



# **Standing Committee on Public Accounts**

## **Hansard Verbatim Report**

**No. 22 – November 27, 2001**



**Legislative Assembly of Saskatchewan**

**Twenty-fourth Legislature**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS  
2001**

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Canora-Pelly

Ron Harper, Vice-Chair  
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Melfort-Tisdale

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Milton Wakefield  
Lloydminster

Hon. Mark Wartman  
Regina Qu'Appelle Valley

The committee met at 09:00.

**Public Hearing: Finance**

**The Chair:** — Good morning, everyone. Welcome this morning.

This morning, our first item that we'll be dealing with is Finance and I'd ask Fred Wendel, as auditor, to introduce the people from his office.

**Mr. Wendel:** — Yes, members. We have several new people here today. Over there, starting on the left, is Ed Montgomery who leads our works in Finance; Leslie Wendel who also works in our Finance area; Victor Schwab who was here yesterday; Bashar Ahmad who leads our works in pensions, who will be making the initial presentation — he'll be here in a few minutes — and Brian Atkinson who is with us at all meetings.

**The Chair:** — Great. Thank you very much, Fred, and good morning to all of you.

And, Mr. Paton, I see there are some additional people from the comptroller's office.

**Mr. Paton:** — Yes, Mr. Chairman. In addition to Chris Bayda, executive director in the financial management branch, I also have with me Jane Borland on the far end, Tamara Stocker, and Cindy Nim — and they're all from the financial management branch in Finance.

**The Chair:** — Great. Welcome to all of you as well.

From Finance we have this morning, Mr. Ron Styles, deputy minister. And Ron, I'd ask you to introduce people from your office.

**Mr. Styles:** — Good morning, Mr. Chair. To my right is Brian Smith, executive director of Public Employees Benefits Agency; and immediately behind me is Joanne Brockman, executive director, economic and fiscal policy branch; and there should be one more joining us, Glen Veikle, the assistant deputy minister of Finance for the Treasury Board branch as well.

**The Chair:** — Great. Good morning. Okay. Our presentation will begin with the auditor's presentation first.

**Mr. Ahmad:** — Good morning, Chair and members. I will provide an overview of chapter 9 of our 2001 Spring Report. Chapter 9 is on the pages 155 to 160, if I recall. This chapter provides — it is out of our audit of the department's special purpose funds for the year ended December 31, 2000. This chapter also provides audit conclusion and finding for the Public Service Superannuation Plan and the Member of Legislative Assembly superannuation plan for the year ending March 31, 2000.

For the special purpose funds and Crown agencies listed on page 157, we concluded the financial statements are reliable. The department had adequate rules and procedure to safeguard and control the assets of those agencies and special purpose

funds. And those agencies and special purpose funds complied with authorities, except for MLA pension plan.

Also we reported a legislative compliance matter in chapter 8 of this report. I will talk about that matter later this morning when I talk about the pension chapter.

In this chapter we report three matters in relation to MLAs' (Member of the Legislative Assembly) superannuation plan. First we report that payments to surviving spouses of deceased members is not consistent with the MLAs' superannuation Act. We had reported this matter in our previous report. Your committee considered this matter most recently in March of this year and concurred with our recommendations.

Second, we reported the MLAs' superannuation fund Act does not provide direction for handling of profit or losses from underwriting annuities. We have reported this matter in our previous report. Your committee considered this matter most recently in March of this year and concurred with our recommendation.

For both of these matters, management have told us that they continue to seek legislative changes.

The third matter we report is that the department needs to see changes to the MLAs' superannuation Act to make it consistent with the Canada Income Tax Act. The plan is registered under the Canada Income Tax Act. A plan registered under the Income Tax Act enables members of the plan to defer taxation of their benefits until they retire.

However, the MLAs' superannuation Act is in conflict with the requirement of the Income Tax Act. For example, the Income Tax Act allows a maximum combined contribution by the member and the government of 13,500 per year, or 18 per cent of the member's earned income if that is lower than the 13,500.

The MLA Act requires defined contribution plan members and the government to contribute in excess of the maximum. When pension plans do not comply with the Income Tax Act, they face losing their registration, resulting in immediate tax implications for their members.

To ensure members of the plan continue to defer taxation of their benefit, we recommend that the department should seek changes to the MLA superannuation Act to make it consistent with the Income Tax Act. The department told us that it will seek legislative changes.

That concludes my comments.

**The Chair:** — Great. Thank you very much, Mr. Ahmad. We'll go directly to Mr. Styles or Mr. Smith for comments from the department.

**Mr. Styles:** — . . . by the general response, and then if there's some questions, Brian obviously will jump in.

We acknowledge and concur with the concern that's been raised. Over the past number of years the management of the Public Employees Benefits Agency has pursued legislative

amendments to address the issue with respect to the Members of the Legislative Assembly superannuation plan.

**The Chair:** — I'll open it up to questions or comments from members. Mr. Gantefer.

**Mr. Gantefer:** — Thank you, Mr. Chair, and welcome, officials. Mr. Styles, when you say you've been seeking legislative changes, is that coming to the point where we can expect that there will be proposed legislative amendments or changes in a session coming perhaps this spring?

**Mr. Styles:** — We have proposed legislative amendments for this coming legislative session.

**Mr. Gantefer:** — Okay, thank you.

**Mr. Harper:** — I would have to assume that the pension plan has probably suffered some volatility along with the marketplace, particularly as a result of the happenings in New York on September 11. Has this been a major impact upon the pension plan or . . .

**Mr. Smith:** — Mr. Chairman, there are several answers — yes and no. As of today, from April 1 to date, the rate of return for the Members of the Legislative Assembly superannuation plan is 2.04 per cent. So the events of September 11 did have an impact, but the asset mix of the plan has returned a good return to this point in time. So it is not negative; it's plus 2.04 per cent.

**Mr. Harper:** — Is that normal for most pension plans or is this a little exceptional?

**Mr. Smith:** — In terms of the plans that we administer, it's exceptional. The rate of return for the Public Employees Pension Plan for the same period of time is 1.49 per cent. So this plan is doing better than the public employees plan at this point in time.

**Mr. Harper:** — I'm encouraged to hear that. Thank you. Thank you.

**The Chair:** — Any further questions or comments, discussion? Okay.

Recommendation on page 160 is the only recommendation that has been put forward by the auditor. I think we've heard from Mr. Styles that they're continuing to work on this and there might be amendments proposed and legislative change this spring.

Anyone prepared to make a resolution regarding that recommendation?

**Mr. Harper:** — Mr. Chair, I move concurrence with the recommendations.

**The Chair:** — Okay. Any discussion? All those in favour? Opposed? And that is carried. Thank you very much for your presentation, Mr. Ahmad and Mr. Styles, on this chapter.

And we'll move to the chapter on pensions, chapter no. 8 of the 2001 Spring Report. And I don't believe it will change much in

terms of presenters, so we'll move right into a presentation from the auditor's office.

## Pensions

**Mr. Ahmad:** — Thank you. Hi again, Chair, and committee members. I will provide an overview of chapter 8 of 2001 Spring Report. The chapter is on pages 137 to 153 of our report. The purpose of this chapter is to discuss three areas: (1) systems and practices to manage pension risk; (2) progress report on our past recommendation; and (3) our plans to work in this area.

First, the status of system and practice to manage pension risk. We found pension plans generally kept accurate records to meet reporting needs. They adequately safeguard their investment. They managed their cash flow if they had unfunded liabilities, submitted timely reports — except for the Teachers' Superannuation Plan — and complied with authorities governing their activities, except for matters reported in this Department of Finance chapter and except for the pension plan listed on page 143 — did not have rules and procedures to ensure members who returned to work for the government are paid according to law.

We report on pages 144 to 146 that certain pension plans do not have rules and procedures to comply with law governing the payment of pensions which have plan members who return to work for the government.

For the teachers' plan we note that the law has recently been changed to remove penalties for retired teachers who teach for more than 60 days in a year. Therefore this discussion is no longer relevant for the teachers' plan because of the changes to the law.

The Superannuation (Supplementary Provisions) Act applies to other plans except for the MLA defined benefit plan.

The superannuation supplementary pension Act requires the plan to stop a member's pension payment if the retired member returned to work on a temporary or casual basis for the government for more than six months in a fiscal year. The same Act requires the immediate stop of pension payment if the retired member is rehired permanently.

For the MLAs' defined pension plans, the MLA superannuation Act requires that pension payments for the members of the Legislative Assembly pension plan be stopped upon re-employment.

None of these plans have a system or practices to ensure that they are complying with the law when retired members receiving a pension are re-employed by the government.

We recommend that the plan establish rules and procedures to ensure all retired members receiving a pension who have returned to work for the government are paid in accordance with the law. Alternatively, the plan should seek changes to the law.

Now I will provide comments on progress pension plans have made on our past recommendations. The section dealing with progress on our past recommendations begins on page 146 of

the report.

First, the advisory committee:

We recommended in our 2000 Spring Report that the Government should establish a task force to study the many issues relating to pension plans.

In March 2001 your committee considered this recommendation and did not agree.

We continue to think there is a need for an oversight body. There does not appear to be a person or body that provides guidance and direction to all government pension plans.

The government pension plans operate independently of each other. The plans report through the Department of Finance, the Department of Education, or through Crown Investments Corporation of Saskatchewan.

Plans do not have a common oversight body to provide guidance and direction on governance-related matters. The pension plans do not receive any guidance on how to use the surplus accumulated, how to reduce administrative costs, and what estimates and assumptions to use while circulating . . . calculating pension plan liabilities.

Although the Department of Finance does encourage pension plans to use consistent estimates and assumptions to calculate pension liabilities, an oversight body could bring more rigour to pension plan governance.

