money they have to set aside and they have to book those costs as they go along.

So it's not unusual to have estimates in financial statements. But I have to agree with the Department of Finance, it is difficult to come up with estimates when you have long-term liabilities. But you still have to make those judgments and record your best estimates. That's how financial statements are prepared.

Mr. Wartman: — In terms of statements, it seems to me that there's a certain distortion because it's only reporting the estimates in terms of future liability and what we're not getting into the picture . . . I mean we're reporting those in today's economy with today's resources but what will the economy . . . I mean if we're estimating what the liabilities will be, we're not giving a corresponding estimate as to what the economy will be.

Maybe I'm naive but it seems to me that it gives a very distorted picture if, in today's financial picture, we put an estimated liability for the future without estimating, without a corresponding estimate of what our economic situation will be.

I mean if, I mean I'd like to say just slightly ironically that in, as government, in 2018 we'll have grown the economy so well that there will only be a very, very . . . This estimated liability will only be a small portion of our total accounting.

The Chair: — Just hold that thought. Do you want to comment first or I, Mr. Boothe?

Mr. Boothe: — Mr. Chair, I would just make two observations here. First of all, I think the Provincial Auditor has explained very well that there is — although lots of lay people don't know this — there is lots of uncertainty when you're putting together financial statements. And what auditors try to do is give their best guess. And you know, how precisely they can estimate these things depends on the different variables. And there's lot of variables here.

But the point that Mr. Wartman is making, I guess what I would say is this is exactly one of the things that we want to address in the report that we've prepared for the Public Accounts Committee. So you know, when we get to that report, we can give you some more information, again based on estimates of what's going to happen, but it should be able to cast some light on that issue.

Mr. Wendel: — I'm just responding a bit to Mr. Wartman. When we're talking about this liability you have to estimate, it does take into account the time value of money that you're looking to the future. So it isn't just booking all those future costs, not taking into account that you'll have a growing economy. It does take those factors into account.

Mr. Yates: — I would move:

That we not concur with the recommendation.

The Chair: — Okay, thank you. Discussion? Seeing none, all those in favour? Opposed? Carried.

Okay, I think it's appropriate at this time, we're just a little past our scheduled break, we'll break for one-half hour. Okay?

The committee recessed for a period of time.

The Chair: — We'll reconvene. And first point, for your information, Margaret, Ms. Woods, has left. She became ill. And we'll have Vik standing in, from the Clerk's office, for her.

The second thing, through discussion during the break we . . . I think there's unanimous consensus that we'll look at the report that was scheduled for this afternoon about pensions, since we seem to make reference to it more than once this morning. So we'll have the report first and then we'll come back to recommendation no. 4 and continue on to the end of recommendation no. 8, after that report.

So with that I would ask Mr. Boothe or Mr. Smith, or whoever is involved with the report. It is Mr. Boothe? Okay.

Mr. Boothe: — Thank you, Mr. Chair. Members have a copy of the slides that we've sent around and so I'll just begin.

This is our report to the Public Accounts Committee on managing pension liabilities. And of course this was requested by the committee and I hope will deal some of the questions that have arisen in the discussion that's taken place already this morning.

I'd like to divide this presentation into six parts — six brief parts. The first we'll just talk for a minute about what the pension plans are, and then start to talk about managing the liabilities.

One of the questions that's come up a number of times this morning has to do with affordability in the future, and we'd like to give you some information on that.

We'd like to also address the question of pension liabilities, vis-à-vis government debt, because that's another question that's arisen in the past; and then also address another question that came up this morning, and that has to do with volatility of future pension payments, especially teachers' pensions.

So I guess I should start by thanking committee members, one, for asking all those questions to motivate my presentation, but also for not forcing me to answer them before I got to show my slides.

First of all, major pension plans. Basically there are four major plans that we're talking about when we're talking about government pension. There's two new and two old. The new ones are the Public Employees Pension Plan or PEPP, and the Saskatchewan Teachers Retirement Plan, STRP.

Both of those are defined contribution plans, or sometimes people call them money purchase plans. But basically they're plans where the benefits that members receive when they retire are really tied directly to what they contribute, what the employer contributes, and what's been earned.

So really there's no promise about the benefits of these pensions, what they will be beyond the fact that you will get your contributions, the employer's contributions, and then whatever's earned. And in fact Saskatchewan defined contribution plans have done fairly well in the past, have had good investment performance — knock on wood — and I think people have been . . . the people that are involved in these plans have lots of up-to-date information about them because it's available on that PEBA Web site.

The other plans, and these are the plans that we'll mostly talk about today, are the older plans, and they're defined benefit plans. Basically what they are are plans that at the outset say to people, well if you participate in this pension plan for X number of years, these are the benefits that you will receive.

So one way of thinking of this is that in defined contribution plans the contributors themselves bear the risks or gain the benefits when there are fluctuations in investment returns. And when you talk about defined benefit plans, pensioners don't have those risks because their benefits are defined ahead of time. And those two plans are the Public Service Superannuation Plan, PSSP, and the Teachers' Superannuation Plan, TSP.

So just a little more background on these various plans. PEPP, one of the two new plans — I mean we say it's new but it was created in 1977 so it's relatively new — was created when the other public service plan, PSSP, was closed. It's a separate fund. It receives member and government matching contributions.

Funds are invested and members have accounts like they would have RRSP accounts in the bank. Transfers, the investment opportunities and risks to plan members, as I mentioned a minute ago, and it's fully funded. There are no unfunded liabilities with that plan because basically this money is all in a fund and it's earning returns; and individuals, when they retire, will get their contributions, government contributions, and whatever the fund has earned.

The other new plan is STRP, Saskatchewan Teachers Retirement Plan. Now this plan is a little more complicated than a defined contribution or a money purchase plan. And, Mr. Chairman, I neglected to say at the outset that I do not consider myself to be a pension expert, but Brian Smith is here with me to help us with that.

The Teachers' Superannuation Plan was closed in 1980 and the GRF contribution to this plan was defined in 1990. So this is kind of a hybrid plan. What the government puts in is defined. In fact, it's subject to negotiation when they negotiate their contracts. But the members' part of it is more like a defined benefit.

So Saskatchewan Teachers' Federation manages the fund and they accept the investment risk. And so for the STRP there's no unfunded liability responsibility for the government. Our contributions are fixed by negotiation, and what gets paid out is defined but the risk is borne by the fund itself. So this does not add unfunded liabilities to the government.

If you look at the old — two old plans, major plans — the first one is the PSSP. That was closed in '77 when the PEPP plan began. There are only about 2,300 contributors still in this plan — people actually contributing not receiving pension benefits.

Members' benefits are defined by a formula; that's why it's called the defined benefit plan. You know, 2 per cent per year, year of service, to — what? — for your best five, best five years of earnings times 35 per cent. So basically you can earn, you know if you stay in the plan all 35 years you can get 70 per cent of your best five years of salary as your pension.

There is no separate pension fund here, all right. Members' contributions are treated as revenue by the GRF, and the GRF pays the pensions out of current revenue to superannuates and surviving spouses. So this one does have an unfunded liability.

And the unfunded liability here is estimated at 1.2 billion. That's our best guess of what this is. And these estimates, you know, that we rely on and, I think, the auditor relies on are really . . . this is the province of actuaries and that's what they do.

The Chair: — If there are individual questions or comments, members, do you want interruptions or do you want to wait until the entire presentation is done?

Mr. Boothe: — Mr. Chair, whichever you prefer.

The Chair: — Well I think it's . . . (inaudible interjection) . . . if you don't mind.

Mr. Boothe: — Okay. Then I'd be happy to take them as we go.

The Chair: — So members be aware that if there's something that you see on the screen that you want clarification for as we're going through, please ask.

Mr. Boothe: — Okay. I'm sure Brian will be happy to answer them.

Okay, now the teachers plan, again, a bit different. The teachers' plan has been closed since about 1980. There's 6,500 contributors to that plan. Members receive benefits again according to a formula. Members' contributions — and this of course is very . . . is again different again than the old public service plan — members' contributions are deposited to the TSP fund. The GRF matches those contributions plus it provides an annual appropriation to meet current pension payments.

So this is a bit more complicated because basically what's happening, and Brian will correct me if I go astray here, is that teachers make a . . . teachers in this plan make a contribution, it's matched by the government, right, and that money accrues interest. The government is responsible for the current payments to superannuates from this plan.

When a teacher retires, their account — their contribution, the government's contribution, plus accrued interest — is released to pay the pension costs. And if that, the amount each year that's released as people retire, is not enough to pay all pension costs — and it's not — then the government provides an appropriation for the remainder of the cost.

And the GRF is responsible for the unfunded liability in this plan which we estimate to be about two and a half billion. Now there's, there is . . . Because of the way that this was set up it has some interesting features.

For example, if a bunch of teachers retire in a given year, then a lot of money is released, and so the appropriation that the GRF has to make in order to cover the whole cost of that year's payments to superannuates is reduced. If not many teachers retire that year, then not much money is released, and the GRF appropriation is correspondingly large. And we'll come back to that.

The Chair: — . . . question from this morning.

Mr. Boothe: — Sure.

The Chair: — When the unfunded liability you indicate is estimated at 2.5, that unfunded liability has grown somewhat each and every year for the last number of years. Any indication of how much it grows per year?

Mr. Boothe: — I don't have those numbers in front of us, but basically we could calculate that. We could calculate that very easily.

The Chair: — While he's looking for that, Mr. Boothe, the other part, you mentioned that we have contributors, and there are retirees each and every year. Is there an average of the number of retirees each year now?

You know we're told I think that there are around 4 to 500 teachers that superannuate each year. Obviously those would still all be from the TSP plan. Is that the average that you use as the number of teachers that the money, I think you used that the money needs to be freed up? Mr. Smith.

Mr. Smith: — I believe it is that number, but there are so many factors that influence that number. Like again we're guessing at what's going to happen in subsequent years. If the school divisions have an interest in having an early retirement program or there are other incentives, it changes those numbers dramatically.

But in the calculation of the General Revenue Fund expenditures, we will estimate how many retirements will occur in the subsequent fiscal year. And 4 to 500 is the current range. They are all baby boomers. They're going to be exiting in ever increasing numbers till we get to the end, which is probably 2014 or '15. So it will be an ever-increasing amount as the boomers become eligible for retirement age.

The Chair: — Could you tell us how you arrive at that number that we see as members of the legislature, that number that we see in estimates for the GRF's, you know, contribution. How do you arrive at that for this plan?

Mr. Smith: — For this plan?

The Chair: — For this plan.

Mr. Smith: — Well there are two bullets that I'll just mention. One is a matching contribution for the teachers that are still contributing to the plan. And a second part of that is the estimate of requirement to meet payroll for the subsequent year.

And the first number is: what is the current payroll in millions of dollars? That is then reduced by the assets from the number of teachers who are going to retire in that year.

The Chair: — Okay, and that's the 400 to 500 number?

Mr. Smith: — Right. And so they will release so much money from the fund to meet part of the pension payroll for the next fiscal year, so that's where the calculation comes from. For the contributors, there's a matching amount. For the pensioners, there is the total payroll less what will be released in the year from the actual fund of assets for the number of teachers who are retiring. It's a segue, sort of, into the next slides that Paul is going to have in terms of what are the implications of that.

Mr. Wakefield: — Just for clarification then, in this particular plan, although members are contributing, the GRF is contributing, that doesn't meet the requirement for the retirees. And so the difference then accumulates into this unfunded liability.

Mr. Boothe: — That's exactly right, and so basically the contributions are not sufficient to cover all the benefits, right, and that results in an unfunded liability.

Mr. Wartman: — In a given year, when a number of teachers retire, you say that money is released from the TSP fund. Is that corresponding amount released every year plus the amount for new teachers coming off in the following year?

Mr. Boothe: — No.

Mr. Wartman: — It's a one-time release?

Mr. Boothe: — Yes.

Mr. Wartman: — And then the GRF must fund all the rest of the pension from that point on.

Mr. Boothe: — Yes, that's right. That's right.

Mr. Yates: — This would be best categorized as a partially funded pension plan. When the transition occurred you partially funded it through the mass contributions to limit the liability at that point into the future? Would that be a good characterization?

Mr. Boothe: — Yes. That's right.

Mr. Smith: — It's partially funded.

And then, the range of funding would be from zero. For example, for the Public Service Superannuation Plan, the solvency test would be zero. A fully funded pension plan would be 100 per cent. If this one is partially funded, it's somewhere in between.

Mr. Boothe: — And, I guess the last thing that I would say about this — I guess partly in answer to your question, Mr. Chair — is that, when we're arriving at that estimate for the estimates, what would it be? Well basically, we're trying to forecast how many teachers that will be working that year so we're matching their contributions. And also — and this is a bit harder — how many are going to retire that year. Right?

And as we were saying before, teachers don't pay much attention to the government accounting implications of whether they're going to retire or not.

Ms. Draude: — Of the 6,500 contributors, how many actually have retired that are . . . (inaudible) . . . flowing from this?

Mr. Boothe: — Actually, when we say 6,500 contributors, what we're not talking about are the superannuates, the people that are receiving pensions.

Ms. Draude: — How many are there?

Mr. Boothe: — Those are active teachers. How many superannuates are there?

Mr. Smith: — My best guess, Mr. Chair, would be 7,000. That's just a guess.

Ms. Draude: — Seven thousand, over half.

Mr. Boothe: — Right. Because remember a lot of teachers are younger teachers are in the other plan, STRP.

The Chair: — Mr. Smith, for that 6,500 . . .

Mr. Boothe: — 8,908 are retired.

The Chair: — Are retired.

Mr. Boothe: — Are retired in the . . . Yes, that's retired teachers or surviving spouses.

The Chair: — Okay. For teachers who were in the plan and there is an obligation, because the teaching occurred longer than 10 years, are they included in that 65 even though they may not be making a contribution right now, but yet there is a responsibility of the TSP plan to pick up their pension benefit after age 65?

Mr. Smith: — Yes, Mr. Chairman. There are three groups of people: active contributors, 6,500; pensioners, and Terry's provided the correct answer; and there are also people who are entitled to a deferred pension.

The liability for the deferred pensions that are payable sometime in the future — they haven't retired yet — will be included in the $2.5 billion liability.

The Chair: — So that's built in here.

Mr. Boothe: — And, Mr. Chair, the number of those is about 16,400 people entitled to a deferred pension. So that they . . .

The Chair: — 16,400?

Mr. Boothe: — That's right. Which I think points to the turnover in the teaching profession. Lots of people start out teaching and then go on to other things, but they still have some pension benefits that are planned.

The Chair: — Jeez, I didn't know that there were 16,399 others than me.

Mr. Boothe: — Well there you go. And all of the information, all of these numbers are really just taken from the . . . from the Public Accounts, in the discussion about pensions.

The Chair: — Thank you.

Mr. Boothe: — Okay. Now I'd like to turn to the main issue here, and that is managing pension liabilities.

Well I think the first thing to say is, probably the most important thing that was done to manage pension liabilities was to make the move from defined benefit plans to defined contributions or money purchase plans. And that was done a long time ago, but that was one of the most important things that was done.

And if that had not been done, then these unfunded liabilities would likely have been significantly higher. So that was a decision that was taken, you know, as much as 25 years ago.

Now this gets, I think, at one of the questions that came up this morning and that is, what is the flow of payments estimated to be over the life of these two closed plans.

Well this is what they look like, and these are in nominal dollars, right. So this just tells you what those dollars are going to be in the future. It doesn't take into account that a dollar today, and a dollar 10 years from now aren't strictly comparable. But it just gives you an idea. And so where we are here, right, is down below 200 million, and what we're looking at at the peak, which is about 2027, I think, or maybe a little bit earlier than that, 2025, is almost 400 million.

Now the other thing that I would point out is, you can see that there's a lot more volatility in the teachers' plan than in the PSSP and that's because of the way that the teachers' plan was set up. So that as teachers retire, they release their money all at once and that reduces the amount that the GRF has to make up to meet the payments to superannuates in that year. But, you know, eventually, and this is as Brian was saying, the much maligned baby boomers are leaving the labour force. You see this peaking there, as I say, about 2025 perhaps, and then declining afterwards. So that we're down about 20:60 I guess with these plans.

Just to summarize the numbers here, these payments increase relatively modestly to 163 million over the next nine years, and then they increase to 333 million in the next ten; they peak at 396 in 2025; and then they decline fairly steadily over the next 30 years.

Now I would argue that a better way to look at this is to put these in constant dollars. So we've recast these in 2000 dollars. So that the dollar in this case, a dollar today and a dollar 25 years from now are actually comparable.

In this case, of course it changes the profiles substantially, right, because a dollar today is worth a lot more than the dollar 10 years from now. And what we have, we see, is basically a transformation of this pattern. And basically what you see — well I'll just go to the next slide which talks about the numbers — payments decline over the next 10 years.

They increase to 192 million in 2020 — that's in constant dollars. They peak 12 million higher than the last actuals that we have, which are '99-2000. And again TSP, for the same reasons I mentioned before, the TSP pension payments are volatile because of the way that plan was set up.

Now this brings me to my next section where we consider the issue of affordability. So this is what we're looking at in terms of affordability. And the way that we have, the way that we have expressed this, is by looking at what share of GRF revenue will have to be devoted to pensions to meet these obligations in the future.

You can see that currently we're devoting just over 3 per cent, but that's going to decline as a lump, if I can characterize them that way, of teachers retire, right, and their funds are released, it'll go along at about two and a half per cent and then it'll start to rise with a couple of dips, right, and these are all forecasts of when teachers will retire based on those kinds of forecasts, and it'll peak at a bit less than 4 per cent in the neighbourhood of 2025 and then will decline after that.

And this is the thing that leads us to believe that if we're talking about moving in the 3 to 4 per cent range of revenue, so within a per cent of revenue in the out years, that our pension liabilities are affordable or can be managed by government.

The Chair: — That slide, is there an explanation why the first glitch to 2015, obviously that's the teachers that entered the force in 1979 that are going to end their careers after 35 years and that retirement year is 2014. That's the last group of, you know, 450 or whatever the estimate is. Why is there a decrease then from 15 to I think it looks like about 18?

Mr. Boothe: — Yes, all I can say is that this is really driven by the age profile of the teaching cohort. So obviously something — when is that? — say 2018, I'll ask you to think back 35 years from 2018 to what events may have changed the intake of teachers at that time. Because basically that's what's driving this. It has to do . . . it's mirroring the age profile of the teaching population.

The Chair: — That's a group of teachers will have reached a particular age? Or will it be a group of teachers that didn't enter the teaching force? Because technically by about . . .

Mr. Boothe: — No, I think what we'll see here is these are teachers . . . this is a group of teachers retiring. A larger than normal group of teachers is retiring there, and that's what's causing this dip.

The Chair: — I guess I'm wondering how they're still in the teaching force if, indeed, they . . .the last year for teachers to enter this plan, as I understood it, was 1979. So a 35-year teaching career takes you to about 2014. What happens in 2018 to suddenly have a whole number of additional retirees, I think, is what you're saying. Right? Or am I wrong, Brian?

Mr. Smith: — Yes, that's correct. The youngest person today in the plan should be 40-years-old. So there is still potentially 25 years for a person in this pension . . . in the Teachers' Superannuation Plan, potentially 25 more years for them to work, which would take us to 2025. So there is still potential dips in the GRF funding until 2025.

The Chair: — Oh, yes. No, I accept that because when I reach the age of 65 there will have to be a set . . . a certain amount of money set aside for my contributions as well. But I'm wondering why is there such a significant change from 15 to 18 when by 15, the majority of the teachers have already superannuated. The plan . . . the 6,500 contributors that you have in your plan today, by the year 2015 should be down to zero, or very close to it.

Mr. Smith: — Mr. Chairman, I think the pending 16,000 deferreds enter into the equation. There's 16,000 people who are entitled to a benefit payable at some later date. Looking at this, a lot of those people are coming in at age 65 . . .

The Chair: — 2018.

Mr. Smith: — . . . is the way that I would interpret the graph as it stands today. That isn't the active contributors, it's other factors that must be the deferred pensioners who are arriving in the graph.

Mr. Boothe: — The other thing I would say, Mr. Chair, is . . . I mean, we're sitting here, we're speculating about why this is. I mean this is an empirical question. We'll go to the . . . these data are provided by the teachers to their actuaries, we'll just get you the demographic profile of the retirements and that'll explain what's going on here so you can see it.

The Chair: — I appreciate that, thank you.

Mr. Wartman: — What I want to say is how happy I am that by the time I'm 110 this will all be resolved.

The Chair: — I'm was just wondering why they're eliminating me at 2057.

Mr. Wartman: — I just added a few more years.

Mr. Boothe: — I didn't think of it that way. So just to summarize the graph, GRF revenues are assumed, I think very prudently, to grow at two and a half per cent in this analysis. Pension payments peak at a little less than four per cent in 2020 and they average about 3 per cent of revenues; average with a significant fluctuation around 3 per cent of revenue until about 2030 and then they start to fall off.

Mr. Wakefield: — The GRF revenues growing at 2.5 per cent, basis of what just . . . that's anticipated increase in revenues for what reason?

I guess what I'm coming to is, if that is going to be the additional revenues generated by increases, it's going to be eaten up entirely then by these unfunded pension funds. Is that correct?

Mr. Boothe: — Sorry, say that again, the last part.

Mr. Wakefield: — The increase in GRF revenues will be eaten up entirely by these unfunded pensions.

Mr. Boothe: — No, because that's the expense side. To the extent that GRF revenues grow faster than that, then that will flatten out our graph and make it a smaller per cent of GRF revenues.

Just to say where the two and a half per cent assumption comes from, basically — and I'll just try to do this from memory — this is a prudent assumption of our revenues. We hope that it will do better than that, but we think for these purposes we should use prudent assumptions.

And basically that has about two and a — no let me get this right — about 55 per cent of our revenues growing at the same rate as nominal GDP (gross domestic product). You know, basically our tax revenues we expect will grow at about the rate of nominal GDP. And then the other 45 per cent which is made up of, you know, oil and gas revenues, federal transfers, things like that, essentially not growing without trend. And when you put those two together, two and a half per cent is roughly what you go at.

So I mean, I'm certainly not forecasting two and a half per cent revenue growth. I'd like to think it will be faster than that. But in terms . . . to be prudent for this kind of exercise, I think that it's a safe assumption to use.

Now another question that often comes up is pension liabilities and debt, okay. And again as I've said, I view pension liabilities and debt liabilities as somewhat different liabilities simply because of the . . . or the amount of precision that we can use in estimating them. We have a lot more confidence in estimating what our outstanding debt is than we do what our future pension liabilities are.

But in principle, when you want to, if you wanted to talk about funding the unfunded liability, you know, putting enough money into the TSP so that it was fully funded, or creating a fund for the PSSP, right, so that it was fully funded so you weren't drawing year to year on the GRF, but rather you had separate funds like the funds that we have for PEPP or STRP, what are you looking at?

Well I mean, again, you only have an estimate, right? Our estimate of the unfunded liability is 1.2 and 2.8, is that right . . . (inaudible interjection) . . . 3.8 altogether. And we could do that, but what is the opportunity cost of doing that?

Well the opportunity cost is we would have to either have less program spending, because we'd have to create the money to put into these funds, or we could do it with higher taxes. We could have higher taxes and put the money into the funds. Or I mean we could — although it wouldn't change things — we could borrow it and put it into the funds.

But basically those are your options if you wanted to move from paying these on a pay-as-you-go basis to a situation where you had all the money set aside to pay this.

I'd just like to say something now about the volatility of pension costs. Now we've already discussed this. This payment volatility, as you'll recall from these graphs, really comes from the TSP not from the PSSP, and the reason is simply because of the way that the fund was set up and the fact that as teachers retire, this money is released in a lump and is used to pay those pension costs and the GRF makes up the difference.

And that's really why we have this volatility, whereas we don't have it with the PSSP because there is no fund and we just pay the ongoing pension costs.

So in conclusion, Mr. Chair, I would say the following. Pension liabilities will be eliminated over the next 60 years. And we believe, based on our analysis, that the payments are manageable and affordable. There we're talking about a movement between 3 and 4 per cent of revenue.

Volatility of pension payments could be reduced if we wanted to put money into the TSP, but it would have to be at the expense of either current spending or taxes or debt. There's no free lunch.

And that's my presentation.

The Chair: — You mentioned the two numbers, 1.2 and 2.5, on your slides. That totals 3.7. Are there other pension plans that are so small that make up that additional . . . (inaudible) . . . dollars for the 3.8 or is this strictly the two plans? Because my understanding was there was more than the two plans that had some degree of unfunded liability.

Mr. Boothe: — Yes. Mr. Chair, there's a little bit of rounding error, but there are some other smaller ones. And the other ones, taken together, add up to about 62 million. So it's 2.5, 1.23, and then 62; which brings you to 3.801.

The Chair: — All right? Presentation? Any questions or any other conclusions to be drawn from the report? Thank you very much for the report. It clarifies a lot of things for many of us.

What is your wish, committee members? We can return to item #4 or recommendation #4 or we can recess for lunch and return to recommendations after lunch? What's your wishes?

Want to recess for lunch till 1:30 and then come back right into the last five recommendations? Okay. With that, we will recess till 1:30.

The committee recessed for a period of time.

The Chair: — Ladies and gentlemen, if we can reconvene please. As agreed prior to the lunch break we will begin with recommendation no. 4, and as noted, PAC discussed this as well back in January of '99 and had concurred with the recommendation. And there was comment about an annual report.

Anyone from Finance, the report is being done; is this one that has been complied with? Mr. Paton, or Mr. Boothe, do we know? There it is, eh?

Mr. Boothe: — You can see by this very attractive cover, Finance is indeed now completing an annual report. This is part, Mr. Chair, of our ongoing work to improve our accountability. And we hope that this is informative to members of the Assembly and the public and that it will become increasingly informative as we proceed farther along with the accountability project.

The Chair: — Any other questions or comments? Could we have a resolution that would concur with the recommendation and indeed note compliance?

Mr. Yates: — I move concurrence and compliance.

The Chair: — Okay. Any discussion? All in favour? Opposed? Carried.

Recommendation no. 5, page 236. Recommendation no. 5, if you note a paragraph on page 237 indicates that PAC had considered this matter, and based on legal opinions of counsel, did not support the recommendation.

Any questions or any comments from Finance?

Mr. Boothe: — No, Mr. Chair, unless circumstances change, we don't plan to revisit this. I would note that it's my understanding that SP Two is actually in the process of being wound down.

The Chair: — Any comments or questions about SaskPen or SP Two and the recommendation of the auditor?

Ms. Draude: — I'm just wondering if you can give us some more information on the winding down of what's happening.

Mr. Smith: — SP Two Properties, Mr. Chairman, was property in Weyburn. It was sold. And so the assets of the disposition have been distributed to the pension plans. The company's just being wound down. There's a few odds and ends, housekeeping items, that have to occur before the company is wound up. So the sale, the assets of the sale, have been distributed to the pension plans with the owners of the real estate.

Mr. Wartman: — Since we agree with the past actions, since SP Two is winding down, basically I guess we see this as a matter that should be closed. And so we would move nonconcurrence with that.

Ms. Draude: — SaskPen isn't closed down, is it?

Mr. Wartman: — SaskPen isn't. In terms of the arguments that have been brought forward before around this issue, and the conflicting opinions and the fact that the Public Accounts Committee in the past has said it's not an issue, we would like to move nonconcurrence.

The Chair: — Any further comments on the resolution or discussion on the resolution before us? Okay. Motion, not to concur with the recommendation. All those in favour? Opposed? Carried.

Recommendation no. 6, page 237. Again connected to SaskPen and SP Two. Any comments from officials in Finance?

Mr. Boothe: — No, Mr. Chair.

The Chair: — Questions or comments of any of the material contained in the way of explanation on resolution . . . or recommendation no. 6?

Ms. Draude: — I may be of a bit of a disadvantage because I wasn't on Public Accounts before, but Greystone and SaskPen, the majority shareholders was the government, right? They own it, don't they?

Mr. Smith: — Mr. Chairman, for Greystone, I don't believe that's the case any more. The pension plans used to have complete ownership of Greystone. That is no longer the case. A lot of the shareholders have sold shares back to the corporation and they have also employee ownership.

For SP Two and SaskPen, the pension plans are the sole owners of the real estate involved in those two corporations, there's SaskPen and SP Two.

The Chair: — Could you clarify what you mean in recommendation no. 6, and your final statement of the additional notes following that where you state that as a result Greystone is no longer a government corporation subject to audit? How do the two fit together when one is saying audit and the other one is saying no audit?

Mr. Wendel: — This particular recommendation, section, has a lot of history. You know, we reported for many years that we didn't have access to SaskPen and SP Two and Greystone.

This '99 report is to bring this matter to your attention again because it's a new legislature. We, regardless of what the committee has recommended, we, under law, have to bring certain matters to your attention, and in our view we're required to audit these organizations.

So we're bringing it to the attention of a new legislature. So we're bringing it to your attention that SaskPen and SP Two, which are still government corporations in our view, are not allowing us to audit.

There's an update here on Greystone Capital — during 1999 the pension fund sold the shares of Greystone, and at that point we no longer have to audit that organization because it's now privately held.

The Chair: — And we've had the comment from Mr. Smith . . . or Mr. Boothe about the winding down of SP Two. So the question then is do we support or not support whether or not SaskPen should be audited? Is that the question?

Mr. Boothe: — Mr. Chair, I would just say that this has been an ongoing issue for a number of years. It's my understanding that there are legal opinions from the Department of Justice and the Legislative Counsel and Law Clerk for the Assembly that these two entities are not subject to audit under The Provincial Auditor Act.

And that's my understanding of the basis on which Public Accounts Committee has in the past not concurred with this recommendation.

Mr. Yates: — I would move that.

The Chair: — Moved by Mr. Yates that we do not concur with recommendation no. 6. Any discussion or questions? All in favour? Opposed? Carried.

Recommendation #7 on page 240. This recommendation as noted by the auditor's notes is that it was considered twice, in both October of '98 and January, '99, and was concurred on by the PAC committees of those particular times. And, there's a note about government officials seeking legislative changes.

Is there any comments from officials regarding that statement?

Mr. Boothe: — We have, as the Provincial Auditor has reported, been seeking or putting before government legislative changes or proposals for changes to deal with this issue. And, so far, it hasn't made it through the process and got in front of the Assembly.

So we will continue to put this before legislators and, you know, let them dispose of it as they will.

The Chair: — In Mr. Montgomery's presentation this morning he indicated that there seemed to be a difference in paying out spouses for 60 per cent versus 100 per cent. Has that been challenged in court by any surviving spouse? Are there any legal . . .

Mr. Boothe: — Not that we're aware of, Mr. Chair. No.

The Chair: — No. I'm wondering if the 60 per cent people would be challenging, knowing that . . . if they feel they're entitled to the 100 per cent? But obviously, it hasn't been yet, so.

Okay? Any further questions or comments? Ms. Higgins?

Ms. Higgins: — Move concurrence.

The Chair: — Move concurrence with . . .

Ms. Higgins: — With the recommendation.

The Chair: — With recommendation no. 7. Any questions or comments of the . . . all those in favour? Opposed? Carried.

Recommendation no. 8. And again, same situation for previous PAC committees considering it on two different occasions and concurring in. And I would imagine comments from officials are similar — that you continue. Okay? Any further questions?

Ms. Draude: — Mr. Chair, does this mean that the Department has asked for it, but it just hasn't . . . there's been no legislation brought forward or we're waiting for government to bring forward the legislation they need to make their own department legal?

Mr. Smith: — Mr. Chair, on the second issue, it's a question of, right now the legislation is silent as to what happens in case there's a deficit in providing annuities from the members of the Legislative Assembly Superannuation Plan. So there isn't an illegal payment. There's a question that has to be answered in the legislation, and we will continue to put forward a request to have the legislation changed.

The Chair: — Any other questions? Resolution?

Mr. Harper: — I move concurrence with the recommendations.

The Chair: — Moved concurrent that we concur in the recommendation as stated in no. 8. Any discussion or question? All those in favour? Opposed? Carried.

That brings to a close, I think, the sections dealing with chapter 8 and chapter 11. Are there any other comments from officials? No.

We'll move to the item indicated as our 1:30 item which is a towards a better accountability system, and that's chapter 1 of the Spring Report, as well as, I believe, it included some additional appendices that were circulated.

Just for clarification, chapter 11, the recommendations in chapter 11 are a repeat of what was in chapter 8, so they've been covered simultaneously.

Chapter 1 of the Spring Report and chapter 1 of the 2000 Fall Report.