An oversight body could provide advice to the government on administration of these pension plans, including how best to use surpluses in some plans, and reduce administrative costs of the plan, and to manage financial liabilities.

We continue to recommend that the Government should establish an oversight body to provide advice to the Government about its pension plans, and to provide guidance and direction to its pension plans.

Moving on to page 148, in our 2000 Spring Report, we recommended that:

All pension plans should document their process for selecting investment managers.

In March 2001 your committee considered this matter and concurred with our recommendation.

We see some progress in this area. During 2000 the Power Corporation superannuation plan documented its procedures for selecting investment managers. We also know that in 2001 some other plans have started this documentation process.

In our 1999 Spring Report and 2000 Spring Report, we recommended that:

the Saskatchewan Pension Plan's *statement of investment objectives* should clearly set out and state the risk level acceptable to its plan members and the Government.

Your committee considered this matter in March 2001 and concurred with our recommendation.

We think the pension plan's investment objectives should be based on the risk level acceptable to plan members and the government.

A recent discussion with the plan management and a review of the plan's revised statement of investment objectives indicates that the plan has addressed this issue.

Moving on to pages 148 to 151, we reported the matter listed on the slide in our previous report. In March 2001 your committee considered these matters and concurred with our recommendation.

For the first point, that is use of consistent estimates, the government pension plans are following consistent estimates with a few exceptions. We will continue to monitor the use of estimates in actuarial work.

For the second point, clearly setting your plan's risk investment objectives, the pension plans continue to improve their statement of investment objectives, and we will continue to monitor this area as well.

For the third point, verification of investment managers' compliance report, again the pension plans continue to make progress in this area. Although we have not gone back and looked at these areas in detail we are aware the pension plans are currently working to make improvement to the statement of investment objectives and verification of investment managers compliance report.

Moving on to page 152 of our report: for several years, we have been encouraging pension plans to disclose their actual and target . . . targeted rate of returns in their audited financial statement. We think such a disclosure is good accountability practice. We are happy to report that all plans are now either providing this disclosure or planning to do so in current year.

A little bit about our future plans: we plan to continue to examine systems and practices, pension plan use to manage the key areas. Also next year, we plan to begin examining pension plans' governance practices. We have been working with the pension plan . . . pension plan administrators to develop criteria to study the pension plans' governance practices. Our future report will provide more details about our planned work in this area.

That concludes my comments. Thank you.

**The Chair:** — Thank you very much. Mr. Styles.

**Mr. Styles:** — I think I'll start with the first recommendation. As noted, the Teachers' Superannuation Plan has had the necessary amendments passed and implemented.

We're presently working on four of the other plans: the Public Service Superannuation Plan, the Liquor Board superannuation plan, the Workers' Compensation Board superannuation plan, and the Power Corporation superannuation plan as well. So we hope to bring those forward to the present . . . to the upcoming

legislative session.

The other plan, Members of the Legislative Assembly superannuation plan, we're working on, but we're not sure we'll have in time for the upcoming legislative session.

We concur with the comments that have been offered and are seeking to address the . . . the issue that was raised.

**The Chair:** — Okay. Questions or comments on the . . . either the two recommendations that we have before us or the outcomes of previously . . . previous recommendations put forward by the auditor.

**Mr. Wakefield:** — Thank you, Mr. Chair, and good morning. Just for clarification and a little background: each of these plans have their own administrative body — I'm not sure what you call it — that members of the association belong to that pension board. And the concern as expressed by the auditor's office would be that they're maybe not consistent from plan to plan to plan. Is that . . . how would you comment on that?

**Mr. Styles:** — I mean, our sense is that there are systems in place to manage and account for the various plans. The pension plans report through Treasury Board and CIC initially and then to cabinet indirectly. In addition, we budget for the plans and record the annual pension cash requirements and pension obligations and the summary financial statements. So we see that there is a coordination amongst the plans. We believe there is full disclosure on the plans as well, and there's an ability for members in a sense to hold the plan trustees accountable.

**Mr. Wakefield:** — I guess that's what I was asking or leading to. The board of trustees are given the obligation to make sure the plan operates to the best . . . within the laws and compliant with the procedures, but then again to the best return for their members. If there's an overall oversight, it would diminish their role would it?

**Mr. Styles:** — The potential is there if you try to move to something that's a bit more standardized that you pull away some of the authority and responsibility from the trustees themselves. What one person might believe to be advantages from centralizing something, another might see as disadvantages from that same action.

Again our perspective is that the pension plans, each of them are now relatively unique. They're tailored to their members' needs and leaving them under the control of the individual groups and trustees seems to make good sense. And I think the members and their comfort level to a large extent are okay with the results of the past number of years. It's indicative of the fact that they're rather satisfied.

**Mr. McCall:** — So to just further clarify your comments in response to Mr. Wakefield. The second recommendation, would you characterize it as perhaps redundant in terms of the oversight and the management that's currently in place?

**Mr. Styles:** — We don't necessarily believe it adds anything or would add anything, okay, to management of the plans. Potentially it would be a second layer of review, a second organizational mechanism. Those all cost money. And so the

extent that something like that may not be required, we don't believe it's necessary to implement it for the plans.

**Ms. Jones:** — Can you explain . . . I know that there is a listing of pension plans. But in reality, how separate are they? How many pension plans are there? Or is it just kind of some designated to different bargaining groups?

**Mr. Styles:** — After three months in the job at Finance and spending a fair bit of time looking how we've organized ourselves on the pension side, I can offer my sort of initial observations and then Brian may want to add a few on top it.

Administratively there is one entity in a sense that provides services to the various plans. My sense is, however, the trustees act very independently for each one of the plans. So administration is essentially managed, organized, etc., and you get some of the benefits from that. Each individual plan, again, is very separate. It is run, in a sense, very separate. And again it seems to be tailored towards the needs of each of the different groups of employees that are out there.

Some of the plans are obviously old, in the sense that they cover past groups of employees. In essence there's, as I would understand it, two key plans for the employees that we have right now in the public sector. But all the plans are very active.

Brian may want to add a few comments as well.

**Mr. Smith:** — Yes, Mr. Chairman. There are about 12 pension plans in the public sector. And nine of them are administered by the Public Employees Benefits Agency. There are a couple of teacher plans and the capital pension plan at CIC (Crown Investments Corporation of Saskatchewan).

Several of the plans — the Public Service Superannuation Plan, the Power Corporation superannuation plan, the Liquor Board superannuation plan, and the Workers' Compensation Board superannuation plan — are all the same . . . provide the same benefits. But they do have four different boards.

But the responsibility of the boards is to administer the Act, and that it provides the same benefits to all members. In terms of the long term, we will end up with one pension plan for public employees, as a Public Employees Pension Plan and a defined contribution plan.

Most of the plans that we deal with will not expire, but they will cease to exist when the last person retires and then the last person deceased . . . dies. So the future will be the Public Employees Pension Plan. And that's where the big plan will be, and the rest of these plans will disappear over time.

**Ms. Jones:** — So just to try to follow that through . . . It's kind of complicated. There is a system in place in terms of central administration to oversee the plans. So to use Mr. McCall's words, there may well be a redundancy in the second recommendation in that, although they have separate trustees to administer on behalf of the members of that plan, the administration is central.

So it's not nearly as dispersed as it might sound by the names of the different plans. It is quite centralized.

**Mr. Styles:** — I mean, that's my perspective on it. In lots of ways it's no different than a lot things the government does. It carries out particular sectoral work, okay, through a variety of different program and policy vehicles. Pensions are no different. There's a number of separate vehicles.

But in the end there's good coordination amongst them and results, again, sort of speak for themselves in terms of the members and their satisfaction with what's been happening in the past number of years.

**Ms. Jones:** — Thank you, Mr. Chair.

**The Chair:** — A question maybe for Mr. Smith. You mentioned that obviously, as plans have . . . no longer are obtaining new members of course and as, you know, people will pass away, there will be no members in those plans. Can you tell us which ones of the plans that you have identified are in fact finite and no further new membership is being recorded?

**Mr. Smith:** — On page 143, Mr. Chairman, there are a list, and the Public Service Superannuation Plan, Liquor Board superannuation plan, Workers' Compensation Board superannuation plan, and Power Corporation superannuation plan are the closed plans that will someday cease to exist, which may be the year 2060, but it will be quite some time away.

**The Chair:** — On page 140 — I'm sorry, 148 — no, it's actually 149, you talk about the Teachers' Superannuation Plan and the fact that it does not provide the demographics required to better understand the statement. But the statement doesn't include that type of information. Is there a reason why that's not included?

**Mr. Smith:** — Mr. Chairman, I don't have an answer. We don't administer the Teachers' Superannuation Plan. It's administrated in the Department of Education so I don't have an answer to that question.

**The Chair:** — Okay. We had some discussion I think with Mr. McLaughlin here when he was present and I'm wondering . . . Obviously, as you've said, this is a closed plan and the membership in the plan must be getting smaller each and every year and we continue to talk about government's requirement to pay pensions and unfunded liabilities.

And, you know, I think it would be better understood by this committee if we would have an understanding of the numbers that belong to each of those closed plans and where those plans are headed. It states, or in the auditor's recommendation it's stated that to better . . . to understand the statement of investment objectives, we need to see the demographics as well.

And I'm just wondering, is that something that is being considered in improving the recording of pension plans? Mr. Paton, comment?

**Mr. Paton:** — Mr. Chairman, some of the information that you're looking for regarding the plans and active members and retired members is actually available in the summary financial statements.