Prior to lunch, Mr. Wendel asked me about some officials and I felt that we would spend about half an hour discussing the five recommendations, and there are other officials that will arrive at about 2 o'clock to help with the first part, which is the Spring Report.

But there are officials here that can deal with the second part, which is improving accountability for results. So if we could just switch those around, and that way then we would have officials here at 2 o'clock to deal with the first. So it's still the same section, same issue, but we're going to be now looking at improving accountability for results.

The additional information was circulated from the Fall Volume 3 Report. Okay, I'd ask Mr. Wendel to introduce his officials that will be helping us get a better understanding of this topic.

Mr. Wendel: — The next presentations — there'll be four of them, and they'll be working, or dealing with the government's new public accountability initiative. And we are very supportive of that initiative; we've been working very close with the Department of Finance on this, trying to move practices forward.

We have different chapters in here, some dealing with best practices to help out government departments as they try and put them in; talking about how we can involve you, as legislators, in the discussion; and we'll have our people take you through that. And I have with me Jane Knox, who is a principal at our office, and she leads our performance reporting work. And she'll be dealing with chapter 1C which is building capacity for government performance reports.

Ms. Knox: — Good afternoon, Mr. Chairperson, members and colleagues. We are very pleased to have this opportunity to review with you the work of our office related to accountability, and in particular for this presentation, performance reporting.

Governments around the world and in Canada have shifted their attention toward the results of government services. This report focuses on helping government departments to report those results.

Progress across government departments is uneven in Saskatchewan. For example, the Department of Education has reported its results annually since 1994. Other departments are just beginning to publish information about their results, for example, Health. Some departments do not yet make their results public. All departments need support to make better public reports about both their activities and their results.

Chapter 1C of the 2000 Fall Report, of the Provincial Auditor's report, identifies areas where departments will need support from all central agencies and the Legislative Assembly.

Our office examined the findings of other auditors and studied international literature. We then outlined practices that help governments to report their performance results to the public. We invited key government officials to work with us to ensure that these practices would be appropriate in Saskatchewan. And I'm pleased that some of those officials are with us today.

We found four areas where action builds capacity to report performance. These practices would help departments to produce useful performance reports. And by that we mean reports that are useful to MLAs as well as to the government. Useful performance reports provide better information. Better information contributes to informed decisions, and it also helps to explain the government's accomplishments to the public. By taking action in these four areas the government could build capacity to make performance reports to the public. I want to touch on each of these areas but very briefly.

The first practice, and perhaps the most important one for members around this table at the very least, the first practice is to sustain commitment at the highest leadership levels to report the results of the government's performance. In other words, if there's sustained commitment, then it becomes an expectation that results will get reported.

Legislators, for example, can show their commitment to report performance by asking departments to integrate realistic performance targets into their strategic plans. Legislators can also encourage that dedicated resources be set aside to help report performance. And they could also consider approving legislation that requires departments to report their results.

A second important practice is to promote government-wide learning — really a culture of learning — to improve public performance reporting. We need to promote the education not only of our staff but also of MLAs as they are continually coming new to government, and make educational opportunities available to them in various ways. We also need to encourage continuous improvement in performance reporting. This is not a really easy skill. It's something that will evolve over time into better and better practice.

A third area for action is to establish both processes and information systems that will facilitate performance reporting. It's important to support departments to provide performance information that is relevant, that is reliable, and perhaps most important, that is really understandable. In this way we can encourage various departments to work together and make performance reports where they must have integrated systems to really report their results.

The fourth practice is to establish processes to ensure that performance reports are credible, credible to MLAs and credible to the public. If MLAs ask that public performance reports are independently verified, we believe this will help to increase their credibility over time. In addition, if MLAs use the performance reports to actually monitor the results of government activities, it will encourage departments to make sure that those reports are credible.

In conclusion, the 2000 Fall Report of the Provincial Auditor describes how government can build the capacity of departments to report their performance. We plan to continue our work with the Department of Finance, in particular, by auditing what it is doing to build the capacity of departments to report performance. We will make recommendations at that time — we hope in the new year.

Mr. Chairperson, with your permission, I would be happy to answer questions.

The Chair: — Thank you very much. The section C concludes on page 54 with the summary and on page 55 is an exhibit of the kinds of things that were suggested under best practices. Are there any comments from Finance officials or from other members on the information that's been presented to you? Good presentation, no questions.

Okay, seeing no questions or comments about section C, then as indicated by Mr. Wendel, we'll be looking at three other presentations dealing with the other chapters.

Ms. Draude: — Yes, I am slow here. Thanks, Mr. Chairman. I notice that you said that that performance report would be independent verification. And I guess that's . . . I think that's good, but what was . . . who would you consider the independent person or group that would verify the report?

And it's one thing to do the report, but it's got to be measured against some goals. Now are the goals that would be in place, are they in place by the department, or the team, or what are you suggesting?

Ms. Knox: — Thank you, Mr. Chairperson, Madam Draude. First you have asked who would be considered independent. And our first point about that is that the group that would be considered independent needs to be a group that is separate from those who have prepared the report. In other words to use an example, if the Health department prepares its report with the assistance of HSURC, the Health Services Utilization and Research Commission, then HSURC would not be considered an independent body that could verify the facts in the report. So it needs to be separate.

The second point I would like to make there is that our office has been working in this area for several years now and we are working hard to prepare ourselves to be skilful enough to help government in this area. As you know, our office works hard to maintain its independence from government. And we are positioning ourselves, shall I say, to support the credibility of performance reports in this way at the request of government.

The second part of you question is how will we be able to tell if reports are credible? What goals would we have in that area?

We have set out criteria for a credible performance reports in a number of our reports. And I don't have the exact references but I could give them to you later. The primary ones were mentioned in this presentation. We expect that performance reports will be relevant; that is that they will be timely and useful. A report isn't credible, it's not useful, if it's two years later, you know, when you really needed it sooner. So, the relevance of a report is something that we would expect.

The second one is the reliability. In other words, that someone else could come and produce a similar report and the facts would remain the same. So there's a credibility in the sense that it's replicable or it's reliable information.

And, the third piece that we expect of performance reports is that they are understandable. And we have a number of criteria that we use to measure that, but the primary one is just the face value of it makes sense.

The Chair: — Okay. Thank you very much. Any further comments or questions? Okay. Seeing none, we'll move to the next report.

Mr. Wendel: — Mike Heffernan here, who is an executive director in our office that is leading our work in performance measures and performance management, and he'll be giving you a presentation on chapter 1 from our Spring 2000 Report.

The Chair: — Okay. This is the gentleman, who has arrived, that we were waiting for. So we're backing up to the initial chapter 1 of the 2000 Spring Report, which was contained in your information a while back.

Mr. Heffernan: — My apologies for being late. I was informed that you were a half hour late, so I actually believed that and didn't turn up. I'll just need a second to set this machine up here.

The Chair: — Yes. As I've indicated to the group, it was on an instruction that we thought we would take until 2 o'clock. So you're not late.

Mr. Wartman: — How do we measure the credibility of that report . . . (inaudible) . . . him though?

The Chair: — It failed, it failed — simple.

Mr. Heffernan: — Okay. I'm going to be dealing with chapter 1 of our 2000 Spring Report called "Towards a Better Accountability System". I'm sure, as you've already heard, the government has undertaken a major project to improve its accountability to the Assembly and to the public. And, the purpose of this chapter is to help the Assembly encourage and guide this important project.

An important objective of the Assembly is, of course, to hold the executive government accountable for the power and resources that the Assembly has entrusted it with. And based on that objective, one of the key risks to the Assembly of not achieving this objective is that the Assembly will not have relevant and reliable information on the government's planned and actual performance.

To help address this risk the Assembly needs an accountability system, we think, that ensures the government provides the Assembly with reliable and timely performance information.

A sound public accountability system, in our minds, would ensure that there are agreed upon plans, and those plans would set out the responsibilities and authorities of the government performance expectations and resources needed.

Next there would be reliable reports on performance by the government and its agencies; and third, there would be reasonable performance reviews by the Assembly. Now this doesn't sound too much different than the system we have already, but when we get into the details we think that this system could be better than it is at the current time.

If you turn to page 8 of your chapter, you will see that we recommend that the government propose legislation to the Assembly to establish this accountability system. I'll now expand on each of these key elements.

Agreed upon plans must clearly set out the government's responsibilities. We think the Assembly and the government must agree on the responsibilities of the government and its agencies. To be accountable to the Assembly, the government must be answerable for the powers and resources entrusted to it. If the responsibilities of the government and its agencies are clearly set out, the Assembly would be in a better position to ensure that the government carries out its responsibilities.

The Assembly has not clearly set out the responsibilities of the government. We think the government's responsibilities should be clearly set out in law so there's no uncertainty as to what their responsibilities are. Responsibilities should include ensuring agencies safeguard and control public resources, use those resources for purposes intended to comply with governing authorities, and achieve expected outcomes. Next, the Assembly and the government must agree on the authorities of the government and its agencies.

Mr. Wartman: — Just for clarity, it says here, responsibilities not in law on our sheet, and you said that they should be. Is that correct?

Mr. Heffernan: — Yes.

Mr. Wartman: — They should be written in law. Okay, thank you very much.

Mr. Heffernan: — Next, Assembly and the government must agree on the authorities of the government and its agencies . . . the power to make decisions and act on them within defined limits. An agency cannot be held responsible or accountable for its performance if it doesn't have the authority to act and make decisions.

Over the years, legislators and governments have created detailed rules and laws and regulations to ensure public money is safeguarded and used for purposes intended.

Current laws give Treasury Board and several agencies power to limit government managers' decisions on how they plan to manage, who they hire, what they purchase, and how they manage annual surpluses and deficits. While reasonable limits on agencies are necessary, detailed controls and rules have the unintended effect of undermining managerial authority.

Government managers can't be held accountable for results if they don't have the authority to make decisions and to act on them. We think the Treasury Board and central agencies should consider shifting the balance between detailed central controls and greater managerial authority needed by individual agencies to achieve results. Treasury Board and central agencies should establish appropriate accountability relationships with agencies to hold them accountable for results. The accountability relationships could be modelled after the system that we recommend on page 8.

Next, the Assembly and the government need to agree on performance expectations and required resources. The Assembly needs to know the expected results and costs for the government as a whole for key sectors and for each agency. To obtain this information, the Assembly needs to receive strategic plans or business and financial plans. The Assembly could use these plans to . . . during the estimates process when approving the resources for the government and its agencies.

Strategic plans should include the products and services of the government as a whole, key sectors of government for each agency. Strategic plans should include how the government will measure progress towards the achievement of its goals and objectives, i.e., with its performance targets and measures. The request for resources should be based on the annual long-term strategies and action plans for the government. Business and financial plans should include the estimated revenues, operating expenses, capital expenses, and debt repayments and increases in borrowing.

A resourced request should be accompanied with information providing a long-term context to help the Assembly understand and assess the requests. For example, the Assembly should be provided with actual revenues and expenses for at least the previous two years and forecasts for the next three or more years.

Strategic plans should indicate whether the information in the plans is reliable. The Assembly needs independent assurance that the plans include all essential elements and that the assumptions of the plans are reasonable. For example, our office requests for resources are audited by an independent auditor.

The Assembly needs timely, relevant, and reliable reports from the government. Annual reports should cover financial performance, operational performance, and degree of compliance with governing authorities. It should describe long-term goals and objectives, strategies, and performance targets, and actual results. They should set out key risks to achieving objectives and how these are managed. They should describe who received public money and the amounts. And they should contain independent assurance on the reliability of the information.

The final phase in the accountability system is the reasonable review of performance. Only MLAs can perform this function because it is the Assembly that gives responsibility and authority to the government to raise revenue and spend public resources.

We think that all plans should be reviewed as part of the estimates process so that the Assembly has complete planning information when it approves the government's resources.

As for annual reports on performance, the Assembly reviews certain annual reports through two committees — the Public Accounts Committee and the Crown Corporations Committee. However these committees only review a few annual reports. Public Accounts Committee, as you know, deals mainly with Public Accounts documents and the Crown Corporations Committee limits its view to corporations that receive their money outside the General Revenue Fund.

As a result there are many annual reports that are not reviewed by the committees of the Assembly. And as these reports get better, in the future we think that the committees would find them valuable.

We think the Assembly should automatically refer all annual reports to committees for review.

Now that concludes my remarks. I'd be pleased to answer any questions on this chapter.

The Chair: — Thank you, Mr. Heffernan. Any questions, first of all, of Mr. Heffernan? Seeing none, is anyone from Finance going to make comments on this?

Mr. Boothe: **—** Mr. Chair, I'll just make a few comments.

The Chair: **—** Thank you.

Mr. Boothe: — First of all, as I said in my opening remarks this morning, you know when we look at the auditor's report, basically what the auditor is trying to do is show places where the government can improve. And one of the things that doesn't always come out is the large amount of agreement that we have.

We certainly have had a lot of support from the auditor on the accountability project, and I appreciate that. And we've done a lot of work together and we still have a lot of work to do, but it's going very well.

Just commenting on the current presentation, I guess I would just make a few comments. And the first is, when we talk about responsibilities, and we talk about what the responsibilities should be and whether they are in law, I guess I would . . . I can understand the auditor's approach on this and wanting to have a very explicit accountability law. But I would observe that actually a lot of the responsibilities that he attributes or he refers to here, are already dealt with in The Financial Administration Act. So I don't dispute what he says about, you know, it may be desirable at some point to have this . . . have a separate accountability law where these things are laid out. But I wouldn't want members of the Assembly to think that there's no direction here in law. The Financial Administration Act gives lots of direction about that.

Now, I guess the other thing that I would say about this is that one of the things that I was given, as my mandate as deputy minister of Finance when I came to Saskatchewan, was the implementation of the accountability project. And you know, you've already heard a presentation on building capacity, and we've done a lot of work on that in the Department of Finance, with some help from the Provincial Auditor's office.

But I guess I'd just like to say something about this as a management challenge, for me as a manager in the government. Basically what we're talking about is really changing the way that we do business, so that we're not so much focusing on what resources we use and how we use them, but much more on what results we get from using those resources, and being accountable not just for making sure that everything's properly accounted for, but actually accomplishing something.

That's I think, a positive step, and one that a number of governments in Canada have made a lot of progress on in the past number of years. But it's not something that you can do overnight, because you're changing the culture of management in the government. And the thing that I would say is, particularly with the issue of changing the balance of managerial control from the central agencies to the individual departments, and ultimately to individual managers in the government; basically what you have to do is get the timing right. And that is you have to make sure that you give . . . you shift accountability and responsibility over as capacity is built within the government departments, right down to the managerial level.

I see this, as I would say a three- or four-year project. And we are now in about year two of that. We have made a lot of progress, but I think that it's important for us to pace ourselves in terms of what we expect from managers in the government as we make this transformation, because if we push too hard it won't work.

You have to make sure that you demand from managers, in terms of accountability, only what you've given them the capacity to achieve. And a lot of that capacity, as Jane said previously, comes from giving them the education, the training that they need. And that started right in the Department of Finance.

For example, we took the whole Treasury Board branch last summer and we sent them to strategic planning school. When I say sent them, I mean they didn't go anywhere, but Naomi and her colleagues put together a course where they could start doing this.

This is the first year that we've had all of the government departments and executive government present strategic plans as part of their lead up to the budget. Some were great; some were not. But all of them are making progress.

And I think the thing here is that really from a . . . I'm very sympathetic to many of the points that the auditor makes here. For us it's a matter of managing change. And as I said, I see this as a four-year project, and we're about halfway through. And you know, maybe later in the discussion if there are questions, we'd be happy to say more about where we are in this.

But I think that what the auditor has described here is the goal in many cases. And we're heading towards that goal, but we have to do it at a managed pace. Thank you.

The Chair: — Thank you. Any discussion?

Mr. Wartman: — Thank you. Mr. Boothe, I'm wondering, you referred to a shift of control from central agencies to other managers. What are the central agencies from which the power is shifted?

Mr. Boothe: — I mean, primarily, there's actually a list in one of these handouts.

But what people typically think of as central agencies are Executive Council, Finance, and in personnel matters, the Public Service Commission. In purchasing, there would be Saskatchewan Property Management Corporation.

So those are what people think of as the central agencies.

Mr. Wartman: — The shift would be to line managers in departments and . . .