If you look in the notes to the statements, there's approximately

two and a half or three pages of notes that discuss it . . . the pension plans themselves. And, you know, if you want to have a look at some of that, it's actually note 6 of the summary financial statements that provides a good overview of all of the plans in terms of active members, retired members, unfunded liabilities, annual payments, and so on. So I think that's probably a good starting source for this committee to look at.

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

**Mr. Smith:** — Mr. Chairman . . . (inaudible) . . . investment policy and goals is a policy given to investment managers for them to invest the money. The demographic information for the investment policy and goals that we create does in fact include demographics. It's good information for the investment manager as well.

**The Chair:** — Okay. Thank you. Any further comments or questions?

Okay. As I indicated, there are two recommendations that we must deal with. One is new and the second is a reintroduction of a recommendation that was previously discussed by PAC (Public Accounts Committee).

On page 146, recommendation no. 1, any questions or comments on that recommendation? Anyone prepared to move resolution? Mr. Harper.

**Mr. Harper:** — Mr. Chair, I move concurrence with recommendation no. 1.

**The Chair:** — Concurrence is moved on recommendation no. 1. Any discussion? Question? All those in favour? Opposed? Carried.

The bottom of page 147, recommendation no. 2. Discussion? Question? Seeing none, Ms. Jones, resolution?

**Ms. Jones:** — Thank you. Mr. Chair, I would move nonconcurrence with the recommendation and note that the government has systems in place to manage its public sector pension plans.

**The Chair:** — Okay. Nonconcurrence with an additional comment. Any question or discussion? All those in favour? Opposed? Carried.

That brings our discussion to an end on the pensions chapter.

We'll deal with the chapter on understanding finances of government. And from the auditor's office, Mr. Montgomery will be making the presentation. So I'll turn it over to you, Mr. Montgomery.

### Understanding Finances of Government

**Mr. Montgomery:** — Good morning, Mr. Chair, and members. Fred has asked me to present Volume 1 of our 2001 Fall Report to you. My presentation will take about 15 minutes. For your convenience we've prepared hard copies of all the slides we're going to use in this presentation. And after we get through the presentation, we'll be pleased to answer any questions you

might have.

The report has two main focuses. First, we use indicators to report on the government's financial condition at March 31, 2001. Second, we recommend that the government change the financial information that it provides in its budget to the Legislative Assembly.

I'm going to talk first about the government's financial condition, and about the budget information second.

To report on the government's financial condition, we use indicators recommended by the Canadian Institute of Chartered Accountants. These indicators measure sustainability, flexibility, and vulnerability of a government's financial condition.

First, we measure whether the government is living within its means and how much debt it can carry — sustainability.

Second, we measure the government's flexibility to raise more revenue from the economy or to borrow more money to meet challenges such as an economic downturn, a natural disaster, or to pay for new programs.

Third, we measure the extent to which the government relies on the federal government to pay for existing provincial programs — vulnerability.

So what did we find? First, for the year ended March 31, 2001 we found that the government's financial condition continued to improve. However we urge continued, careful management of spending and revenue raising. We urge this caution because the government's accumulated deficit of 7.9 billion is large for one million people and because, as you know, Saskatchewan's economy can quickly change through the changing commodity prices, interest rates, or the weather.

I also want to mention that for many years we've been asked how Saskatchewan's financial condition compares with other provinces. For the first time this report contains information comparing Saskatchewan's financial condition with that of other provinces. In general we found that the government's financial condition compares favourably with most other provinces.

The way a government manages its finances affects its future choices. For example, when a government lives beyond its means — that is it spends more than it takes in in revenue — it leads to higher debt, higher interest costs, and difficulty affording programs in the future.

Our report has several graphs that we use to illustrate the financial condition of the government. We encourage you to use the information in the report to help you better understand the financial condition of the government. We think a good understanding of the financial information . . . financial condition of the government will help you to judge the government's management of public resources and the affordability of new and existing programs.

Now I'd like to highlight a few of the graphs and explain them a little bit further. Graph 1 shows that the government has been

living within its means for the last seven years. That is, its revenues were more than its spending. This has allowed the government to reduce its accumulated debt by 2.7 billion during the seven-year period.

Graph 3 shows the size of the government's accumulated deficit in proportion to the size of the provincial economy. This graph helps you to assess how much debt the government can afford to carry. The thinking behind this indicator is that a person with a 50,000 per year income can afford to carry more debt than a person with a 30,000 per year of income. Thus the larger the economy, the more debt the government can afford to carry.

The graph shows that the accumulated deficit was 49 per cent of the provincial economy in 1993 — almost half. The trend in the accumulated deficit from 1991 to 1993 was not sustainable. As a result the government had fewer borrowing sources, paid higher interest rates, and needed large amounts of money from the federal government to pay for provincial programs.

The graph shows that by 2001 the accumulated deficit was 24 per cent of the provincial economy — just less than a quarter. This improvement is the result of the government reducing the accumulated deficit by 2.7 billion since 1995, and an \$11.5 billion growth in the economy since 1991. As a result, the government is in a much better position to carry its accumulated deficit and to afford its existing programs with the money it raises from the provincial economy.

In graph 4 we show an interprovincial comparison of accumulated deficit as a percentage of each province's GDP (gross domestic product) as at March 31, 2000. The graph shows that at March 31, 2000 Saskatchewan's accumulated deficit as a percentage of Saskatchewan's GDP is among the lowest in Canada.

Please note that for all the interprovincial comparisons we use the year 2000 to compile this information because when we prepared this report this is the most recent information available. In fact it still is the most recent information available. This is because Saskatchewan's Department of Finance works hard to ensure you receive timely financial statements, and as a result Saskatchewan's financial statements are completed much earlier than most other provinces.

Graph 6 shows how much of each dollar of revenue that the government raises goes towards paying interest on the government's debt. It's commonly referred to as the interest bite.

In 1993, 24 cents of every dollar of revenue collected by the government went towards paying interest. In 2001 that has improved; 13 cents of every dollar of revenue now goes towards paying interest.

The improvement is the result of larger revenues, lower interest rates, and a smaller accumulated deficit. However while the government's interest costs are decreasing, the nearly \$1 billion the government pays for interest on its debt remains significant. It's the third largest expense after health and education.

Our report also provides an interprovincial comparison which shows that at March 31, 2000 Saskatchewan is fifth, or in the



middle of the range of the ten provincial governments for this indicator.

Graph 8 shows how much the government has relied on the federal government to pay for provincial programs. Revenue transfers from the federal government have decreased as a percentage of the revenues raised directly by the Saskatchewan government from sources within the province.

Since 1991 revenue transfers from the federal government have decreased from 1.6 billion to 1 billion, and revenue raised by the government from the Saskatchewan economy has increased from 3.7 billion to 6.1 billion.

As a result, in 2001 the government is less reliant on the federal government to pay for its programs than it was in 1991. Our report also provides an interprovincial comparison which again shows that at March 31, 2000, Saskatchewan is in fifth place or in the middle of the range for the 10 provincial governments for this indicator.

The next graph I want to focus on is graph 10. This graph shows that the government's revenue demands on a growing provincial economy have been steady at about 18 to 19 per cent for the last eight years. The amount of revenue the government has raised in the past seven years has allowed the government to pay for its programs, to pay interest on the accumulated deficit, and to have a modest surplus to reduce the accumulated deficit.

In graph 11 we show an interprovincial comparison of own-source revenue as a percentage of GDP. Saskatchewan's own-source revenue from taxes and other revenue is in the middle of the range for the 10 provinces. The graph also shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces.

Now I want to talk about the second focus of this report, that is the budget that the government presents to the Assembly each year. We think it's time to change the focus of the financial information that government presents in the budget.

When the government presents its budget to the Legislative Assembly, that budget does not show the whole government. The budget focuses on one fund called the General Revenue Fund. This fund covers only 60 per cent of the government's financial activities. Because the General Revenue Fund excludes a large part of government financial activity, the government can manage the results by recording revenue and expenses in other funds.

There is a large difference between the annual surplus or deficit of the General Revenue Fund and the entire government. For 2001 the government reported a surplus in the General Revenue Fund of 58 million and this compares to the real surplus of 506 million for the entire government reported in the summary financial statements. For these reasons the information in the budget is not sufficient for legislators and the public to know if the government is living within its means or whether we can afford new and existing programs.

Legislators and the public need a budget that is focused on the financial condition for the entire government. This information is necessary to know if the government is living within its

means. That is, are the total revenues equal to or more than the planned spending or will the budget result in increasing the accumulated deficit for the entire government? This information is essential to an informed debate on the affordability of new and existing programs.

Seven provinces and the federal government have recognized the importance of presenting a full picture by focusing their budgets on the entire government. These eight governments show the full picture when they present their budgets. These governments moved away from presenting a budget based on only part . . . a part of the government. By doing so, they foster an informed debate about their entire government's financial condition and on the affordability of new and existing government programs. Only Newfoundland, Prince Edward Island, and Saskatchewan have not changed their budgets to focus on the planned financial results for the entire government.

In appendix 3, we provide a model showing some of the information that should be provided in the government's budget. This model is consistent with the government's summary financial statements and provides a more complete picture of the government's expected revenues and expenses.

We think that this model, if followed, would allow for an informed debate about the impact of the government's budget on its financial condition and on the affordability of new and existing government programs.

In summary, I'd like you to take away three main messages. First, the government's financial condition continues to improve slowly.

Second, we urge continued careful management of government revenues and spending. The size of the accumulated deficit is still large for one million people and the provincial economy can change quickly due to changing commodity prices, interest rates, or the weather.

Third, it's time to change the focus of the financial information in the government's budget. The government should show the planned financial results for the entire government. Doing so will allow legislators and the public to know if the government is living within its means and permit informed debate on the affordability of new and existing programs.

That ends my presentation, and we'd be pleased to answer any questions you might have.