Mr. Boothe: — Basically less focus on, you know, accounting for the inputs, right — although you still want to account for the inputs — but in addition to that, more focus on accounting for the outputs or outcomes.

So having central agencies say less about should you do this or do that, and more about this is what you said you were going to accomplish, do we think that's a good idea and, if it is, have you accomplished it?

Mr. Kasperski: — Thank you, Mr. Chairman. Being here on a temporary basis as a stand-in today, but having been on a Crown Corporations Committee for the last five years, maybe you just want to talk a little bit and bring some of that perspective to this.

I know, in the Crown Corporations Committee, some of the discussions we've had quite a bit over the last few years is that detailed financial plans and management and business plans out of the Crowns sometimes, you know, can put commercial Crowns especially — and I'm talking specifically about them — commercial Crowns at a bit of a disadvantage, given that they're hybrid organizations.

They're part of government — yes, they are. In Saskatchewan, they're Crown corporations. But they're also expected to act like private Crown corporations and there's . . . or sorry, private entities. And private entities do not . . . that work in a competitive environment, do not normally publish out their long-term projects and that.

And I just wonder, either from Mr. Wendel or from Mr. Boothe, would you like to make a comment on that here?

Because I understand where the recommendation is coming from here. But in the Crown sector, in the public sector that we have there . . . or, sorry, in the commercial Crown sector, this, I think, could be an area of some concern.

Mr. Boothe: — Fred, maybe I'll go first.

I guess what I would say is, first of all, Crown corporations in Saskatchewan are further along than executive government in adopting this strategic planning approach to management. And they have an accountability or a performance management system that they call the balance scorecard, which is, you know, I think fairly well developed and it's a widely recognized private sector approach to measuring performance.

There is some question about . . . I think that we have to be careful that our Crowns are not placed at a competitive disadvantage by — at least vis-à-vis their private sector competitors — by some of the reporting requirements. But certainly reporting on the results is something that they can do and are doing; that I think doesn't put them in a competitive disadvantage.

So we have to be careful of that when we're revealing plans for the future and that's always something to keep in mind. But in terms of performance management and measurement for results, Crowns are actually at least a few years ahead of executive government there.

The Chair: — Mr. Wendel or Mr. Heffernan, any comment?

Mr. Wendel: — Mr. Chair, I'd repeat what Paul was saying about the Crown corporations being ahead. And they have this balance scorecard report that they are making and they're beginning to put those out publicly. And they'll have not only financial measures but other outcome measures on public policy. And they've announced a schedule as to how quickly they're going to move in making this information public, and we do talk about that in another chapter.

Mr. Boothe: — I might just add that I'm informed by Naomi, Mr. Chair, that actually CIC has released a timetable for public reporting, publicly now. And so that is available for their implementation of the public reporting of their results.

Mr. Wakefield: — This discussion to me seems like it should have . . . it's a natural thing that should have been going on all along. Is there a reluctance from any of the departments for performance management techniques and reporting toward objectives?

Mr. Heffernan: — I think just the natural reluctance of organizations that haven't done this in the past. This is quite a change going from being really focused on services and volumes and dollars, and trying to decide what are we really trying to achieve with those dollars and activities and services. And I think that's all it is. Otherwise the departments have prepared plans now that . . . Many of them are starting to set out performance measures and indicators, and I understand they'll be making this public some time in the future.

So surely we don't see any stonewalling or anything like that. Does that answer your question?

The Chair: — Any other comments or questions? Maybe we can move directly to the recommendation then and see if there are any specific comments from members or from officials.

Recommendation is on page no. 8. There is only one recommendation in this chapter. It does have three sort of subclauses to it. Recommendation 1 indicates —since we haven't dealt with it before — says:

> We recommend the Government propose to the Assembly legislation establishing a sound public accountability system that requires:

and maybe we'll deal with the first bullet:

> agreed-upon plans for the Government as a whole, for key sectors and for individual agencies that are clear as to responsibilities, authorities, performance expectations, and resources needed;

Do we want to deal with that one first since it's sort of separate?

Mr. Boothe, when you talked about the second year of about a four-year plan and the like, do you support the idea, the concept that is being proposed here? And is it required or is this something that when we see, you know, the legislation needing to do this, does this put a hindrance on how you evolve or not?

Mr. Boothe: — Mr. Chair, I would say that given where we are in the process, this might be a little early. I'm not opposed to it in general. But I think basically one of the things that I learned when I began working in performance measurement a number of years ago, was one of the best ways of moving these kinds of things forward is to underpromise and overdeliver. And I think that that's true. I think that that's very true.

I think that this is a recommendation that I think we would be in a much better position to tell you whether this could . . . this is the direction that we should go probably in year 3 of this process.

So I guess I would say that I'm not in principle opposed to it, but at the same time I'm, in keeping with under-promise and over-deliver, I would say we may still be a little bit soon on it.

The Chair: — Do you want to deal with each of the bullets separately, or do you want to have one resolution to cover all three? Maybe we can continue discussion on each bullet, and then we'll determine that after.

Second bullet, it says, reliable and timely reports on performance for the government as a whole, for key sectors, and for individual agencies. Any questions there, or any comments?

Ms. Draude: — Mr. Chair, I think that in the private sector the worry is always about the end product. I mean the process is important, but at the end of the day it's the end product is what's important. And though I think this is great, I am concerned. Are we going to build up another type of bureaucracy within a bureaucracy that's going to take time; and time of course means money when it comes to evaluation.

I would think that a lot of departments are, like you said, I imagine you've been doing it in your own way. Is there going to be something that will come out of this that you can see, that's going to be of value to the public, that's not going to cost them a whole lot of money in the long run?

I mean, how are you building that into your performance so that you can see that people are going to get value for their dollar?

Mr. Boothe: — I guess what I would say about that, Mr. Chair, is first of all in terms of the extra resources that are required, I mean we have a small group in the Department of Finance headed by Naomi Mellor, small — by that I mean four people — and they are leading this project across government.

The Provincial Auditor's office is devoting some resources to this, but I think . . . and many departments are devoting resources to it as well. But are these new resources, extra resources? I would say in large part, no.

I view this as just basic good management. And so the people that are, you know, managing the way they're managing, however they're managing now, this is a framework for them to use to manage better in the future. So I don't see this as something that requires a whole bunch of extra resources.

Sometimes there might be some extra resources required for measurement. And sometimes, you know, we may have to put some more resources into giving the public better information.

But by and large I don't see this as a very resource-intensive enterprise. I see it rather as changing the way that we run our business. And so using the same resources better or smarter.

Now what will the public ultimately gain from this? And maybe I can just look down the road a couple of years here, as Fred and his colleagues were in their presentation. What I see going down the road is a situation where ultimately you have governments lay out their overall direction clearly, and departments lay out how they're going to contribute to that overall direction. And that's laid out publicly and people can discuss and debate it.

And then in addition to that, governments will say how they're going to get there, right, how they're going to get from here to there, and people can see that and evaluate whether they think that's a sensible way of getting from here to there.

And then finally what they'll do is lay out very clearly the progress as we move along the road. And so I hope that what the public will be able to say is: here was your plan, this is what you told us you were going to do, this is the progress that you've made, this has worked and this has worked, this has not. And have a better sense of not just we said we were going to spend this much and we did, or we spent more or we spent less. But we said when we were going to use your tax dollars, your resources, these public resources, that we were going to accomplish this and it's measured this way and here's what we've come up with.

So the thing is this is not pie in the sky because lots of private sector firms do it and lots of other governments in Canada do it. And so I think it's quite realistic and well within our capacity to accomplish this over the next couple of years.

Now that being said, I mean Alberta's been doing this for almost 10 years now. They're still improving it. And it's always going to be an ongoing process. But to have something, to have something that would be usable by the public, I'd say it's my view that we're within a couple of years of that now.

Mr. Wakefield: — Thank you, Mr. Chairman. Dr. Boothe, I kind of appreciated your vision and where you thought . . . think this is going. I guess that was maybe where my earlier question was leading to a little bit. And I'd maybe direct this back to you, Mr. Wendel. Do you think that this process won't move in the direction, as I've heard this vision, without legislation?

Mr. Wendel: — One of the reasons we made the recommendation was to ensure that the legislators were involved with this vision and they supported it. And one of the ways they show their support is by passing laws. And if there are laws in place, it makes sure that this happens.

I say the intentions are good — like we're working well together trying to move this along. But we made this recommendation for that reason.

Mr. Wartman: — We've been working at this since I've been involved with government, which is a relatively short time. I think that I see some very positive things in the developing of plans for measuring the results.

I do think at this point it's premature to put it into legislation, and part of why I believe that is because I think there is still evaluation that needs to be done on it.

Some of that . . . I think some of the concern we've noted slightly, and part of that is that it's a shift of responsibilities. How is that going to work; will it work best for the people of the province? Well we're not sure of that yet.

We know that doing performance reviews and measuring results can be very, very helpful. But how open do we want to have the reporting? I mean we know that it's been a contentious issue around the reporting of the Crown corporations. Do we want their strategic plans laid out in public? I think that before we're having the annual reports referred to committees, we need to know: is this going to work well?

So I think I like the fact that we're moving into it, that we're testing it, that we're experiencing what the results of this could be. But I think it would be premature to put it into legislation.

The Chair: — Any further comments?

Mr. Yates: — Well I concur with Mr. Wartman's comments. We're moving in the right direction. We're continuing down a path that increases our ability as legislators to understand and hold accountable for the design and planning, government departments.

But we're very, very early in that developmental stage. And I think that we need, before I would be satisfied in putting something into legislation, some experience with this process, some ability to see how it works. Because once we put it in the legislation, it becomes much more difficult to change, to find and practice with different tools, or perhaps, or instruments to make things more accountable. And I think we need to try the process first before we take that step of locking something in that becomes much more difficult to change.

And what works for one department may not work for all as we move through this process because of different . . . they may be very, very similar, but there might be individual tools required in different departments and the different agencies in order to carry out the wishes of the legislators in the best possible way.

So I think we need to take some time to continue to develop this before we look at putting it into legislation.

The Chair: — Thank you. Any further questions or comments on the recommendation?

Mr. Wartman: — I move nonconcurrence.

The Chair: — Okay. We'll deal with the recommendation as the first part, which is nonconcurrence with these . . . the initial statement. Mr. Wakefield, question?

Mr. Wakefield: — Yes. What are you recommending, just the one bullet.

Mr. Wartman: — No, on the complete . . .

Mr. Wakefield: — Yes, recommendations.

Mr. Wartman: — Yes.

Mr. Wakefield: — Is that what you meant?

The Chair: — Yes, that they're all included in this statement because the statement says proposed . . . that the Assembly propose legislation.

Mr. Wartman: — Yes.

The Chair: — Any further discussion? All in favour? Opposed? Carried.

Okay, that concludes chapter 1 from the 2000 Spring Report. And I would think we have a couple or three sections now from the Fall Report, the volume 3, and I'd ask . . . I'd thank Mr. Heffernan, and you're going to continue with a report of which section?

Mr. Heffernan: — Part A.

The Chair: — Part A. Okay, so we'll be dealing with part A, which, if you would allow us to . . .

Mr. Heffernan: — Starts on page 5.

The Chair: — . . . identify page no. 5 of your volume 3. If we're all set, Mr. Heffernan.

Mr. Heffernan: — Okay. I think the discussion we just had covered a lot of the points in this chapter and I feel a little bit like I'm preaching to the converted, but I might go through this just a little bit faster than I would have otherwise.

This chapter deals with challenges to moving to accountability for results, and we feel that there are a number of significant challenges that the Assembly should recognize and the government as well.

We identify four challenges that moving to accountability for results would entail. We think the challenges relate to the environments the governments operate in, managing for results, current legislation, and organizational capability.

For government environments — to be successful, governments must meet the needs of their citizens. Because of their unique nature, government agencies face at least two challenges in focusing the results outwards on the needs of citizens.

First, unlike businesses, most government agencies face little competition for their services. And second, those they serve often do not pay directly for the services they receive.

Another challenge for governments is that government actions are constrained by many rules and controls, as we talked about earlier. These rules are designed for a good reason. They're to safeguard public resources, and so governments use resources only for intended purposes.

In addition, citizens demand access to public services that are delivered with equity and with tactful behaviour and strict honesty. These constraints can also have the effect of hampering government's ability to achieve intended results.

In addition, citizens and special interest groups continually make demands of governments for public programs and spending, and because of a limit of resources, governments need to be able to assess the merits of these demands. We think that managing for results will help governments to be able to be in a better position to make such difficult choices.

The next challenge for governments is moving to managing for results. To manage for results, government agencies and staff will need clear direction such as objectives and targets. They'll also need corporate environments and cultures that encourage and reward actions that contribute to intended results.

In recent decades the concept of control has evolved . . . of internal controls has evolved to control, and this is happening in private sector and in government. Control as it is now understood includes the traditional areas covered by internal controls, such as reducing risk of errors and fraud, but includes much more.

Control includes whatever permits an organization to take advantage of opportunities, to manage risks, to perform effectively, and to make better decisions. Control consists of all elements of an organization that support people and the achievement of their objectives. Control focuses organizations on their purpose and ensures they have the commitment and capacity to achieve their objectives. Control enables organizations to provide employees with the necessary authority to make decisions and to take action and to hold them accountable for results.

Shifting from internal controls to control may be made in moving from managing activities to managing for results.

We have, on page 14, the same recommendation that the committee just dealt with. I think we do recognize this as a long-term recommendation.

We tend to have both short- and long-term recommendations. Some recommendations, we think, should be able to be implemented in the next year. Some recommendations, such as this, I think the government should carefully think this through and the Assembly as well and proceed carefully and do a good job on this. But we certainly will continue to recommend that the government adopt accountability legislation.

We again repeat the issue of supervising agencies and the need for them to carry out their oversight roles but, at the same time, give individual agencies more authority to perform their own . . . to achieve their own objectives. And we think that the central agencies can do this. They can move to holding individual agencies accountable for the central agencies' broad objectives.

On page 16, we recommend that the government consider including in its public accountability project, supervising agency legislation to give departments and agencies the needed authority to achieve and be accountable for results.

The final challenge that we wanted to talk about in this chapter is organizational capability. Moving towards accountability for results will require governments to build their capability to achieve better results. Governments will need strong leadership and commitment, a suitable corporate culture, adequate rewards and incentives, adequate human resources, good information systems, credible public reporting, and adequate performance reviews by legislators.

In the interests of time, I'm not going to go through all those different areas of organizational capability, but I will just briefly discuss the final one again and that's the adequate reviews by legislators.

And as we've said before, the final phase of an accountability system is a reasonable review of performance and only MLAs can perform this function in government. And as we discussed earlier, the Assembly receives or reviews certain annual reports to committees but leaves a lot of annual reports not reviewed. We think that the Assembly should refer all annual reports that it receives to committees of the House for review. And so on page 23 we recommend that until current legislation is changed, the Assembly consider amending its rules to refer all annual reports to standing committees for review.

That concludes my remarks. I'd be pleased to answer any questions.

The Chair: — Any direct questions right now? Okay. Any comments from yourself, Mr. Boothe, or others in your . . .

Mr. Boothe: — Mr. Chair, I guess my comments would be along the same lines as in the previous chapter. I think that clearly one of the things that we have to really show some progress in the next year is improving the annual reports. And basically a number of the reports that we have report as much on activity as on outcomes. And one of the things about strategic planning is it gives you a framework for saying what deserves to be reported or what needs to be reported.

I think that this issue of annual reports is an important one but I think that the first step is getting the improvement in the annual reports. And then I think that, you know, if the Assembly did decide that it wanted to go in this direction, one of the things I believe would be required is a rethinking of the committee structure of the Assembly.

So again I think that this is not something that I am necessarily against over the longer term, but I think the first step will be getting some tangible improvement in those annual reports. They are all tabled in the legislature. Once we've accomplished that then my recommendation would be to revisit this and decide if you want to go this way, what are the corresponding changes that you would want to consider in the committee structure for example.

The Chair: — How many reports and . . . (inaudible) . . . reports are tabled in the legislature that don't go to this committee or to Crown Corporation Committee? Have you had a chance to analyze that?

Mr. Boothe: — I don't know the answer.

Mr. Heffernan: — I am tempted to say over a hundred but we haven't added them up. But it's a lot.

The Chair: — Mr. Heffernan, if every report was to be analyzed by a committee what kind of workload would you see being set up?

Mr. Heffernan: — Well we see the committees of the House dealing with this at the time that they deal with that particular department or agency, so they would have before them the annual report that they could consider when they're reviewing the performance of individual agencies. So I think they would do it at that time. It would be just another source of information that they would have at their disposal.

The Chair: — When you say dealing with the agency are you talking about, like, at the time that discussion is occurring on estimates?

Mr. Heffernan: — Yes, well I'm actually thinking about committees like the Public Accounts Committee, the Crown Corporations Committee that when you call departments, that would be at that point that you would deal with their annual report.

The Chair: — Oh, okay . . . need some thinking for the future, is that what you're saying Mr. Boothe?

Mr. Boothe: — Well, I think certainly we would want to have a good informative reports, but I mean there is a workload issue here and I think that you would want to think about how the Assembly would deal with these.

I mean some might be fairly routine, some might . . . you know, just as an example, it might be that you would have . . . you would focus on a certain number of these every year even though you asked that they be tabled every year. I think there's those kinds of things that really have to be explored when you're deciding how you deal with this.

But, you know, the thing about this is every time you change something; something else has to change as well. And that certainly is . . . this is going to change, as this process goes forward, this is going to change the way that the Assembly does its work.

And I think that's good, but it's also something that's going to require some planning and some, ultimately, by members of the Assembly some debate and decisions.

Mr. Kasperski: — Thank you. Our colleagues and I don't know of any . . . I'm not on the committee but the Rules Committee and I have had a chance to . . . I know I've had recent conversation with some of our representatives on the Rules Committee. And I think our colleagues on that committee are examining some far-ranging possibilities, let me say, you know, in how we . . . this might structure. So I think some of this is being undertaken as we speak by some of our colleagues on the Rules Committee.

And I just . . . Because I know I've seen a very early draft report of some of the stuff I know our people have been working on. I don't think it's at that same . . . But I think we are . . . the Rules Committee is trying to go down that road too, I think.

The Chair: — Okay, seeing no further general comments, then let's maybe deal with the specifics. We have three recommendations in chapter 1A. The first recommendation is on page 14, no. 1. And then there are two others, one being on page 16 and the other one being on page 23.

Now 14 has been dealt with as a recommendation so I would think that we have had nonconcurrence with the previous resolution, and I think that will be noted that there will be nonconcurrence with this one as per the other resolution. Or do you wish to have a complete resolution that would indicate this as well? Is it required? I guess that would be my question.

For ensuring that we're doing it properly, can we have a resolution that would move nonconcurrence of recommendation no. 1.

Ms. Higgins: — So move.

The Chair: — Thank you. Moved. Any discussion? All those in favour, nonconcurrence? Opposed? Carried.

Recommendation no. 2 on page 16. Any questions about this one, or comments?

Mr. Boothe, if I might ask you a question. Recommendation no. 2, is that something that you've indicated that you're developing as well — this accountability review of supervising agency legislation? I don't recall you making a comment on that.

Mr. Boothe: — We haven't at this stage undertaken a review of the legislation regarding central agencies. And of course we'll have to build a little wall around the group that does this because the Department of Finance reviewing its own legislation and giving up some of its control might create a set of incentives that we would have to consider.

But I guess what I would recommend with this one is I would recommend that the committee take note of this, and I will as deputy minister of Finance undertake that we will start to do some work together with the auditor's office to have a look at this and to include this as part of the project.

So I think that really the recommendation as I understand it, that the government consider including in its project a review, is really advice from the Provincial Auditor to the Department of Finance who's leading this project; and I'd certainly be willing to have a look at that along with the Provincial Auditor, if the committee is interested in that.

The Chair: — Okay in light of the comments from . . . the actual words of the recommendation and Mr. Boothe's comments, is this a direction that the committee wishes government . . . the Department of Finance to continue to pursue?

Mr. Wartman: — I think it is. I mean I'm not sure whether we will go down that road fully or not, but I think it is important to do the investigation there and see if this is where we need to go and want to go as a legislature.

So I'd be inclined to say on this one that we receive this for information and that the Department of Finance will note that and they'll work on it.

The Chair: — But we need a resolution then — one of the four options that are available to us. We need to either concur in it or create a new resolution that says something like your first one.

Mr. Wartman: — How did we do that this morning?

The Chair: — Like your first one.

Mr. Wartman: — Yes. Because it was to . . . Basically it's to receive for information. But what was the process we used, if you don't mind?

The Chair: — Well it says . . . In the fourth case it says, in the case where the committee would rather make an independent recommendation, it should do so by the adoption of a motion so that all members are clearly aware of what will be reported to the Assembly.

Because the other cases are that, you know, you agree with the recommendation and the department is complying, which seems to be sort of what Mr. Boothe has suggested, even though they're not . . . that process hasn't begun yet, if I understood your comment. The other one would be to agree with the recommendation but indicate that departmental officials are not willing to comply. And the third one is to disagree with the auditor's recommendation totally, which I don't think is also what we're doing.

So I'm not sure what the fourth creation would be as far as an independent recommendation.

Mr. Wartman: — What I'm saying is the independent recommendation is that we receive this recommendation, refer it. We're not passing it; we're just saying that it's there for consideration.

And I don't know if that's any different than . . . I mean I read it over, I look at what the auditor is saying, think, okay, we recommend that the government consider including in its public accountability project a review of supervising. So all we're asking is for them to consider it. Okay.

The Chair: — Consider a review.

Mr. Wartman: — And basically I would say that we're in agreement with the review, or at least with them considering the review. We just don't want to give it too much of a . . .

The Chair: — Okay. There might be a solution in terms of this fourth thing is to note that we have received this information or that we not accept that we have received it and we note progress.

Mr. Wartman: — There we go.

The Chair: — And that's how it will be reported in the report that will be presented to Assembly.

Mr. Kasperski: — That sounds good to me.

Mr. Wartman: — Fine piece of work there, Chair, and I also move . . .

The Chair: — So the resolution is basically stating that we've received recommendation no. 2 and that we note progress between the department and the auditor's report in developing future plans, I guess.

Any discussion on that? All in favour? Opposed? Carried.

Recommendation no. 3 is on page 23, and it's dealing with the rules of annual reports, and a recommendation is that all annual reports be reviewed. Discussion.

Ms. Higgins: — Being that the Rules and Procedures Committee has put forward a draft report at the beginning of our last session, and there's two members of that committee, as Mr. Kasperski has stated, that are currently doing investigation on the various committee systems throughout the Commonwealth, or in various Commonwealth countries, there could be major changes proposed.

So I would move nonconcurrence until one set of work is done.

The Chair: — Moved by the Ms. Higgins that we do not concur with this at this time. Any discussion of that?

Mr. Kasperski: — Only, Mr. Chair, I concur with the recommendation. I think that in a couple of the cases we've got there's a lot of stuff . . . I mean, I'm speaking from Crown Corporations, we can barely get through as a committee with some of the resources with the major Crowns, let alone . . . and if you throw in any more reports or at this, I think, until some of these other things get worked out, would be somewhat premature.

So, I guess I'm just expressing my support of the recommendation of my colleague, the nonconcurrence recommendation of my colleague.

The Chair: — Thank you. Any further comment? Motion? All those in agreement? Opposed? Carried.

We'll now be turning to page 29, which is chapter 1B. And, Mr. Heffernan, you are also going to expand on this one, correct?

Mr. Heffernan: — Thank you, Mr. Chair. I've got a brief presentation to make. I don't seem to have the presentation on our little machine here, so I'll just ask you to follow along on your overheads, if you like.

This chapter deals with the first element of the sound public accountability system, that is agreed upon plans. Sound public plans help the Assembly to debate and approve what the government plans to achieve in the near and distant future.

Public plans should include useful information on the following: the legal mandate including responsibilities and authorities; the overall direction and key risks; strategies to achieve the overall direction; resources to carry out strategies and performance measures and targets. And I'll just go through each one of those items individually, for a moment.

The first part, legal mandate including responsibilities and authorities. We've talked about this in previous chapters today. And we think it's important that plans show this information, because the Assembly needs to understand and debate agencies' purposes, what they're answerable for, and the powers to make and act on decisions. And plans should also contain other information, such as the agencies' vision and its guiding principles or shared values.

We think plans should also contain the minister's acknowledgement of accountability to the Assembly. And I understand that is happening in some jurisdictions and, in fact, in this jurisdiction it has started to happen already as well.

The next part or key element of a plan is overall direction and key risks. And a sound public plan should describe where an agency plans to go in the long term. And these are usually called goals. And goals are really very broad long-term ends or results that the government wants to achieve and they're generally something that a government can work towards, but probably never achieve. The achievable part are what are called objectives, and objectives are more focused. They tend to be measurable, time defined, and help to achieve each goal. Objectives will normally reflect an agency's top priorities, and most agencies have so many objectives they really can't achieve them all over the next . . . in a short period so they have to set priorities.

Government objectives tend to be complex and difficult to achieve. And so when assessing plans, the Assembly and the government and the public need reasonable assurance that agencies really have the capacity to achieve their objectives or at least have some chance of it.

Plans provide this assurance in two ways. First, they talk about the key risk to agencies is managing to achieve its objectives;

and secondly, they provide a brief assessment of the control established by the agency to achieve its objectives. Plans should also describe the agency's key assumptions.

Next we have strategies to achieve overall direction. Strategies are general approaches that an agency will take to achieve its objectives, and strategies are usually supported by detailed activities which include time lines, resources, who's going to do the work, and so on.

At times to carry out a strategy, an agency has to work with other departments and agencies, and that's because they've got . . . they're working on objectives that are quite broad, such as economic development, which require the co-operation of several agencies and perhaps even the private sector. In these situations the agency's plan would outline those strategies for working with other, and co-operating with other, organizations.

Next, and very importantly, a plan to set out the required resources to carry out the strategies. The plan should describe the expected annual and long-term cost of the agency's strategies and the sources of its required revenue. Plans should set out other key resources in addition to the dollars, and they should talk about the human resource requirements, capital equipment, technology, and so on. Plans should provide a long-term context for their request for resources. So they should show information on actual expenses and revenues for the past couple of years at least, and forecasts of revenues and expenditures for at least the three future years.

Finally, a plan should set out targets that an agency plans to achieve or wants to achieve, and the key performance measures it will use to measure its progress towards objectives and specific targets. Performance measures monitor progress towards achieving objectives and desired outcomes.

On page 37, we recommend that the government give the Assembly plans for the government as a whole, for key sectors and for individual agencies, that contain useful information on the key elements as I've described earlier.

Finally we talk about the need for some level of audit assurance on agency's plans. The Assembly and the public need to know, for example, that the plans contain all essential elements of plans. And they probably also need assurance that the assumptions in the financial forecast are reasonable. This is something that our office is going to study over the next couple of years and decide if we can contribute to the assurance on government's plans.

That concludes my remarks.

The Chair: — Thank you. Any comments from Finance? No.

On page 37 is the single recommendation out this chapter. And it states: we recommend that each year the government give to the Legislative Assembly public plans for the government as a whole, for key sectors of government, and for individual agencies containing useful information on legal mandate, overall directions, strategies, resources, and key targets. Discussion?

A Member: — I would move concurrence.

The Chair: — Moved, concurrence.

Mr. Wartman: — I would be against concurrence with this. A number of times now we have made clear that it's at least risky to lay out strategic plans of Crown corporations and risky in a business environment to do that.

And I think that we've discussed a number of times whether we want to move in this direction. To this point the committee has said no, that's not where we want to move.

Now I think we're making progress in the planning processes around government accountability. Performance information around the Crown corporations is found in the Crown's annual reports.

And I think that the standards for government-wide financial planning are not yet fully developed. When those standards exist, then I think we could give some further consideration to this. But at this point, I just think it's pushing it too far. We're not there yet. I don't think we're prepared to go as far as is being recommended here.

So I would speak against concurrence on this.

Mr. Wakefield: — Yes, maybe just addressing that then. Would the Provincial Auditor let us know if he was actually meaning Crown corporations in this recommendation? I don't read it there.

Mr. Heffernan: — Yes. I think we're defining agencies as all government agencies including Crown corporations, yes.

The Chair: — Any further comments on the resolution?

Ms. Higgins: — When you read the first part of that recommendation, give to the Legislative Assembly, I mean isn't that already done in Throne Speech and budget speech currently? It has been for a number of years.

And when you get into the other bullets underneath, I may be naive in this but one of the first things that anyone ever told me when I received a little name plate on my office upstairs was that one thing you can be sure of is the ground is always moving.

I guess I have problems when you look at legal mandate, and legislating responsibility and authorities, overall direction, key risks, being that defined when we are dealing with people and circumstances that change. I have a problem defining anything that specific, and I realize that the government is moving towards that with the accountability programs, but I have a problem with it being this specific.

The Chair: — I mean, do you . . . just a comment, not a question as such. Okay. Thank you. Any further comments? Okay. The resolution is before you then that the recommendation be concurred in. All those in favour? All those opposed? The motion is lost.

Is there any further motion? That doesn't automatically mean . . . (inaudible interjection) . . . pardon me.

Mr. Yates: — We'll move on to the next one.

The Chair: — Are you giving no decision then on this one . . . (inaudible interjection) . . . Okay. Then we need that resolution.

Mr. Wartman: — Do you need that?

The Chair: — Well because there may be a fourth alternative that someone may propose, correct.

Mr. Wartman: — Okay. Then I'll move nonconcurrence. Thank you.

The Chair: — Moved by Mr. Wartman that we do not concur in recommendation no. 1. Further comments or questions? Seeing none. All those in favour? Opposed? Carried.

We'll move to the last section of this chapter which is 1D and that will be found on page 59. And I'd ask Mr. Wendel to indicate who will be making this presentation.

Mr. Wendel: — Yes. Andrew Martens will be making this presentation.

The Chair: — Mr. Martens, the floor is yours.

Mr. Martens: — Thank you. Mr. Chair, members, Chapter 1D of our Fall Report deals with another aspect of improving public accountability. We have indicated that one of the key elements of a sound public accountability system is the presentation of reliable reports about the government's performance.

To report on its financial performance the government prepares financial statements for the government as a whole at one end of the spectrum, and individual funds and agencies at the other. In this chapter we indicate that reports about the financial performance of government sectors would be an important part of the government's accountability for that sector.

This chapter on government sector financial statements provides a practical example of how the government can provide enhanced accountability information about its activities and the financial results of those activities. The preparation of financial statements for key government sectors, such as agriculture or health, will allow the government to clearly show what resources it has available to deliver programs in those areas. They will also help to explain the government's achievements in a broader context.

These financial statements provide a complete and overall summary of what ministers and their departments are responsible for managing.

A number of governments, including those of Alberta, Western Australia, and the federal government in the USA (United States of America) currently prepare complete, comprehensive financial statements for their government departments or sectors. They're used by legislators and the public to hold ministers accountable for their performance results as compared to their budgets and business plans.

Sector financial statements can be prepared using the same accounting principles that the Saskatchewan government now uses to prepare its summary financial statements. In the financial statements that we've prepared for the agriculture sector, we use these principles to identify all the organizations that fall under the responsibility of the minister and Department of Agriculture. Then we use those principles to prepare a set of financial statements that combine the financial results of the Department of Agriculture and Food and the results of another six special purpose funds and 19 Crown agencies that report to the Minister of Agriculture.

There is a large body of public accounting, public sector accounting principles in Canada, but they do not and maybe cannot address all the situations that the government will encounter when it prepares government sector or department financial statements. Therefore, some judgment about the most appropriate recording policies will be required, for example, choices must be made about how a sector, such as agriculture, should account for costs paid for by other government organizations.

The Department of Finance is one organization that pays several costs on behalf of others. For example, Finance makes the required pension, CPP, (Canadian Pension Plan) and UI (unemployment insurance) contributions on behalf of all departments.

Performance reports are most useful when all costs are recognized in the appropriate financial statements. And for reference, though, even though there's no guidance in Canadian public sector accounting principles, in the US (United States) they have got very detailed GAAP (generally accepted accounting principles) and one of them is on cost allocation.

The government has announced a plan to enhance accountability through the development of departmental goals, objectives, and performance targets. We believe that sector or department financial statements that include all organizations for which a minister is responsible can be a significant step towards the enhanced government accountability that is contemplated. Therefore, our recommendation is that the government study the merits of preparing sector financial statements.

That concludes my presentation, Mr. Chair.

Ms. Higgins: — A sector financial statement — what is the difference between that and the financial accountability to the public that is already there through Public Accounts, *Estimates*, and the media report? What's the difference or what does it add to what's already there?