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

**Mr. Styles:** — I'd first like to compliment the Provincial Auditor for a very useful and well-developed analysis of provincial finances. I think it's excellent to see that there is in a sense a third party analysis of this kind of issue. It not only supports the work that a committee like PAC does, but provides invaluable information to the public broadly.

With respect to the issue of a government-wide financial plan or budget, it's still our opinion that the government publishes very good planning information on the public goods and services it intends to provide, in the budget speech and related documents.

The information is useful for understanding the broad public policy direction of the government.

We still are concerned with the idea of a government-wide budget from the perspective that it would mean that for commercial Crown corporations, they would be forced to make their annual budgets public. Since these corporations are facing increased competition, providing their competitors with information about their plans could put them at a competitive disadvantage.

The government believes accountability of government spending is achieved through the preparation of summary financial statements, the tabling of the financial statements of all Crown corporations, as well as detailed annual reviews of Crown corporations by the Standing Committee on Crown Corporations. The Crown Investments Corporation of Saskatchewan is now tabling a semi-annual report on the Crowns with an eye to further improving accountability in the Crown sector.

The government is committed to continuing to evaluate ways to improve its budgeting processes, but I want to practically raise some of the challenges around integrating budget processes between the Crown sector and the executive government sector directly.

As an example, trying to compare two particular decisions, for instance an investment decision with regards to a power plant . . . The investment decision there is tied to a financial rate of return. How do you compare that, for instance, to a request for incremental funding for a new low-income housing program where you're talking about a social rate of return? And a large part of our budget processes are related to those kind of comparisons and prioritizations.

Those are my comments.

**The Chair:** — Okay. We'll open it up to general discussion, first of all. Questions? Comments?

**Mr. Gantfoer:** — Thank you very much, Mr. Chair. Mr. Styles, I've, you know, been on this committee for a number of years and I've listened to with interest, and I think there is a valid point to some extent about the concern about the level of disclosure from Crown corporations and the adverse effect that might have on their competition and their ability to compete in the marketplace.

But I also note that over the period of time there has been increased disclosure and increased detail in the reporting of the Crowns — as you note a semi-annual basis and things of that nature — so that over the period of time there has been significant progress, if you like, to more openness and disclosure. And somehow that's been able to be done in . . . without putting the Crowns at severe disadvantage.

I also note in the auditor's report on page 22 where he says that seven provincial governments and the federal government have moved to a total affairs of government reporting basis. And they, at least some of these governments, have various Crown activities that would occur in their jurisdiction. So that it would seem to me that if these governments — and they are significant

governments: ourselves, Saskatchewan, Newfoundland, and Prince Edward Island are the only provincial governments that have not moved to a government-wide reporting methodology — that somehow the argument that you raise about the competitiveness of other . . . of Crown agencies must have been resolved in these other jurisdictions somehow or they wouldn't be doing it. Because I don't think that their circumstance for their Crowns would be any different than the competitiveness that our Crowns face.

Have you looked at these other jurisdictions in terms of saying how have they reconciled these issues in order to present government-wide reports, and is there some wisdom to be learned in our jurisdiction? And it seems to me that if we're now in the elite company of Newfoundland and Prince Edward Island as the only provinces left in this country that are not reporting on a province or a full economy basis, that it should be telling us that there is opportunities to improve our reporting as recommended by the auditor.

**Mr. Styles:** — Maybe two or three comments. Each jurisdiction across Canada, if you have a look at it, has taken different steps, I guess, to improve public accountability. Some have moved more on sort of performance management; some have done it in terms of the budgeting process of the financial statements. So each, again, has taken a little different approach.

If you're to look at the seven jurisdictions that Provincial Auditor has talked about, okay, having moved to some sort of summary financial statements, you won't find that all of them are doing exactly the same thing. So while the broad statement is true, each again is a little different in terms of what it's done.

Our focus over the past couple of years — and this is a topic actually that I think is next on the . . . actually in the afternoon — is on performance management reporting. So we've taken a little different approach in terms of trying to upgrade our overall system of accountability. This is still an area, okay, that we're looking at quite carefully. And we do evaluate what the other jurisdictions have done on a year-to-year basis, and maybe there's steps in amongst all of this that the province will consider as time goes by.

But it's a matter of, from our perspective again, sort of steady progress and providing more information. As you've pointed out in the Crown sector, things today are a lot different than they would have been 8 years ago, 15 years ago. I started in the Crown sector around 1980 and remember what it was like back then.

So you're right; it is steady progression. But, you know, I would focus on the fact that each jurisdiction takes a little different approach to it. None of them are completely consistent. We believe that all of the information is there. It's on the table. The summary financial statements, in a sense, provide the type of information that you're talking about, again from more of a historical retrospective perspective but it pulls all of it together and gives members both here, I think, in the legislature as well as the general public an ability to see what a province has done over time.

**Mr. Gantfoer:** — Thank you, and I appreciate your comments. And I do acknowledge and recognize that progress

has and is being made.

It seems to me that, if you look at what the auditor is recommending as is indicated by the appendix no. 3 on page 41 and 42, it's pretty benign in terms of bringing it all together and pulling . . . you know, putting the net figures where the x's are on those two pages from the agencies and entities. It doesn't ask for really anything that I don't think is already available, as you suggest, through the summary financial statements.

And I'm not sure it would put us at a severe . . . I don't see how it would put us at a severe disadvantage to bring this together with the presentation of the budget and its focus on the General Revenue Fund, to look at these other entities. Because there is always a relationship between, you know, the debt of the province — the overall debt — as reflected not only in deficits from the General Revenue Fund that have occurred in the past, and hopefully don't occur into the current.

But that there are issues in the overall picture in the finances of government that talk about CIC dividends and the debt that CIC Crowns are also engaging in, and some of them are not just solely as a matter of public, or as competitive opportunities, but also public policy.

Our Crowns in this province have not only been independent, arm's-length entities; they've also been the vehicles of public policy over time. And I look at rural electrification or telephone provision. It hasn't been strictly a case made on the basis of the marketplace. There has been public policy issues that the Crowns have been involved with.

And I'm wondering how it would somehow create a problem for us to comply with the suggested model that the auditor is presenting on page 41 and 42.

**Mr. Styles:** — In a broad sense you're right. You can pull together those broad sets of numbers, okay, and establish those kind of statements in a relatively simple fashion. Putting those statements forward, though, will open up questions around what is appropriated through the legislature, okay, and the legal framework that is set out there.

So in our mind at this point anyways, we see this type of exercise also having a significant number of process and legislative implications to it as well.

And to start to move down that path I think you need to be able to look at it again in that sort of very broad context and consider the types of changes that, you know, you're willing to do throughout the process — not just in terms of the type of reporting that you're putting forward.

**Mr. Gantfoer:** — Just one final comment, and I don't mean to be argumentative, but the concern that I think is implied is that when we just look at the General Revenue Fund in terms of the budget discussion, that is an extremely important and significant part of our role as legislators. But there are also opportunities for the Crowns to act on behalf of public policy, and when that's excluded from the discussion purpose of the General Revenue Fund, then that potentially is another issue.

And so therefore, for example, the Crowns as a matter of public

policy could take a policy that's going to bury all the overhead wires in this province and . . . or into rural sectors of the province, or things of that nature, that would not have solely an economic fiscally competitive decision process behind it. There could be a matter of public policy that actually is mandated to the Crown or any Crown in order to carry out public policy. And when that is excluded from this overall financial picture, it distorts the picture.

And so that's where I guess I think that we have to be able to look at the picture in its entirety in the framework of the budget because it has implications from one to the other; it's the total picture of government. And the budget discussion as it's currently framed focuses virtually solely on the General Revenue Fund.

**Mr. Styles:** — To a large extent, you know, we would agree with the analysis you've laid out. What the Crown sector does has an element of public policy in it. The public policy, however, tends to be in the context of their involvement in the economy.

You know the old argument about a natural monopoly for SaskEnergy and SaskPower used to be the argument for SaskTel as well. SGI (Saskatchewan Government Insurance), it's been applied there. That is a different type of, in a sense, public policy discussion than when you allocate a portion of the GRF (General Revenue Fund) revenues, okay, for a social program, for instance. It's an appropriation decision to carry out the public policy.

Our focus has tended to be on performance management because it pulls together all these different strings of public policy, both regulatory as well as the financial allocations as well as the type of public policy that the Crowns embody as well.

So we've tended to focus again more on performance reporting as being the one item that does pull all these different strands together and gives legislators and I guess the public in a broad sense the ability to look at public policy in a very integrated, more holistic manner.

**Mr. Gantfoer:** — I think we'll go around in circles on this, so I'll defer, Mr. Chair.

**Ms. Atkinson:** — A question to our presenter. Can you give us a broader picture of what kind of reporting would take place in Ontario? For instance, they have Ontario Hydro. I believe they have some other Crown corporations.

Can you just give us a sense of what you're talking about?

**Mr. Montgomery:** — Okay. I have got Ontario's . . . I don't have Ontario's budget here with me, but I have Ontario's summary financial statements for the year 2000.

And if you look at our General Revenue Fund financial statements, you'll see we have the revenue and expenditures for the two years, 2000 and the prior year, and we also have a budget column, so a line by line budget. So when you look at our summary financial statements, you'll know that we have the revenue and expenditures but we don't have the budget

numbers because we don't budget on an overall basis.

If you look at Ontario's summary financial statements, you'll see that they budget on an overall basis. So on a line by line on the income statement, there's each of their types of revenue, each of the types of expenses coming down to a budgeted plan for the entire government. And then as you move to the actual expenditures, then they're reported too.