Mr. Martens: — In the Public Accounts, the departments report on a individual basis and a lot of the programs developed — say for one aspect such as agriculture — are delivered through a number of organizations. I think I mentioned about 25 or 26 organizations. And this allows the department when it's preparing a strategic plan to indicate how it's going to deliver those services, be it through the department or a Crown corporation such as Crop Insurance or through a fund of one sort or other. So it can bring it all together.

The Chair: — Any comments from Finance officials on this recommendation and the chapter itself?

Mr. Boothe: — Mr. Chair, this raises an issue that I've actually commented on in earlier meetings, and that has to do with the whole issue of what economists call aggregation. The question is should we aggregate or add together the accounting for the activities, for all the activities, for example, that are the responsibility of a given minister?

Now the thing is that aggregation is a good idea when you're adding like to like, but when you're adding two things that are not alike, then aggregating them, adding them together, actually subtracts from the amount of information that you have. Right.

I think the example . . . And what this really comes down to is a question of judgment, I think — what provides members of the Assembly and the public with the best information? So one example that was used was pensions and benefits.

Now as deputy minister of Finance, I prepare the forecast — with the help of my colleagues — the forecast of what our pension and benefits are. And if members of the Assembly want to comment specifically on the pensions and benefits, then they do so when they're discussing the estimates of the Department of Finance.

Under this model what you would do is you'd talk about pension and benefit costs when you looked at each of the individual departments, because those pension and benefits costs would be allocated to the departments. I'm not sure which would give the greatest degree of accountability. I'm not sure that individual departments might not just take their pension and benefit costs as given, uncontrollable by them and, you know, put them in their estimates and say well, what can we do, those are the pension and benefit costs.

Whereas when I'm responsible for all the pension and benefit costs, when these things are discussed within government, I say wait a second, let's have a look at this because I'm responsible for all of these and this kind of change or this kind of change will have a big effect on our overall pension and benefits costs.

So this issue of cost allocation is, you know, is a question of judgment, and I would say that there are two sides to it. One is the side that I think that the Provincial Auditor always comes from, which is understandable and defensible, and that is in terms of reporting.

But I come from this, not just from reporting, although I'm entrusted in reporting too, from the management side. And from a management point of view, I am of the view that pension embedments are better managed centrally, and therefore not allocated across government. But again, I recognize that it's a judgment call.

The other example that I would use, again going back to . . . going back to the Department of Finance, is SPP (Saskatchewan Pension Plan). Now to the best of my knowledge, there's no appropriation from the GRF to SPP, Saskatchewan Pension Plan, yet that is the responsibility of the Minister of Finance.

So the question is, does it give you more information if you add together the activities of SPP, you know, which has revenues and expenses, to the revenues and expenses of the Department of Finance to have a ministry of Finance sectoral plan, or whether you have those two separately. Currently you have them separately. And again, there's both the reporting side and the management side.

So my sense of this is that this is a complicated issue, and there is no general rule that says we should do it this way or we should do it that way. I think that it's the kind of thing that you have to look at on a case-by-case basis and say, are we improving information by adding these things together, and improving our capacity to manage by adding these things together, or in this particular case, are we obscuring information, or are we making it more difficult to manage.

And basically it's not a very clean issue; there doesn't seem to be a very clear, general answer to it to me.

Ms. Draude: — I was listening to what your analysis of this recommendation is, and I think that the recommendation says exactly that — that we study the merits of preparing the financial statements in this way. And I think it wouldn't hurt to get the information, seeing, you know, what would be the benefits, and not the . . . And the other side of the story by asking the provincial government to . . . the Provincial Auditor to do some work on this issue. Pensions is one issue, but when it comes to departments like Agriculture, I'm sure there are people that could benefit from seeing a combined statement like this.

So I would suggest that we do concur with this recommendation and study the merits of it.

Mr. Boothe: — If I could just add one more thing, Mr. Chair, this is something that is on the agenda for the Public Sector Accounting Board, which is the national body which studies these issues. And, it may be useful to get the guidance from the people that we ultimately try to follow on this in order to decide which way we want to go on this, rather than striking off on our own when we know that they're going to be studying it in any case.

The Chair: — Did you move that as a resolution, that you concur with the resolution . . . the recommendation?

Ms. Draude: — Yes.

The Chair: — Okay. Resolution is before you to concur with that recommendation which . . . Mr. Wartman?

Mr. Wartman: — Thank you. Because we are currently providing financial accountability to the public, through Estimates, through Public Accounts and mid-year report, I don't see that we need to move to a different way of reporting. And I recognize that this is just that we start . . . the recommendation is that we study the merits.

However, I'm inclined to agree with Dr. Boothe when I look at what we are doing right now, what we're engaged in right now, in terms of looking at performance management and accountability reporting, that we are right in the middle of the accountability project that is seeking to make improvements in accountability and performance management.

And I think also, the fact that, as he has noted, that the Public Sector Accounting Board may be, indeed, looking into this, that let's wait and see what they come up with for recommendations.

So I would speak against concurrence at this time. And yet, I would also want to have a note that we are making some changes in accountability and that we are also waiting to hear what the Public Sector Board decides.

The Chair: — Further comments?

Mr. Kasperski: — Mr. Chair, could I just . . . and this is more . . . when we say sector, like okay, agriculture, we've had some examples. Is economic development a sector? Like I know we talk about . . . in government there's lots of agencies that impact on economic development in this province. Would that be a sector in this study?

Mr. Wendel: — Yes, Mr. Chair. Economic development could be a sector. Health could be a sector. CIC is currently a sector and you do get those statements. So you could have many sectors.

Mr. Kasperski: — I could see considerable debate, you know, about what would fall into its particular sector report. Anyway, I just was wondering how. Thank you.

The Chair: — Okay, motion is before you that we concur. All those in favour? Opposed? Motion is lost.

Is there an alternate or are you talking nonconcurring?

Mr. Wartman: — I'd like to present an alternate. That is that Public Accounts notes that the province currently provides financial accountability to the public through Estimates, Public Accounts, and the mid-year report. And that the province recently completed a study regarding performance management and accountability reporting.

Based on the results and recommendations of this study, an accountability project has been established to make improvements to accountability and performance management. The project team is currently working with the government departments to develop goals, objectives, and achievement targets of the provincial government departments.

So that's what's in process right now. That would be the note that I would want to move, and I think the acknowledgement that the Public Sector Accounting Board is looking at this issue.

The Chair: — Okay. We'd ask for that information to Vik here. Basically what we're doing, the recommendation or resolution is that we receive this information from the auditor and note those particular things that are in place for future development. So there is not a concurrence. It would be reported to the Legislative Assembly on those pieces of information as described by Mr. Wartman.

Any discussion? Seeing none, all those in favour? Opposed? Carried.

Okay, that takes us to the end of the two sections under towards a better accountability system. We've dealt with all parts of that. We have one remaining section left under pensions. And we'll take that break right now, but we would hope that we can shorten it up a bit; let's go for reconvening at 3:45 please — 3:45.

The committee recessed for a period of time.

The Chair: — Mr. Wendel, I'd ask you to introduce one of your officials.

Mr. Wendel: — Yes, Mr. Chair, we have three individuals I haven't introduced this afternoon. And we have Kami Lahti over there, who . . . she's been an observer all day; she was a recent graduate. She's over beside the window there. And I have Kelly Deis, who's going to lead our discussion in pensions this afternoon; and Rod Grabarczyk, who does our work in pensions also.

The Chair: — Good, okay. Welcome Kelly, and let's go ahead.

Mr. Deis: — Thank you. Mr. Chair and committee members, good afternoon. Today I'm going to discuss reporting on the pension chapters in our 1999 and 2000 Spring Reports. I refer to chapter 12 in the 1999 Spring Report and chapter 8 in our 2000 Spring Report.

There are two significant issues I want to bring to your attention. The one is about allocation of earnings by the Saskatchewan Pension Plan, and a pension task force has now been created.

For the next series of slides that I'm dealing with, I'm going to be dealing with the first . . . about the first 10 pages from chapter 8 of the 2000 Spring Report, that is pages 111 to 121. I will try to guide you through this chapter by referencing to it as I talk. Unless I point out otherwise, all my referencing will be to the 2000 Spring Report.

The purposes of the chapters from each year are to discuss the status of systems and practices to manage pension risks. We find these are generally adequate and are reported elsewhere in our report.

Another thing is a system and practices to maximize investment earnings. And I just point out that this is three-part study, and I'll talk about this more in a few minutes. And the last thing is we'll update on the progress of our past recommendations.

The government's pension plans are significant to the Assembly, members of the plans, and the public. The government manages a significant amount of assets and pension liabilities. Note 6 of the government's summary financial statements for the year ended March 31, 2000, shows a recorded, that is unfunded, pension liability of $3.8 billion for government service organizations.

We reported in our 1998 Spring Report, there were approximately 66,000 active and 31,000 retired members. Given the population of Saskatchewan, this is indeed a significant number of members. The government must carefully plan and make the Assembly aware of its plan to meet future cash requirements for the pension's promise.

An important risk pension plans need to manage is maximizing investment earnings within levels of acceptable investment risk. This is the three-part study that I mentioned. We decided in 1997 to study the pension plan systems and practices for managing this risk. We first obtained information about the best practices for managing this risk. We then shared these best practices and obtained pension plan administrator input.

Best practices indicate pension plans should have systems and practices for assessing and establishing risk levels, establishing investment objectives, monitoring and reporting on investment performances in meeting objectives, and setting criteria for the selection of investment managers.

In 1998, in the first part of the study, we studied the first two items. We also presented our findings on the first part of our study in 1998. On page 132 and 133 of the 2000 Spring Report, we report that the statements of investment objectives have generally improved and note where plans need to improve. We also continue to recommend that pension plans and investment objectives should be based on the risk level acceptable to plan members and the government.

For the second part of the study completed in 1999 and reported in the 1999 Spring Report, we subdivided the objective into two components to facilitate the study. Therefore in 1999, our objectives were to determine if all pension plans monitored the investment manager's performance regularly against investment objectives — and that means benchmark portfolios for example, market indices, compliance with the law — and other objectives that we subdivided to was to determine if all pension plans periodically evaluated the investment manager's performance to determine if the manager should be retained or whether a new manager should be selected.

Our study involved determining what systems and practices the pension plans had compared to the best practices. This involved reviewing documentation supplied by the pension plans, their administrators, and interviewing key personnel involved in the administration of the pension plans. We concluded that pension plans can make some improvements.

In the 1999 Spring Report, we made recommendations no. 1 and no. 2 on page 157. Pension plans have now complied with these recommendations except for one area that is outlined in recommendation no. 7 on page 133 of the 2000 Spring Report. Here we continue to recommend that pension plans verify investment managers' compliance reports. What we mean here is pension plans must ensure that the investment manager has complied with the terms and conditions set out in the statement of investment objects that define acceptable risk and performance.

For the third part of this study, completed in 2000 and reported in the 2000 Spring Report, our objective was to determine if all pension plans have adequate systems and practices to set criteria for this fluxion of investment managers.

We found, based upon our work in 2000 and reported in our 2000 Spring Report, all six plans that we studied had adequate systems and practices to set criteria for this fluxion of investment managers. However, all six plans need to document the process for selecting these managers.

Documentation of the process is important so that the pension plan boards can follow and improve upon the selection process in the future. We recommend that all pension plans should document this process for selecting investment managers. And this is recommendation no. 1 in our 2000 Spring Report.

Now I'm going to move into discussing progress made on our past recommendations. Referring back to chapter 8 in the 2000 Spring Report, I'm now at page 121. This brings me to the first topic area in this area. I refer you to pages 123 through 127 in the 2000 Spring Report.

Define contribution pension plans allocate all earnings to the members except for the Saskatchewan Pension Plan. The allocations of investment earnings to members directly affects plan members' final pensions. Typically, plan members use this money to buy retirement annuity.

Currently the plan allocates interest and dividends but does not allocate all realized and unrealized gains and losses. December 31, 1999 the plan had not allocated about $6 million to the plan members. Because of this holdback, members retiring during 1999 received less money and therefore received smaller annuity payments.

Management of the plan thinks it is appropriate to minimize market fluctuations to its members by smoothing realized and unrealized gains and losses over a four-year period. Management thinks this provides members with the possibility of a higher rate of return while minimizing impact of market fluctuations. But this does not consider individual members' tolerance to risk and whether there are groupings of the tolerance to risk within the plan's membership. The plan's statement of investment objectives, as at November of 1999, states and I quote:

> Overall the risk tolerance of the plan can be considered moderate, balancing the need for capital growth for younger members with the desire for capital preservation for older members.

We think this statement means there are members that have different characteristics. Some members will invest for a long time and may not retire for several years, while other members will invest for a short time and may retire in the next few years. These different characteristics suggest that these two broad groups of dissimilar members have different risk profiles.

The statement indicates — and I'm referring to the statement of investment objectives of the plan — indicates that younger members who will be investing for a long time accept a moderate degree of risk. Therefore a balanced fund type of product is suitable . . . is a suitable investment for these type of people.

For members closer to retirement, the statement indicates capital preservation may be more important than the probability of a higher rate of return. Therefore a bond fund or perhaps a GIC (guaranteed investment certificate) is more appropriate because these types of products have lower volatility.

The plan's management told us that its current policy of not allocating all earnings to members compensates for setting investment objectives using a risk level greater than what is accepted to some plan members. The plan treats all members the same, even though there is at least two distinct groups of members having different characteristics and different tolerances to risk. If the statement of investment objectives clearly defines the risk, there is no need to defer the allocation of investment earnings to the members.

Several government pension plans have pension populations with differing tolerances to risk. The Public Employees Pension Plan, PEPP, recognizes that its members have different tolerances to risk depending on member characteristics. PEPP chooses to deal with this by having two types of investment products that members can choose from depending on their tolerance to risk. Members with moderate risk tolerance can choose the balanced fund. Members nearer to retirement may choose the pre-retirement fund. The pre-retirement fund holds low-risk products such as bonds and GICs, and is intended for those members who wish to protect their capital.

For both the balanced fund and the pre-retirement fund, PEPP allocates all investment earnings to its members. PEPP does not need to defer any member's allocation because membership risk has been appropriately identified.

Some may argue that the Saskatchewan Pension Plan does not have sufficient assets under management to manage two types of funds as is done in PEPP.

We note the pension plan for the eligible employees at the University of Saskatchewan 1974 — and I'll refer to this as the U of S (University of Saskatchewan) plan — is smaller than the Saskatchewan Pension Plan.

The U of S plan also recognizes that its members have different tolerances to risk. The U of S plan has therefore created a balance fund and a pre-retirement fund to allow its members to choose according to their tolerance. The pension plan does not defer investment earnings.

Management of the Saskatchewan Pension Plan told us it thinks the cost of establishing a pre-retirement fund will outweigh the benefits.

The plan's management notes that a large defined contribution plan in Canada has one balance fund for its members and does not allocate all realized and unrealized gains and losses. We note, for this pension plan, there is an employee/employer relationship between the members and the plan sponsor. We also note that all other large defined contribution plans that we looked at, in both the private and public sector, allocate all realized and unrealized gains and losses.

The Saskatchewan Pension Plan has not completed any study that we're aware of to support its position that the cost of establishing more than one fund would outweigh the benefits.

Each member of the plan places trust in the plan to appropriately invest their contributions and to faithfully return all the contributions and investment income earned. Currently the Saskatchewan plan has not allocated 5 per cent of the assets to plan members. This leads us to two recommendations in this area. They are no. 2 and no. 3 in the Spring 2000 Report on page 127, and they are the same as recommendation no. 4 and 5 on page 168 in the 1999 Spring Report.

We continue to recommend that the Saskatchewan Pension Plan statement of investment objectives should clearly set out and state the risk level acceptable to its plan members and the government. The pension plan's investment objectives should be based on the risk level acceptable to plan members and the government. And we continue to recommend that the government should ensure that the Saskatchewan Pension Plan allocates all investment earnings to its members.

Moving on to another area that our past recommendations have addressed — and this is at pages 127 and 128 — we note several pension plans obtained actuarial valuations in 1999-2000 and all use an inflation assumption of three and a quarter per cent except for the Workers' Compensation Board and the SaskPower plans.

Inflation rate used to calculate pension liabilities for defined benefit plans should be the same for all of the government pension plans because they all operate in the same economy.

The government in practice delegates responsibility for government employees' pension plans to several pension plans. These pension plans have many duties, and these have typically included the setting of assumptions for valuations. Because there is only one Government of Saskatchewan, there is only one economy in Saskatchewan. The inflation assumption must be the same for all the pension plans to ensure the financial statements of the pension plans and the government are consistent and comparable.

When the financial information for all the pension plans is included in the Government of Saskatchewan's summary financial statements, there can only be one inflation assumption. The government needs to tell the various pension plans its inflation assumptions so that the assumption can be consistently used.

And we continue to recommend that the government calculate its pension liability for each of its defined benefit plans using consistent estimates. This is recommendation no. 4 in our 2000 Spring Report.

Now moving on to pages 128 and 129, and here we're talking about a pension task force that's not been established. We've been recommending that a pension task force should be established for a number of years now. We think there are lots of significant issues facing the government with its pension plans.

Some of the issues are: pension plans and the government need to use consistent estimates and assumptions to calculate their pension liabilities; another issue is governance of pension plans. We've talked about this a little bit today with the Saskatchewan Pension Plan. And we have started a project actually on governance of pension plans.

Another issue is why some plans have different laws than others. Some plans have their own laws that govern them, and other plans establish a planned document under The Pension Benefits Act, 1992, that governs their plans.

Another item I would point out is whether current administrative responsibilities should be combined under fewer organizations to help reduce potential governance issues. Just because of the significance of these issues, that we continue to recommend that the government should establish a task force to study the many issues related to pension plans. And this is recommendation no. 5 in our 2000 Spring Report.

Another area that we discuss in the chapter is on pages 129 to 131. This is about funding of the unfunded liability. It is my understanding that this was discussed this morning so I'll simply just pass over this and keep moving along.

And this brings me to the last area that I want to talk about, and this is addressed on pages 134 and 135 in the 2000 Spring Report. Eleven pension plans report their investment performance in their audited financial statements. These 11 pension plans think that disclosing actual and targeted rates of return in their financial statements is good governance. They believe additional credibility is added and this lowers risk to the plan and the government.

These 11 pension plans include Power Corporation Superannuation Plan, Teachers' Superannuation Plan, the Public Service Superannuation Plan, the Public Employees Pension Plan, Saskatchewan Telecommunications Pension Plan, and many other plans. We also note that two other large plans, the Alberta teachers' plan and the Ontario teachers' plan also disclose investment performance in their audited financial statement.

We believe all pension plans should disclose investment performance in their audited financial statements. There are three plans that have not followed . . . (inaudible) . . . these other 11 plans.

> We continue to recommend that the Workers Compensation Board Superannuation Plan, the Capital Pension Plan Inc., and the Saskatchewan Pension Plan disclose their actual and targeted rates of return in their audited financial statements.

That's recommendation no. 8 in the 2000 Spring Report. And that concludes my remarks.

The Chair: — Okay, you've received the information from the report and from the different chapters. Are there comments from Finance department or from Mr. Boothe, yourself or others . . . do you want to make some comments?

Mr. Boothe: — Just one, I just wanted to clarify. Now I'm not sure that this slide came up. I think it was the slide, it's the slide before this one. Can you go back by one?

I guess I'm confused here, if the unfunded liability is 3.8 million how can 10 billion be required?

Mr. Deis: — Well I didn't really address this because I understand you presented a report to this committee this morning, so I didn't discuss it. But basically it's not adjusted for inflation; it's not brought back into today's dollars. The 3.8 billion is the present value of that same stream.

Mr. Boothe: — So I guess I would just clarify that I don't believe that it's appropriate to add a dollar from today with a dollar from 20 years from now or a dollar from 30 years from now because they're not the same. And I think in terms of a consistent calculation of what's required, the 3.8 is the right number, not 10 billion.

Mr. Deis: — Well I guess the information that comes to us, the same information that you have, has it presented in both fashions. And I discuss it actually in both fashions because I discuss the 3.8 billion in . . .

Mr. Boothe: — I have to say this as an economics professor, that you can't add a dollar today with a dollar 20 years from now and treat them as the same. I think 3.8 is the right number here.

The Chair: — Okay, I think we've established that the recommendations in chapter 8 which is the 2000 Spring Report will cover — according to Mr. Wendel — I think will cover all of the recommendations that are contained in chapter 12. So I think we can deal with only chapter 8 because it will have also included the ones contained in chapter 12.

So if you want to begin with recommendation no. 1. If there are no further questions or comments, recommendation no. 1 is on the top of page 119.

Mr. Yates: — I move concurrence with the recommendation no. 1.

The Chair: — Resolution that we concur with recommendation no. 1. Any questions or comments?

Mr. Wakefield: — Just from recollection, Mr. Chair. I think you've mentioned that the process is in place, it's just not documented.

Mr. Deis: — Yes.

Mr. Wakefield: — Okay.

The Chair: — Okay. Are there any further comments? Motion before you to concur in recommendation no. 1. All those in favour? Opposed? Carried.

Recommendation no. 2 and 3 are both found on page 127. They're specifically stated as I think as Mr. Deis reported that they were nos. 4 and 5 in '99 exactly, so let's deal with no. 2. Comments?

Mr. Boothe: — Mr. Chair, could I just take this opportunity to introduce my colleague, Kathy Strutt, who is the general manager of Saskatchewan Pension Plan.

The Chair: — Welcome, Kathy. And are we expecting a comment then on recommendation no. 2 from her?

Mr. Boothe: — Only if she wants to.

Ms. Strutt: — And I would if I could.

The Chair: — Sure go right ahead.

Ms. Strutt: — Thanks, Mr. Chair. Excuse me, the smoothing policy has been a . . . or sorry I'll wait until no. 3.

I believe our statement of investment policy which states our risk as moderate is appropriate for this group. We don't have a bias between stocks and bonds, it's up to the . . . we set it so it's not biased to either be more bonds or more stocks.

And we try to manage the risk of our two groups, as pointed out by the Provincial Auditor, in a cost-efficient manner which is by smoothing. I would say in '94 when we had a negative return, the members benefited. We capped the return since '96 when the markets have been strong, the returns have been very similar.

Over time it's going to equal out and I think what this does, is it doesn't penalize anybody for a retirement decision. The timing isn't as much of a factor.

So I do believe that our risk level of moderate is appropriate and that we have clearly identified it in our statement.

Mr. Deis: — We have viewed this as kind of like a teeter-totter. For somebody to get, somebody's got to lose. I think actually what's going on in the markets in the last few days is a perfect example.

If I was in a Saskatchewan Pension Plan, I would want to be taking my money out right now because I'm taking . . . because when the market goes down retiring members are taking dollars away from the remaining members that stay in the plan. I realize that the plans — in this case she's referred to 1994 so the same thing would have actually occurred in 1994 — so in this case if you're actually . . . if the plan's incurring a loss you're actually taking money from other people that remain in the plan because there is no other way to inject monies into the plan except for monies that already exist and for the contributions that are going to flow into it.

So there is always some loser. It's either the people who are remaining are losing, the people that are leaving are losing. For instance, last year when the markets did very well the people leaving left some money behind. So I view those people as losing. Right now it would be the other way around. The people remaining in the plan would be losing because the people leaving would be taking some of their money.

And the plan has a responsibility to treat all equally. And I don't see that this is really happening.

Ms. Strutt: — Mr. Chair, if I could introduce Jeff Stepan with the firm J.P. Marshall, they are a firm with over 25 years of pension consulting service. And Jeff is a chartered financial analyst and he provides advice to the board. They are responsible for assisting the board in formulating the investment policy and the smoothing policy. And I think he has a few comments on this as well, if . . .

Mr. Stepan: — Thank you. The whole issue really revolves around what is market value. And the comments made suggested that there was winners and that there was losers.

When we look at the market value and you use today's or the last couple of days as an example, let's take a look at one stock, Nortel, which was valued a year ago at about $40 per share; it rose in value to $140, an increase of about 250 per cent; now it's valued at about $25.

Nothing fundamental has happened in the market to justify that change in price. Markets typically overshoot on the upside, and they undershoot on the downside. And what is more relevant, and more appropriate when you're valuing pension assets, is an average of that up and down.

For someone to be rewarded because they retired on September 1st at the peak of the market, doesn't make any sense. And similarly for someone to get penalized when they retire when the market is at the trough, doesn't make sense.

You talk about two different funds, and sure, that's appropriate if you have enough of a . . . an asset base to do that. You talked about the U of S plan. That plan has 300 members. The Saskatchewan Pension Plan has a lot more members.

What the University of Saskatchewan does is buys individual GICs for their members. That's not possible with the Saskatchewan Pension Plan. The type of infrastructure that they would have to put in place to support that two-fund system, doesn't justify the numbers that would go into it. And we can cite the experience of the Public Employees' Pension Plan and their short-term fund and how many have gone into that.

So, I don't think those arguments would hold water. So I think overall, the smoothing approach is appropriate for the Saskatchewan Pension Plan for the type of . . . the diverse nature of their members. And the investment policy which we helped craft . . . so I guess their, you know . . . I'm in a conflict here, but I do believe that investment policy clearly states the risk level, and addresses that risk level appropriately.

Mr. Deis: — Is it okay if I talk?

The Chair: — Yes, please.

Mr. Deis: — I guess I'd agree with you, in the sense, if there's a long-term investment rising for all members and if it was closed. I mean in this case it's an open plan and there's members coming and going.

And Nortel is actually a very good example. Because what the plan does in its statement of investment objectives is, it tries to maximize investment return, given the risk that the plan is willing to accept. So the plan somehow has a method of determining the risk level that all its members are willing to accept.

In this case, for this plan, it's uniformed them all or combined them all, homogenized them all, and they've said they all have a moderate tolerance to risk and they're all in the same boat in other words.

Now this plan, also with Nortel, if they didn't sell the stock during the year when it went from 125 down to $25 again, I think there'd be something more to talk about. But in this plan, they also smooth to realize gains and they realize losses, so that means that you put your money in . . . like if you go and invest in a mutual fund in the market, when you take your money back out, you're taking a risk off the table. You're not asking other people to share in the risk with you.

This plan, it's being asked that the risk be shared with you. Everybody should share your risk with you. So that when I take my money because I haven't, as a member, been allowed to define my risk correctly because you're close to retirement and want to take my capital out, that everybody else had to share my risk and either give me some money or I had to give them some money. And that's the way I look at it.

And this is a DC (defined contribution) plan, which I think is very different from a DB (defined benefit) plan which I'm aware of — defined benefit plan — which I'm aware that your firm also looks at in a lot of cases, and I think the smoothing is not appropriate for the plan.

And I think it all comes back to objective no. 2. I think if the risk levels are studied and defined, then there will be no need for smoothing and I think . . .

Mr. Yates: — Couple of questions about the plan. Are all participants in the plan, it's a voluntary plan? There's no mandatory companies that force people to participate in the plan or anything like that?

Ms. Strutt: — All voluntary. That's right.

Mr. Yates: — Okay. So people choose to enter the plan. And when they enter the plan, do they understand the terms of the plan in which they're entering? Do they understand how money is invested and what their . . . how they will build up equity in the plan?

Ms. Strutt: — We provide them with a member guide which shows all the details of the plan. We also give them two to three newsletters each year which talk about the investment performance and what's happening with the plan.

Mr. Yates: — So they clearly understand the smoothing aspect when they enter into this plan?

Ms. Strutt: — When returns are good, they don't ask too many questions. They're happy with the return.

Do they understand smoothing? I don't know. Do we tell them that's what we do? Yes, we do.

Mr. Yates: — Right. But it's up to them. If I want to get in the stock market, don't understand it and I lose everything I've ever earned, that's my fault. I can't go blame somebody else for it after.

The Chair: — Any other questions or clarifications of recommendation no. 2?

Ms. Draude: — How many members does the Saskatchewan Pension Plan have?

Ms. Strutt: — We have 19,000 active members, so those are people that would be affected by the smoothing policy, and we have just over 10,600 that are receiving pension every year. So 29,000 in total.

Mr. Yates: — Just one question. If people entered into a plan with an understanding that the investment was going to be done in a particular manner, smoothing out the investment, and you were to change that without consulting, without the members having a direct say in that, would that not potentially create the situation where members of the plan could in fact go after the plan? To change it unilaterally after, if they entered it under one set of conditions?

Ms. Strutt: — I'm not sure. You create a one-year windfall in a way or a shortfall by the distribution . . . I mean the process has been in place since 1990.

Mr. Yates: — Right. But if somebody lost during that period, could they not . . .

Ms. Strutt: — I'm not sure.

Mr. Yates: — Okay.

Ms. Higgins: — Well I'm sitting here looking at this recommendation and listening to the information that is sent out to members of the plan, so I'm wondering with the information that the members of the plan have and the information and newsletters that are mailed out to them, what is it that you're not happy with? That this recommendation . . .

Mr. Deis: — Well we feel that the risk level has not been appropriately defined, and that means that because of that they've said that everybody has the same risk tolerance. If you, me, or anybody in this room went into the market to invest, we have some cash, I mean we'd have to make some kind of decisions. The people we'd be talking to would analyze the risk level we're willing to accept.

So if we're given our risk level we're willing to accept, we have the opportunity to make some return in the future. So they'd analyze us on an individual basis. Maybe they decide in our case that we have a very low tolerance to risk and something near cash is most appropriate for us — a treasury bill, a GIC, perhaps a bond fund.

On the other hand, they might assess, based on the information we tell them, that we have a higher tolerance for risk. They might decide that it is a moderate tolerance — that might be a balanced fund type of investment. And that's kind of the two products we're talking about here.

So we're saying that if the organization has done a study — and I'm not aware that it has — then they could just simply address this and appropriately define, based on the risk tolerances to certain members, if the ones near retirement truly have different risks than the members who are much younger and have longer investment horizons, then they could properly state that risk and then set up investment objectives and risks, and expect rewards on those basis.

Ms. Strutt: — Contributions to the fund are voluntary. Right now the limit is $600. It will not be the person's main source of income when they retire. And contrary to the employer/employee relationship that exists in the PEPP plan where government is putting money in and the employees are putting money in, the money is coming in on a regular basis, there's more surety, it will likely be for a lot of us our main source of income at retirement.

Members have other choices. This isn't their only pension — this may be their only pension, but it's not their only retirement choice. They can also invest in the market if they wish to go for a higher, to go for a more risky type investment, or to have other things to diversify. We're not trying to say that.

But for this population we feel that this is the most cost-effective manner of dealing with it. And we did do a cursory study of what it would cost based on the same types of numbers as the members that have gone into the preretirement in the PEPP fund, and it would be about 10 per cent administration cost just for that fund or an added 6 per cent . . . or 6 bases point, sorry, to our total fund.

So is it also fair then to have the members pay that cost for an issue that isn't an issue to them? Like what is fair?

The members are paying the costs of the administration of the Saskatchewan Pension Plan. We try very hard to give them very efficient service at low cost, and to add in extra costs for a small uptake, or what we consider to be a small uptake, hasn't made a lot of sense to our board. And our board is responsible for acting in the best interests of the members. And this is what . . . They've reviewed this a number of times, and they feel that this is the best answer for this plan.

Mr. Stepan: — Can I just make one very quick point? The Provincial Auditor talks about this risk sharing as a bad thing; that, you know, you've got an older member and a younger member and they're sharing the risk in a common pooled investment.

The second largest defined contribution pension plan in Canada smooths on exactly the same basis as the Saskatchewan Pension Plan. It is not unheard of. And they have decided, their board has decided in the same way that the Saskatchewan Pension Plan board has decided, that this risk sharing is appropriate and it's a good thing for their members.

Mr. Wartman: — I'd like to look at it in terms of the recommendation itself, and that is that the risks and the objectives be clearly stated so that the people that are going into this plan understand what they're getting into, and it seems to me from their description that we've been given that that is the case. I think it should be the case.

And in terms of how that fund is managed, I mean, what I hear is there's real disagreement on how that should be . . . how it should be managed. Some people who are engaged in investing right now in this fund and managing this fund are saying that smoothing is appropriate and that the people who are going into the fund know that that's what's happening. Well if that's so, and they're given the information that they need to have, fine. If they want to . . . I mean I think it was also clearly stated if they want to get into the market and play a high or lower risk investment game, they can do that as well.