**Ms. Atkinson:** — I'm talking about their Crowns. Please, can you . . .

**Mr. Montgomery:** — In their Crowns?

**Ms. Atkinson:** — Yes. Because that's what you're talking about. You're talking about an overall plan . . .

**Mr. Montgomery:** — Well their Crowns are brought in.

**Ms. Atkinson:** — . . . for GRF and Crown. So outline to me how they would present their Crowns in their overall financial plan, and their pensions and their cancer agency and their health districts — all of those things that you've laid out for us.

Would Ontario's budget plan look anything like what you're recommending that we adopt?

**Mr. Montgomery:** — Ontario's plan is a little bit further along than we're adopting.

We're basically saying this . . . The model that we're showing you is a good first step. It's not too complex to move along the process to give a full picture to MLAs. The Ontario plan is a little bit further along than that model.

That model that we're using is a model that was basically being . . . has been adopted by BC (British Columbia) and it's similar, I think, in Manitoba and maybe one other province.

The other ones are similar to Ontario where they don't have a General Revenue Fund, in essence, or they don't . . . some of them don't publish their General Revenue Fund financial statements or don't get an audit of them. Okay. They just concentrate on the summary picture for the entire government.

If you think of how the Crowns are in our financial statements, we get a one-line entry coming in from the Crowns that says the net income of the Crowns was, say, 500 million. Okay? But we don't have a budget number for that. We didn't have a budgeted amount for what the Crown should or would make during that year.

In Ontario they have a budget setting out in their summary of financial savings, an amount for revenue from the Crowns, net income of the Crowns, and we don't, in essence.

**Ms. Atkinson:** — Before I'd be prepared to consider this, I want to know exactly what you're talking about. I'd like to see, what does Ontario do? And you haven't answered . . .

**Mr. Montgomery:** — We can table Ontario.

**Ms. Atkinson:** — Well I'd like a presentation. What does

Ontario do? What does British Columbia do? What does Manitoba do? What does Alberta do?

And we have governments in this country that do have a large Crown sector. British Columbia has a large Crown sector. I believe Ontario does. I believe Manitoba, to a lesser extent, does. I'd like to see precisely how these governments lay out their overall plans.

**Mr. Montgomery:** — Well let me go west to east and start off with British Columbia. First . . .

**Ms. Atkinson:** — But I don't . . . I'd like to see it. I don't want to hear it. I'd like to see it and compare it to what you're recommending. Because what you've recommended is a . . . that we adopt this model. I'd like to see what this model means in context of what — what in terms of other provinces. I'd like to compare this model to other provinces.

So before I would be able to support this recommendation, I would want to know very precisely what other provinces in the country have adopted because I think the standards are quite different across the country in terms of their public reporting. Then we don't have any kind of consistency in terms of public reporting across this country when it comes to provinces. And I think you would acknowledge that.

**Mr. Montgomery:** — I would acknowledge that there's different ways they . . . there's seven or eight governments that now focus on the entire government in their budgeting. I would acknowledge there's different ways they do that.

British Columbia is the same as the model we have put forward for Saskatchewan. It essentially brings in the net income of all the Crowns on a one-line basis and then adds it across. And they provide that information sort of as part of the budget papers so that people can see the overall picture.

If you move to Alberta, Ontario, Quebec, New Brunswick, they're on a . . . their model is . . . it really builds in in their budgeting, I think. It builds in the non-government enterprise Crowns into their budgeting. So that's a little bit more built-in to the actual budget process. For the government enterprises, they're sort of similar to what we're putting forth in our model.

**Ms. Jones:** — Thank you, Mr. Chairman. It sounds as though there are many different models and each province has kind of gone in its own direction in order to move towards more accountability. And I think we've acknowledged that our province indeed, or our government, has made some steps towards more account . . . public disclosure and more accountability.

If everyone is doing their own thing to move in a certain direction, it would appear to me that there are then no standards by which to measure any moves in this direction. There is no standard developed for the reporting of information. And so it seems like we're . . . you're . . . what the auditor's office is doing is asking us to move again in a direction that would appear, or you would believe to be, more complete, and yet there's no way to measure how complete it is as opposed to another jurisdiction.

And it seems to me that it would . . . most of what we do and most of what is recommended that we do as a government is based on standards developed in an industry or standards of rules and procedures of accounting principles. And yet there are no standards here that we could measure something by. So it seems to be a little premature in terms of moving in another direction until there's a standard by which to measure your success or your reporting principles.

And before you answer that, I'm also . . . I have another question — or comment on that, perhaps there is no answer — another question is that, how would reporting Crown budgets affect the authority of the boards who now run the Crowns and how . . . and to what extent then would it make the government, as opposed to the Crown board, responsible for the outcomes of the Crown investments which I think is quite a complicated issue.

So there, I'll leave those.

**Mr. Wendel:** — I think there are standards. And the standards have been laid out by the Canadian Institute of Chartered Accountants that make recommendations on how he should improve . . . prepare summary financial statements. As we've said, the government's done a good job of doing that, okay, and you do have good summary financial statements. What we're saying here is, you need to see the financial plan for those same summary financial statements. And there's many models to do that. And that's how creative the Department of Finance wants to be to prepare their department . . . their budget.

You can go with the model we suggested here, which is to leave the General Revenue Fund budget estimates as you do them now so there's no confusion and bring in the Treasury Board Crowns' net profits, bring in the enterprise Crown corporation net profits.

Or you can go further than that. You could take the General Revenue Fund budget that you have now, build the Treasury Board Crowns right into it and bring that forward as a budget proposal and leave the enterprise Crowns separate — because you have some concern with that still — and just bring in the net profits.

I don't see that there would be any effect on the boards of directors of Crown corporations that run the Crowns. All we're asking is information on their net profits for the coming year. That information is going to be public information; some of it already is now, in that the Crown corporations have to put out the return on investment as part of their balanced scorecard reporting.

So I don't see a large impact on competitive advantage. And there's many models you could use to present the budget, it would depend what information you want to bring forward. But in the end, you have to bring forward the total. That's all we're saying here. And this model is a suggestion, there are many other models as the deputy minister said and that's . . . people should study that and come up with a model that works best for Saskatchewan.

Our recommendation is strictly that you need to see the total.

**Mr. Montgomery:** — And just in terms of disclosure by the Crowns, I noticed that when you look at the rate proposals when they go to the rate panels, they disclose their net income in there. Like if you look at SaskPower say, they have their net income for next year already disclosed.

**Ms. Jones:** — There seems to be some differentiation in my mind about disclosure and summary statements, which seem to be post-performance; and budgeting, which I believe to be pre-performance. And so when you, you know, you say that we're doing a good job in our summary and financial statements, they're after the fact. This is what we spent money on, this is what we made money on, and it's for . . . it's a summary of all the departments.

My understanding of your recommendation is that you want us to budget in advance and show that in advance, wherein I find the problem because then you're asking all of the Crowns to say how much money are you going to make this year in whatever enterprise you're involved in. And then you have, you know, some public reporting that no private company would be expected to make. And so how do you compete on that basis?

**Mr. Wendel:** — I think what my comments were is the government already has a policy that they're going to make that information public, that they're going to put out their net income into the future. And all we're talking about is taking that information that's there now and putting it here and putting it all in one place so you can see it.

**Mr. Wakefield:** — I assume that the graphs that were presented in this chapter and were summarized for us are based on the General Revenue Fund. Is that . . .

**Mr. Montgomery:** — No, all of the graphs were based on the summary financial statement.

**Mr. Wakefield:** — From the summary, okay. I guess my concern is that . . . and it kind of goes back to some of the discussion already. If I'm going to understand the public accounts and understand what is available to be projected into the future in terms of programming and profits and resources necessary, I feel that I'm coming up a bit short in terms of what I need to know.

I believe I need to know the bigger picture. And I just have this feeling that I'm not getting the entire picture because I don't know the entire plans and programs that . . . You know, we talked about the Crowns. We talked about . . . there's other things that were included. There's the Crown dividends that are projected to come back in budgetary form into the government. We know that there is a debt associated with that, that the Crowns are picking up.

The transfer of funds that are coming in, the Liquor and Gaming funds that are coming in, somehow I'm not getting the true picture of the full plan.

And I think what the auditor is trying to tell me is that this should be presented in a different way so that I have the ability to make those kinds of judgments. And not only me, but the public. Have I got the . . . Is that right? Is that what you're after?

**Mr. Montgomery:** — Yes, we're basically saying that the budget as presented now only gives you part of the picture. To make judgments as to whether you can afford new programs, or judgments like that, you need to know the whole picture.

**Mr. Wakefield:** — I guess that was my concern. There seems to be pieces of information coming to me, and therefore to the public, that are selective and not allowing me to make an assessment on the whole picture. And that's somewhat troubling to me because I think the public should know what the public finances are.

**Mr. Goulet:** — Yes, my question is similar in regards to what's happening in the other provinces. Now in the other provinces, what happens for example in the case of a privatized Crown? Whether you're a privatized Crown or whether you are still within the public sector ownership, obviously the corporation has both economic and social impact, because jobs put food on the table for children and grandparents, etc. So obviously it does have social significance, you know, as well.

Now in the case of the privatized Crowns, in those provinces are they still, you know, under the auditor? And if not, it must be because of the competitive reasoning, you know, that has been utilized beyond this table by the Crowns.

And secondly, on the question of disclosure, you know, on the Crowns. We have two committees, you know, the Public Accounts and the Crown Corporations Committee. I'm assuming that both sides of the table have asked the right questions in regards to get the proper disclosure in regards to this and that information in regarding the Crowns.

And so what is it, you know, that you would ask in the other Crown Corporations Committee, what type of disclosure? You talked about the most general disclosure, you know, at the general incomes level. What specific information would you also require therefore to get at the general questions of income in that level?

I'd like to have some clarification on that.

**Mr. Montgomery:** — I'm a little confused as to what exactly you mean by a privatized Crown. Would you pick one in Saskatchewan?

**Mr. Goulet:** — The telephone for example.

**Mr. Montgomery:** — What would that be? SaskTel or . . .

**Mr. Goulet:** — It would be . . . it's, like it was similar to Atel, I mean . . . (inaudible interjection) . . . And Manitoba was privatized.

**Mr. Montgomery:** — So it's not a SaskPower really.

**Mr. Goulet:** — No it isn't. But the point is it was before. It had both economic and social benefits to the province but now I assume it's not under the auditor, or is it? What was your findings?

**Mr. Wendel:** — I'll try to explain what I see.

Our office only audits those things that are part of the government, the executive government, that would be the Crown corporations, departments, agencies, commissions. If it's a private company, we don't audit private companies. And I think you would find that situation across Canada. The summary financial statements that the government does produce includes all the Crown corporations and all the other government agencies and the departments.

I'm not sure what impact that would have on the Crown Corporations Committee. I think the Crown Corporations Committee has to review the annual reports of the various Crown corporations. And I wouldn't see that role changing; I think that would continue. This recommendation would have no impact on that. They would still have to present their annual reports to the Crown Corporations Committee and meet and discuss that with them.

As part of their annual reports though, as I mentioned earlier, they're reporting now on more than just their financial statements. They're also reporting this balanced scorecard that has several other things — they're reporting on their public policy objectives, they're reporting their financial results, and many other things. And we've commended them for doing that. I think that's a very good thing they're doing.

And it's something the departments are also working on. And we see that coming soon, okay, but that wouldn't impact any of these things. This is something completely different than that.

I don't know if I confused it or made it clearer for you. I'll leave it at that.

**Ms. Atkinson:** — Mr. McCall hasn't spoken yet, maybe I'll wait.

**The Chair:** — You'll defer?

**Ms. Atkinson:** — Yes, I'll defer until he's finished.

**Mr. McCall:** — Why thank you, Ms. Atkinson. In taking in this debate it seems to me that the main dispute between the auditor's office and Finance, it's a dispute over the implication of bringing in this information into the votable budget process or into the summary plan and what implications that has for chain of authority.

And certainly, Crowns have always occupied an interesting place within public policy in that, to be competitive, you want to keep them at arm's-length from political interference but at the same time, ensure the oversight and the proper scrutiny to ensure that the policy objectives are being met and that the funds are being well taken care of.

And as such, you know, the role of the Crown Corporations Committee in the past — while in doing some reading pertaining to the Crown Corporations Committee — it seems to me that it was . . . The Crown Corporations Committee that we have here in Saskatchewan was the first such committee in the Commonwealth and brought into existence in 1946. And it was brought in to parallel the Public Accounts Committee in its method of operation and purpose; and it was brought in to recognize and to provide an additional forum of scrutiny and

oversight for the operations of the Crowns, and trying to balance that tension between being competitive and being a public entity.

And there have been other changes made over the years. I think of — talking about Saskatchewan Crowns — the Crown review exercise that was undergone in the mid-'90s where one of the results of that was the removal of ministers from the individual boards of the Crowns so as to further emphasize that arm's-length relationship.

And so when Finance, to my mind, raises concerns about what are the implications for the chain of authority when you include these numbers in a given report, even though they are already accounted for in the annual reports of the Crowns through significant transaction reports that have to be tabled within 90 days of undertaking with the Crown Corporations Committee and the Crown Corporations Committee itself, it would seem to me that there has been a very specific set of oversight mechanisms and a regulatory regime that has evolved in Saskatchewan and that recognizes that role, that tricky role of being competitive and being public.

So I would like to hear a bit more from Finance about your concerns about the implications for the chain of command or the implications for who has the authority, should the numbers for the Crowns be moved over into a certain . . . into the other . . . into the recommended set of reporting structures by the auditor's office. And then I'd certainly like to hear the rebuttal from the auditor. But if you could expand on that a bit further.

**Mr. Styles:** — There's a couple of different comments I can offer here. One is we recognize the particular evolution that the Provincial Auditor's office has been talking about in terms of financial statements across the country and the different governments. And so it's an idea that we think is still worthy of discussion and examination. And we've, I would understand from discussions with my staff, we've been looking at it for the last couple of years, okay, at some level of detail.

As to, you know, a decision of sort of what you do and what it might look like, sort of all the other appendages to that particular issue, the government simply hasn't come to any determination, okay, if it should move, when it should move, etc.

The concern from my perspective more broadly is that it's very easy to say, you know, you put two new financial statements on the table in a budget process. It is all the collateral issues that go with it.

Right now when the GRF is tabled, the Minister of Finance is the one who's table it . . . who tables it; the Minister of Finance is the one responsible to ensure the government comes in on its plan. There are definite authorities, okay, that are associated with it.

In tabling a broader plan, given the breakdown of authorities from the government between the CIC sector, okay, and the GRF, you know, there's a logical question: is it still the Minister of Finance who's the one in my mind that is responsible for it on an overall basis? And right now we're not. The Minister of Finance does sit on the CIC board, but he

carries the same weight as the rest of the CIC board members.

I think there's other aspects to this as well. Health districts and, you know, the accountability relationships with them I think are another . . . part and parcel of this as well. So again, there's many pieces to the puzzle.

And I think the comment that Fred made earlier, the Provincial Auditor made earlier, okay, that each province in a sense has sort of found what works well for them is in the final analysis where Saskatchewan will end up. It will find a process and a set of changes and advances, okay, that meet our needs over time.

I do want to keep coming back a bit, and the committee's going to talk about it I think after lunch, is performance management. I think sometimes it's easy to get lost in sort of financial numbers and not recognize that there is legitimate policy objectives behind it. And performance reporting I think is an overall . . . is a big piece of this — in fact maybe is the biggest piece from my perspective — because it talks about the real objectives of what you're trying to accomplish. And that really is where the debate seems to always form up, I think, within Saskatchewan.

Whether you talk about the sort of political debate in the House or you talk about the debate amongst the populace that's out there, it's what you're trying to achieve that becomes most important for people.

**Mr. Wendel:** — I don't think I have any comment about what the deputy minister has said. I think those are good initiatives they're working on in the accountability issues and we'll be talking about this afternoon.

I recognize what he's saying about how he'd have to work with the minister or work with explaining how or who you're going to make accountable for the overall performance. At the moment the Minister of Finance is accountable for the General Revenue Fund performance.

But the government itself, the overall government — cabinet if you like — is responsible for the overall performance. Just as they're responsible for the overall performance that you see now, the actual performance, what we're talking about is the overall performance on a budget basis.

And you need to see that to know whether the financial plan that's being presented for the General Revenue Fund will result in the government living within its means overall. Okay? And whether you can afford existing programs. That's all we're saying.

And how you're going to manage that, I think the Department of Finance and the executive government will have to work through that and find the model that works best for them.

We've suggested a model that would bring the information forward. How you manage that, I would leave that with management. I don't see any questions of authority for the Crown corporations. The boards of directors remain responsible for delivery of the programs that are there — accountable for the results — and I don't see any impact on the Crown Corporations Committee.

**The Chair:** — Thank you. Before I get to you, Mr. Kwiatkowski, I wanted to clarify, if I could just back it up, and maybe this question is more for Mr. Montgomery, and I'm trying to get a better understanding of the graphs that you presented to us.

If I look at page 14 of the report, and that was where you began the discussion on accumulated deficit and interest. And your statement on that page says:

... the accumulated deficit is equal to the difference between a government's total liabilities and its total financial assets.

And then the chart that you present at the top of the next page showed that, I believe, green is the total liabilities and the lighter shaded area is the assets.

If I ask you to switch, keeping that page in mind, to page 33, and there you present the government's total liabilities and the government's total liabilities — and if I just choose the last year, 2001 — the total liabilities of government in 2001 are \$19 billion. The total liabilities that you present on page 15, by the green area, I think that's about a 13.5 billion.

Could you explain, for someone looking at these charts, how government's total liabilities in one chart seems to be about 13.5 billion and then total government liabilities on page 33 is at 19?

I'm trying to understand how you arrive at the 10.7 in 1994 to 7.9. And I think that's pretty clear by the graphs that you've shown on page 15, as how the difference between liabilities and assets, but now I need to blend that into page 33 and it doesn't seem to fit.

**Mr. Montgomery:** — Okay. As you go through this report, from the beginning right up until that question 16 at the back, up until 16 this report is focused on the model used to prepare the summary financial statements that Saskatchewan uses. So if you're looking as to what the accumulated deficit is of 7.9, the easiest way to see that is turn to page 46 of your report which shows the summary financial statements and there you'll see the accumulated deficit as supported on that model is 7.9 billion.

Question 16 arises when people want to know what is the entire picture if we included the liabilities and assets of the Crown corporations. So what we've done in that case is we take the gross assets and gross liabilities of the Crown corporations and support it on page 60 and add that, with a few adjustments, to the number of liabilities in the model produced for the summary financial statements.

One does not gross up the amounts for Crown corporations. It includes, for example, on the revenue, it only includes the net income from the Crowns. It doesn't include the total revenues of Crowns and total expenses of Crowns.

So up until that question, all of the information follows exactly the model in the summary financial statements. For that question we've added to the liabilities. They're presented in the summary financial statements, the liabilities of the Crown corporations. And the gross goes up. Now they're not shown in

the summary financial statements.

**Mr. Kwiatkowski:** — Thank you, Mr. Chair. I think perhaps Ms. Atkinson has a point in suggesting that it may be interesting to look at some of the other provinces' methodologies.