So from my perspective on Public Accounts, all I want to see is that the recommendation that the people get clear information, who are investing in this pension plan. So I'm quite in support of the recommendation. I think we've been told already that that information is provided and in terms of how the fund itself is going to be managed, I think the people who are managing it will determine that, and if it's not managed properly, we'll speak again.

So I'm moving concurrence with recommendation 2.

The Chair: — You're moving concurrence?

Mr. Wartman: — Yes.

The Chair: — Questions? Any further comments? I'm wondering about the last half. I see two different things here, Mr. Wartman. Whereas you state about the . . . you know clearly set out the conditions, etc., in the first half, is the second half different than what is occurring right now? Maybe if I could ask Kathy to comment on that.

Ms. Strutt: — We do not . . . we smooth our incomes so we allocate all dividends and interest, and we smooth realized and unrealized capital gains and losses over four years. So we do not . . . the Provincial Auditor's recommending that we go just a straight market return. We don't do that, we smooth.

The Chair: — I'm looking at the second half of no. 2.

Ms. Strutt: — Sorry, I apologize. I was looking at . . .

The Chair: — Yes. Could you give us an explanation of no. 2 as to what occurs, and does this occur right now?

Ms. Strutt: — Sorry, I apologize. We have, in our statement of objectives, we say that our risk is moderate, and as the Provincial Auditor had pointed out, and we are balancing the needs, the capital appreciation needs of our younger members with the capital preservation of our older members. That is in our statement.

The Chair: — What is this recommendation stating then? Maybe, Kelly, I could ask you.

Mr. Deis: — Sure. Well we thinks that's unclear actually, and that's what our recommendation is getting at. And it's that the plan is saying — I'm not saying — the plan is saying there's two different components within the overall population and they've mixed them together and say they have moderate tolerance. So that was the gist of the discussion this afternoon.

Mr. Yates: — The question goes to the Saskatchewan Pension Plan people. If they're being told of how you're doing the plan and they're choosing to enter into the plan, then are they not accepting the risk as members of the plan? And that's the way you've always done it, and so I think that in fact they are doing that. Would that not be so, when they accept . . .

Ms. Strutt: — I think we set out our risk appropriately.

Mr. Yates: — You know they're doing it when they enter the plan.

Mr. Deis: — They're so many other things . . . (inaudible) . . . from the board's perspective itself in terms of the risk and from the government's perspective. I guess you can't go into the market and buy any products where the results are smoothed so I'm not sure if the board or the government is considered if that creates any extra risk to themselves. That if at sometime somebody, even though they were informed, they may have been misinformed because they didn't understand and they might be upset sometime in the future. And I think other plans in the past have considered this and concluded there's too much government or too much risk for their plan or for the government, and made the opposite decision of the way this plan is currently being run.

Mr. Wartman: — No, I won't go there. No, it's okay.

The Chair: — Are we prepared to look at the resolution which is to concur in the recommendation of the auditor? All those in favour? Opposed? Carried.

Okay, recommendation no. 3, and we've had some comments there already. For their explanation about all investment, I think, Kathy, is where you were headed. Would you like to comment on that first?

Ms. Strutt: — Yes, when the PAC committee looked at this in '98, they did not agree with the resolution. But this is an area where we are allocating all interest and dividends in each year and taking the unrealized capital gains and smoothing over for four years. So each year we're taking in a quarter.

Right not we're carrying forward gains; we're capping them at 5 per cent. If we have another year such in '94 where there was a loss, we'd be carrying forward a loss. But where the market return, negative 2.11 I think it was in '94, members received 6.6. Then the following year when the markets rebounded, they didn't do quite as well because we're carrying forward a loss, but it's evening out.

That is our policy. It's been in place since 1990 and the board endorses that. I guess I'll leave it there.

Mr. Yates: — I'd like to move nonconcurrence in recommendation no. 3.

The Chair: — Further questions or comments? Seeing none, all those in favour of nonconcurrence in recommendation no. 3. Opposed? Carried.

Recommendation no. 4 on page 128. Now if I recall your presentation, Mr. Deis, you had indicated that consistent estimates is the big question here?

Mr. Deis: — That's correct. Basically there's one province, there's one government, there's one inflation in Saskatchewan. That was the gist of the discussion.

Mr. Boothe: — I guess I would say that that maybe states it a little too strongly. Of course when we're talking about individuals, right, what the rate of inflation is depends on the bundle of goods and services that they consume. And it might depend on where on the province they live, because prices can go faster in some parts of the province than others at different times. So I think it probably is a little too strong to put in those terms.

Oh I guess the other thing that I would say is, these assumptions that are used in these plans often come from the actuaries that they engage, right. And it's not always possible to dictate to actuaries what are the appropriate assumptions. Not all actuaries agree on appropriate assumptions.

That said, Finance is monitoring the estimates and doing its best to encourage them to try to have a consistent set of estimates across government pension plans. Thank you, Mr. Chair.

The Chair: — Thank you. I missed your explanation as to why a different inflation rate would be used. Is it strictly the actuary who has recommended a different inflation rate be used for the actual calculation of one plan vs. another?

Mr. Boothe: — I guess what it comes down to, Mr. Chair, is that this is the whole issue once again of uncertainty going forward and not everybody agrees on what the long-term inflation rate will be.

I have to say that there's certainly no agreement among economic forecasters in general about what that will be. And there's also no agreement about what individual actuaries would say about this.

But, as I say, we are monitoring this and if we think that . . . if we think that individual plans have assumptions that are out of line with the rest of the plans, then we will discuss that with them and encourage them to consider their differences and whether or not we could have some consistency.

But I just want to caution the committee that making everybody have the same estimate of inflation going forward doesn't mean that everybody has the right estimate of going forward. And we'll only know what that is in the fullness of time.

Ms. Draude: — I know that they had a different inflation rate but what rate did WCB and SaskPower use?

Mr. Boothe: — I think they used 4 per cent.

Ms. Draude: — As opposed to 3.25.

Mr. Boothe: — That's right. And I also just remind the committee that estimates of unfunded liabilities are very sensitive to these assumptions.

Ms. Draude: — Does either of the pension plans have any rules or regulations on it if they would have to have any provincial investment of the money that they're investing, like, within the province?

Mr. Smith: — Mr. Chairman, the answer is no. There's no minimum criteria for investments in the province of any of the pension plans, with one possible exception which may be the teachers' retirement plan. But I'm not certain of that.

The rest of the plans, there is no criteria to invest X percentage in Saskatchewan. But the result is, all things being equal; I think most of the money managers will invest in Saskatchewan. All things being equal there will be investments in Saskatchewan but it is not imposed.

Mr. Yates: — I would propose that the Public Accounts Committee concurs with the recommendation in principle and recommends that the government should continue to work towards using consistent estimates for inflation for all its defined benefit plans.

Do you want to write that up?

The Chair: — I think we'll need it, yes. How is it different than what's recommended here?

Mr. Yates: — Well it says we concur in principle with the recommendation, and the government should continue to work towards consistent estimates for inflation in all its defined benefit pension plans.

The Chair: — Okay. So calculating with it but working towards.

Mr. Yates: — Because there are many nuances, you know, between different actuarial groups and unions and everything else, and sometimes it takes a little time.

The Chair: — I think everyone understands the gist of that. It's a different one. It will be a no. 4 type of handling of this recommendation in that it's suggesting that we move towards or ensure that government continues to move towards consistent estimates.

Any discussion? All those in favour of that proposal? Any opposed? Carried.

No. 5 is on page 129 and this is the creation of a task force. Are there any comments from officials regarding a task force? No? Resolution?

Mr. Yates: — I move nonconcurrence.

The Chair: — You move nonconcurrence. All right. Any discussion?

Mr. Wakefield: — In what manner would we review the many issues related to pension plans as it states there?

Mr. Yates: — Each of the pension plans is governed by a piece of legislation and they can be reviewed through normal processes, as are amended in the legislature, as two were last year . . . (inaudible) . . . employees pension plan, Public Employees Pension Plan. I think there's lots of opportunity for debate. And they come here as well each year.

Mr. Wakefield: — So the purpose of the task force would be what then?

Mr. Deis: — Well we think . . . there's several things we've discussed . . . (inaudible) . . . this afternoon. Two of them I'll just dwell on briefly here. One of them was about consistent estimates. Basically what that means is, it's management's best estimates; it's management making estimates. They'll discuss it with the actuary, but basically the management for the province of Saskatchewan is the government. And so in all the . . . And they delegate out to the various plans.

And the other thing is, I think, the governance of the pension plans. We're looking around, we're observing that there's . . . each has its own different law, perhaps. Some act under a law, the documents are a planned document which is formed from a law and we're not quite sure what the difference is and why. And we're not sure if that causes different governance within the plans.

We're noticing that some plans seem more proactive in terms of governance process, like internally within the plan, than others. We're not sure why that is or which is good or which is bad.

We think there needs to be some work in this area for, you know, decisions to be made. Some management of this; that's what we're basically talking about.

Mr. Wakefield: — But it is the task force that's the best tool for that? Is there any other option?

Mr. Deis: — I think it's a good tool. I'm not sure if there's other options that might want to be considered.

Mr. Boothe: — Mr. Chair, one piece of information is that one of the issues that might have been considered by this task force, I think, was the issue of funding of future payment of future pension liabilities. And that was precisely the aim of the report that we presented to the committee this morning.

The Chair: — Question is before you, that we not concur in recommendation no. 5. All those in favour? Opposed? Carried.

Recommendation no. 6, page 131. Boothe did that presentation this morning.

Okay. And this is I guess concur in, in that the department has fulfilled its obligations by presenting the report this morning. Could we have that resolution?

Mr. Harper: — I move that we concur.

The Chair: — And that the department has complied. Will be reported. All those in favour? Opposed? Carried.

Recommendation no. 7 on page 133, managers' compliance report. What currently occurs, Mr. Boothe?

Mr. Boothe: — Maybe I'll ask my colleague, Brian Smith, to speak to this.

Mr. Smith: — For all of the pension plans, Mr. Chairman, the assets are invested in different asset classes — equities, bonds, real estate. A custodian holds the securities, and at the same time we give direction to the money managers as to where to invest the money.

Now the issue was how do we verify compliance with our statement of investment policy, goals and objectives with the actual money as it's invested. And right now, we have also contracted to our custodian to say yes, Mr. Custodian, please tell us every month, independently, that you can verify that our statement of objectives is being complied with. And we concur with the proposal, and in fact we are doing it.

For the smaller plans — because there was a cost of doing this — for the smaller plans that we administer, we do it ourselves. We look at the asset listing in detail compared to the objectives of the investment policy and say yes, we're complying, or no, we're not complying.

The Chair: — You are the verifier.

Mr. Smith: — Yes. For the smaller plan.

For the larger plans, it's cost-effective to have the custodian do it. For example, the public employees plan I think pays $27,000 a year to make sure that $2 billion of assets does comply with the statement of investment objectives.

Mr. Deis: — And that's exactly what we're talking about right here. Like, either hire somebody to help you do it or else do it yourselves.

And in their case, the bigger clients, they hire somebody to help them do it; and the smaller clients, they do it themselves.

The Chair: — So you do comply with what is being . . .

Mr. Smith: — Yes.

Mr. Yates: — I recommend concurrence.

The Chair: — Concurrence. Thank you. Any discussion? All in favour? Carried.

Recommendation no. 8 on page 135. Now these are the identification of some plans who the auditor's office believes are working sort of outside of the rest.

Mr. Smith: — Mr. Chair, when the pension plans create their statement of investment objectives, in those objectives will be a target rate of return. And at the end of the year, after you've invested all the money, you find out what your actual rate of return is.

I believe the issue is whether the targeted rate of return and the actual rate of return should be in the notes to the financial statement and audited or presented in an annual report as unaudited. And the issue is whether the same number is better if it's audited or unaudited.

And we believe, in terms of administering the plans that we do, that an audited number is better than an unaudited number. It doesn't mean the rest of the plans agree with that, but that's our position.

The Chair: — If I might, Mr. Smith, what makes it different in the 11 plans that are identified on page 134 and those that are identified here? Why are those different numbers included in their audited financial statements?

Mr. Smith: — Mr. Chairman, I think that the audited numbers possibly are included in their annual report as well. Those 11 plans consider that an audited number is better than an unaudited number even though they're the same number.

Each board is making a presentation of their financial statements in accordance with the CICA handbook and their beliefs. Some boards have said we want it audited and in the notes. Other boards have said no, they don't. It isn't audited, but they have it in the annual report given to members as well.

The Chair: — Any further questions or comments about this one . . . resolution? Concurrence with this recommendation?

Mr. Harper: — Concurrence.

The Chair: — Any discussion? All those in favour of concurring with? Opposed? Motion is lost.

What is the wishes of the committee then? Is there an alternate recommendation or is there nonconcurrence?

Mr. Yates: — I am ready to move that the Public Accounts Committee notes that there is no accounting requirements to include this information in pension plan financial statements, to the exclusion of other operating . . . reporting mechanisms. And . . .

The Chair: — Could you repeat that again, I missed that.

Mr. Yates: — Okay. Public Accounts would note that there is no accounting requirement to include this information in pension plan financial statements, to the exclusion of other reporting mechanisms. There's nothing in the chartered accountants' guide that says . . . guides that say we have to . . . it has to be reported in any particular manner.

The Chair: — In the audited financial statement.

Mr. Yates: — That it has to be audited.

The Chair: — And that's your comment, Mr. Smith, was that there's no . . .

Mr. Yates: — No requirement.

The Chair: — . . . there's no requirement to have them audited. You are including them now in the annual report.

Mr. Smith: — No, we're including them in our financial statements.

The Chair: — . . . or financial statement.

Mr. Smith: — Audited numbers in our notes in a financial statement, for the plans that we administer.

The Chair: — Oh, okay.

Mr. Yates: — Are you confused? You're saying there is no requirement legally to have it audited or unaudited, so . . .

Mr. Boothe: — Can I make an observation here. I think that the . . . maybe the source of the confusion is that of the 11 plans, three plans included in their annual reports only, and the remainder have it in their financial statements and therefore audited.

Now, I don't think they mean that they audit their target rate of return; I think they audit their actual rate of return. But in any case, I mean . . .

Mr. Deis: — We also recalculate the target in audit. We audit . . . any number that's in audited financial statement has to be audited, so we audit the actual number and the target. So it really comes down to . . .

Mr. Boothe: — I'm not sure what that means.

Mr. Deis: — Well, there's a benchmark portfolio in the financial . . . in the statement of investment objectives that outlines a certain portfolio and it's . . . (inaudible) . . . against various indices. We recalculate that and come up with the same numbers that management would put in the statements. And when they're different, we would discuss them with management, if they're significant, ask for a change. So that number is then an audited benchmark number that's in the financial statements, and we audit the actual return because we audit the whole financial statement and all the cash flows that are involved, and give our opinion on both the actual numbers and the performance.

Now the reason we think this is important for governance is because the plans, the boards of plans, hire and fire managers based on performance. So I think you need a lot of assurance, a lot of assurity over that information. And the plan members have to make decisions with the plan on that basis also.

Mr. Boothe: — I'm not sure how, if I say my target is 10 per cent, you can audit it and say . . . expose that it's not 10 per cent. But that's maybe a discussion for another day.

I guess what I'm saying is, for the plans that we are responsible for, they are in compliance here. For these three other plans, workers, capital pension plan, and SPP, their boards have made a decision that they are going to disclose these in their annual reports.

So I'm not sure what . . . I guess my question is, do we have the power to direct them to change the way their boards disclose this information? And that I think is where the confusion arises.

Mr. Deis: — Depends on the importance of the governance issue and who appoints the boards and who the boards are accountable to.

The Chair: — As I listen to your recommendation, or resolution, Mr. Yates, I mean I think what you're saying is that there is . . . you would be moving nonconcurrence with this.

Mr. Yates: — What I'm saying is, because they report on their annuals reports, and there is no requirement to report it anywhere else, that we just note that. We move that next . . .

The Chair: — Okay, that's how it will reported then, if this resolution passes, is that we receive this information and noting that this information in pension plan financial statements to the exclusion of other reporting mechanisms. Okay, so that's how it will be noted in our report.

All those in favour of that resolution? Opposed? Carried.

Okay, that's the final recommendation in chapter 8 and we have also taken care of chapter 12 at the same time. Are there any comments or questions?

Okay, that brings us to the conclusion of our agenda for today, and we will be beginning tomorrow morning at 9 a.m. with discussion of Education. Meeting is adjourned.

The committee adjourned at 4:51 p.m.