I think if we were to perhaps access some of those, and they could be tabled with this committee, with the legislature, that would give us, the legislature and the public, an opportunity to be able to determine whether what the government is defending is just simply a shell game that allows them to move cash and debt back and forth between the GRF and Crowns, or whether they are right and we are on the leading edge of some type of business practices and techniques in this province that need to be kept top secret.

But I think if we were able to have those immediately available to us, to the legislature and to the public, then we could all make up our own minds as to whether this is something that would be of a benefit to the province and something that, given enough support, perhaps the government would change its mind in terms of their approach.

So would it be possible to actually access those and table them with this committee and the legislature?

**Mr. Wendel:** — Members, we could table that information if you wished.

**The Chair:** — In light of that kind of discussion, is anyone prepared to move the deferment of resolution of recommendation on page 23?

**Mr. Kwiatkowski:** — I would move it.

**The Chair:** — Move deferring it? Any discussion? Ms. Atkinson, do you have a comment?

**Ms. Atkinson:** — I don't know . . .

**The Chair:** — Oh, I'm sorry. Correct.

**Ms. Atkinson:** — That's okay.

**The Chair:** — I'll go back to you.

**Ms. Atkinson:** — Do you mind? If I can just speak before we do that?

**The Chair:** — No.

**Ms. Atkinson:** — Okay. My observation is this, that it appears as though, from the information that the auditor has provided us, that we have done a pretty good job of reducing our accumulated deficit as a percentage of GDP. And in fact I recall in 1991 we were the basket case of the country, next to Newfoundland. And now as a percentage of GDP, we're third. And that really does speak volumes to the kind of effort that the people of this province have put into reducing their debt and deficit.

You go through all of the charts that have been provided by the



auditor. We're becoming . . . we're not as dependent upon the federal government as we were. We've developed more of our own-source revenue. We're not quite as subject to the vagaries of various commodity prices as we were in 1991 and so on. So it seems to me that someone has done something right someplace and we should be pleased about that.

In terms of the recommendation that we should publish a financial plan, I don't concur with that recommendation at this point. And what I would be prepared to do is to vote to defeat that recommendation.

But what I do want to see is what other provinces are doing and how they present this information to the public. Because it's my view for the most part all of this information is available. I suppose it's how we present this information to the public and when we present it to the public.

I think that there is a compelling argument that government wants to be as transparent — and this has certainly been my experience — government wants to be as transparent as possible. And my experience also has been that there have been arguments; it's not unlike arguments between lawyers over legal advice. There have been arguments between accountants in terms of how we present this information. Different people have different views.

And one of the questions I asked yesterday was, if we change our accounting practices and we don't have to pay for something in one year like we are now, does that add to the long-term debt, deficit of the province? Well it seems to me depending on what we do here, that it could, which has an impact upon your ability to raise money, has an impact upon your interest rates, and has an impact upon your credit rating, which impacts your interest rates and so on.

So I think that we need to be very careful, given that while we've done a very good job, we're kind of in an interesting time here. So I want to understand before I concur with this recommendation — that's why I'm not prepared to agree with it now — I want to understand what would a full reporting of CIC, district health boards, GRF, you know, the whole works, what would it look like. That's why I'm interested in what other provinces are doing.

I also want to know, what are the implications of presenting it this way? Because I think Mr. Styles raises a very important point about there are accountability mechanisms. The Minister of Finance is accountable for the GRF. He's not accountable at this point for CIC. There's someone else that's accountable for that.

So when we get all of the information — and this is something I've learned in the last 10 years — when we get all of the information I'd really like a briefing note from Finance and the auditors so we can look at this carefully. What are the implications of going to an overall reporting mechanism to the public, understanding that I think all of us want to be as accountable and responsible as possible? And we want to be as transparent as possible. But there are some implications, I believe, and we need to understand that.

I hope my colleagues will concur with me.

**The Chair:** — I think from the fact that Mr. Kwiatkowski is suggesting that we defer decision on this recommendation suggests that we as a group want more information and no one is prepared to say yes or no right now. Question first?

**Mr. Gantefer:** — . . . just a second. I agree with what Ms. Atkinson has been saying in terms of . . . but it's not just good enough to defer the decision. I think what we need to do as well, is to ask for this information from the Department of Finance and from the auditor's office because just deferring the decision doesn't imply action that we need and information that we need.

**The Chair:** — No, I think that in light of the direction that members are asking for, in consultation with Mr. Harper as Vice-Chair, we'll approach both the auditor's office and the Finance department to see that we can have a presentation made to this committee somewhere in the new year. It won't be before Christmas, but it'll be definitely in the new year. Okay.

**Mr. Kwiatkowski:** — Well that was my expectation, Mr. Chair, when I agreed to deferring this is that that information would be submitted to the committee and then along with that we can include the kind of information that Ms. Atkinson is requesting as well.

**The Chair:** — Great. Any further questions? All those in agreement of deferring? Opposed? Carried.

Okay. Now I would want to thank the officials first of all, and I know that some of you will be back, I believe, in the afternoon.

But we have made a slight change to the agenda so that we will now have a coffee break which will last until 11:15. And the last item of the day on your agenda, which was rate regulation in the public sector, is now moved to 11:15. And we'll deal with that topic before lunch to allow then an earlier end to your day. We now are in recess.

**The committee recessed for a period of time.**

#### **Rate Regulation in the Public Sector**

**The Chair:** — Let's reconvene, ladies and gentlemen. The chapter that we'll be dealing with is chapter 3 of the 2000 Spring Report, entitled "Rate regulation in the public sector."

And the auditor's official is, of course, still Mr. Montgomery, who will be making that presentation. And I understand that . . . Ms. Nancy Croll, right? Nancy is our senior project manager from CIC? Good. Welcome.

Okay. We'll ask Mr. Montgomery for his presentation first.

**Mr. Montgomery:** — Okay. Thank you, Mr. Chair.

I plan to spend about 10 minutes just to present the chapter on rate regulation in the public sector. For your convenience again, we've got a handout of all the slides we're going to use in the presentation. It might be easier to look at those as opposed to the screen. And again, after we get through the presentation, we'll be pleased to answer any questions you might have.

First, some background that led us to write a chapter for our 2000 Spring Report. First, for several years our office had been concerned about the lack of information on rate changes and the lack of informed debate on rate changes in the Legislative Assembly. Second, there was considerable public concern as to whether the rates charged by Crown corporation monopolies were fair and reasonable.

This public concern led to the creation of the Saskatchewan Interim Rate Review Panel in November of 1999. And after the creation of the interim rate review panel, the government and the panel were reviewing options for the creation of a more permanent rate review process.

With that background we decided to write a chapter on rate regulation for our 2000 Spring Report. The purpose of the chapter was to provide background information for MLAs and the public as they considered the role of a regulator in Saskatchewan. And two, to set out our advice on the need to establish a good accountability system for setting rates.

In a competitive marketplace there is a balance of power between a supplier and a consumer, and rate regulation is not necessary. However, when suppliers have a monopoly or significant market power, they can price their products at higher levels than would be possible in a competitive market environment. This imbalance of power can lead to unfair prices for consumers and demands for protection from high prices.

The role of a regulator is to try to redress the imbalance of power between the consumers and the suppliers.

In the private sector of the economy, regulators are appointed by government to protect consumers from corporations with monopoly or significant market power. The regulator's powers, duties, and resources are obtained through legislation. Also, the regulators tend to be decision-making bodies rather than advisory, and their decisions are binding on the regulated corporation.

Because the decisions are binding, the regulator is accountable for rate decisions. Also, the regulator is accountable for its performance to the government and the Legislative Assembly.

An example of a regulator for the private sector is CRTC, the Canadian Radio-television and Telecommunications Commission which regulates phone rates.

In the public sector, rate regulation and the role of a regulator is more complex. Here corporations with monopoly or significant market power are Crown corporations. Crown corporations carry out an additional role from their private sector partners — Crown corporations carry out public policy.

Using a regulator to protect consumers from unfair prices in the public sector impacts the accountability system. Also remember regulators are not elected, but are appointed by government. Because the government appoints regulators and the boards of directors of Crown corporations, it's more difficult for the regulator to be independent of the government and the regulated corporations.

In the public sector, a good accountability system is essential

and the role of the regulator needs to be clearly defined. A good accountability system is needed regardless of whether the government sets the rates itself or creates a regulator to oversee rate changes by Crown corporation monopolies.

An effective accountability relationship between the Assembly and the government requires a plan which includes clear delegation of authority and responsibilities to the government or the regulator. Also the plan should set out performance expectations and provide resources needed. In addition, the Assembly needs information on the plans of the government or its regulator and the resources required to achieve the planned results.

Therefore the Assembly needs a reliable report on performance from the government or its regulator. This information allows the Legislative Assembly to assess the government's or its regulator's expected results and costs in relation to the Legislative Assembly's expectations.

Finally, the Assembly should perform a reasonable review of the government's or the regulator's performance.

A good accountability system should answer the following questions: What are the responsibilities and authority of the government and the Crown corporation monopoly? How is the government or the regulator accountable to the Assembly, and how will the Assembly hold the government or the regulator accountable? Also, what review of performance is planned?

Under existing legislation, the Legislative Assembly has no role with regard to Crown corporation monopoly rate changes. We think the role of the Legislative Assembly regarding these rates needs to be addressed in legislation. We think the law should clearly set out the role of the Legislative Assembly and the extent to which the authority for rate changes should be delegated to the government or its regulator.

Rate regulation in the public sector can take several different forms. The major issues that need to be clear involve the accountability relationship of the regulator, and whether the regulator is an advisor or a decision maker.

When the regulator is an advisor, the regulator is accountable for the advice but not for the rate decision. When a regulator is an advisor, the first question is to whom should that advice be given?

Currently, the Saskatchewan rate panel provides advice to the Minister of CIC. The rate decision is made by cabinet. Cabinet may adopt or amend the decisions of the rate panel. Therefore, cabinet remains responsible for the rate decisions.

For regulators that provide advice, other accountability relationships are also possible. For example, a regulator's role might be to give advice directly to the Assembly who would then decide the rates to be charged. In this relationship, the regulator could provide advice to a committee of the Assembly. The committee would then make a recommendation to the Assembly and the Assembly would make the final rate decision.

Regulators can provide advice on many issues related to rates charged by monopoly Crown corporations. For example, they

can provide advice on fairness and reasonableness of rate changes, on average rates of return for a particular industry, on appropriate levels of cross-subsidies, on the method of regulation to be followed and other issues.

In addition, the regulator can also perform a valuable role in providing information to the public and getting public input on proposed rate changes.

In our opinion, regardless of whether or not there is a regulator, it is important that plans and actual performance information regarding rate changes are made public. This enables informed debate on the reasonableness of the proposed rate changes and helps to build public confidence through open and transparent accountability.

Occasionally, regulators in the public sector might be given a decision-making role rather than advisory role. When a regulator is a decision maker, it is critical that there is a clearly defined accountability system.

Care needs to be taken when decisions might have the effect of moving accountability from elected representatives, MLAs, to a government-appointed representative. Several questions arise that need to be carefully considered. For example, can MLAs be accountable for the performance of public corporations if they do not have the power to set the rates charged by those corporations? Can public corporations carry out public policy and economic development if the rates they can charge are determined by a regulator?

If a regulator makes a rate decision, there is potential for the accountability relationship to be blurred and confused. For example, when the regulator is a decision maker, who does the Legislative Assembly hold accountable for the operations and results of a Crown corporation? Is it the government or the regulator?

Remember, regardless of whether or not there is a regulator, the public will continue to hold MLAs accountable for the performance of Crown corporations.

That ends my presentation for this chapter.

The last two slides simply repeat the main points in this chapter. We've prepared the chapter to help MLAs as they consider the options for a more permanent rate review process. We hope the chapter is useful and that it helps MLAs better understand the process of rate regulation.

Thank you.

**The Chair:** — Thank you very much, Mr. Montgomery. Ms. Croll, your comments.

**Ms. Croll:** — I have nothing to add.

**The Chair:** — Nothing to add at this time?

**Ms. Croll:** — That's correct.

**The Chair:** — Okay, good. We'll open it up to questions and comments from members.

As indicated in this chapter, there are no recommendations that have come forward from the auditor's office. It's just, as indicated by Mr. Montgomery, it's there for you to use as information.

Are there any questions? Any comments?

Seeing no one, I would thank Mr. Montgomery and Ms. Croll for being present — for being present. I'm sorry we didn't direct any questions or comments to you.

We will recess until 1:30, at which time we'll move to the section on improving public sector planning and reporting.

**The committee recessed for a period of time.**

### **Improving Public Sector Planning and Reporting**

**The Chair:** — All right. Good afternoon everybody. We'll get started for the chapter that we have for this afternoon which is on improving public sector planning and reporting. And I'd ask Mr. Wendel to introduce a couple of new people from his office.

**Mr. Wendel:** — Thanks, Mr. Chair. Members, I have two new people with me this afternoon. I have Mike Heffernan and Jane Knox and they lead our work in public planning and reporting. And they'll both be making presentations to you this afternoon.

**The Chair:** — Good. Thank you very much. Welcome Mike and Jane. And, Mr. Styles, you have a return guest from yesterday.

**Mr. Styles:** — I'd like to introduce Naomi Mellor. She's the executive director for the performance management branch in the Department of Finance.

**The Chair:** — Welcome, Naomi. Okay, I guess we'll turn it over to you Mike for your presentation.

**Mr. Heffernan:** — Thank you, Mr. Chair. Members, as you know, the government is working to establish a public accountability system that would change the focus of departments and agencies from the resources used and activities completed to focus on the outcomes achieved.

Achieving improved accountability for outcomes in the public sector takes time, often many years. It requires effective long-term planning and good performance reporting.

This chapter contains three parts that discuss the important aspects of public sector planning and reporting. Part A of this chapter identifies the key processes that should help public agencies to prepare effective plans. Part B discusses the key elements that capital asset plans should contain and part C sets out the principles for useful performance reports. And we'll give you brief presentations on each part of this chapter.

Part A, "Key processes to plan", starts on page 5. In this chapter we set out the key processes involved in preparing effective long-term plans. There's a lot of information out there about strategic planning, so what did we think we could add with this chapter?

First, much of the information about planning that's out there is about the private sector, not the public sector. The public sector is different.

In the public sector, priorities and goals are not always clearly set out or they change frequently. Government agencies are often limited in the planning decisions they are allowed to make. Guidance from the private sector about planning is not always applicable in the public sector.

Second, most government agencies have limited experience with long-term planning.

And third, the government through its accountability project is providing guidance to agencies on how to develop their long-term plans. We want to show agencies what we will look for when we assess their processes down the road.

Finally, we want to engage legislators in a discussion and a debate on the importance of planning.

So what are the key processes to plan? On page 16 of the report has an exhibit showing the detailed processes. We consulted with senior officials from the Department of Finance and Crown Investments Corporation to develop these processes, and we appreciate their co-operation and input.

To plan effectively, government agencies should have processes to revisit their purpose and general direction. This is both crucial and, in the public sector, difficult. This direction comes ultimately from those who are elected, but it's up to each agency to interpret its role and to put it into context . . . put it in context of the current environment.

Once an agency has a clear understanding of its purpose, it needs to decide on what it wants to achieve and how it will measure its progress. An important part of this is making sure that the agency's goals are consistent with those of supervisory agencies and with overall government direction.

I want to mention something here that is actually part of all of these key processes and that is described in the chapter. It also shows up in the detailed processes. That is, the agency at each step needs to involve its key stakeholders. In this case it means that the agency should consult with key stakeholders to ensure it has support for its goals and objectives.

To plan effectively an agency has to identify its risks. In this chapter we do not recommend any particular risk model but we do say that the agency needs a sound, comprehensive risk model to help it identify risks and assess their potential.

Effective planning includes designing and updating strategies and action plans to achieve the agency's objectives and to manage risks. Here is another place where it's important that the agency makes sure its strategy is aligned with its supervisory agencies and with overall government direction.

I want to mention targets. An agency using effective planning processes will decide on the level of performance it wants to see. This chosen level of performance is called a performance target. Selecting targets is important because the agency uses these targets to monitor whether it is achieving its objectives.

The agency also needs to consider the resources that will be required to put the plan into action. It needs to assess its capacity to carry out its strategies. Agencies that plan effectively have processes to communicate their plans both internally and in public. They also gather input from key stakeholders on the plan.

Finally, effective planning processes include an evaluation and a learning step which helps to improve future planning processes.

On page 15 we recommend that the government and its agencies consider the process to plan outlined in this chapter when they develop or revise their long-term plans.

That concludes my remarks. Jane Knox will present part B, capital assets. Are there any questions on part A?

**The Chair:** — Rather than go to part B right now, we'll maybe ask Mr. Styles or Ms. Mellor if you want to make comments on the first section.

**Mr. Styles:** — I'll offer a number of comments and actually lump together some of what's going to come in the second and the third presentation in the comments, if that's okay.

I'd like to begin by expressing my appreciation of the Provincial Auditor for the ongoing support and encouragement and assistance from him and his staff on implementing the accountability project. We continue to have a very strong working relationship and we remain focused on the same end point — in essence, sound performance plans and performance reporting by government departments.

The premise behind the accountability project is really simple and it's been adopted by almost every provincial government here in Canada. The government needs to move beyond counting dollars and volumes of activity. We still need to look at those things, but there's other objectives that are much more important — to consider and articulate what the outcomes are we're actually trying to achieve with those dollars and activities and how we'll measure and report progress. A simple concept, but one that takes time and effort to implement in a meaningful and a lasting way.

As the previous deputy minister of Finance explained in the Public Accounts Committee in March 2001, we're taking a phased approach to implementation and pleased to report continued progress since that time. We began two years ago with a pilot project. Seven departments began to prepare strategic plans and performance measures. Last year we extended this new approach to all executive government departments. Overall, departments made good progress in their plans and began to work on their performance measures.

This year all departments are again working on the strategic plans with a particular focus this round on developing relevant, reliable, and understandable measures of their performance. As well, we've started to include Treasury Board Crown corporations, SPMC (Saskatchewan Property Management Corporation) and SLGA (Saskatchewan Liquor and Gaming Authority) being two that are in the planning process this year.

A key role for the Department of Finance is to help build capacity performance reporting within departments. We can only ask people to do what they've been trained to do.

In June we sponsored training sessions for over 100 line department staff from across government to explain how to develop performance measures for their organizations. And we will deliver this training again next spring. As well we have a performance measurement network with participation of staff from each department, who are actually working on developing measures.

We also stay in contact with our counterparts from other provinces. There's much to be learned by co-operating with the other jurisdictions.

Finance also prepares annual planning guidelines to set expectations and help departments in the development of their plans and measures. This spring we updated and expanded several sections of the guidelines and added new sections dealing with human resource planning and capital asset planning.

We also work with individual departments to help them develop their plans, measures, and meet the expectations that we set out in the initial guidelines.

The Provincial Auditor has three chapters in the 2001 Spring Report related to strengthening planning and accountability. We appreciate the consultative way in which those chapters were developed.

I'd be pleased to answer any questions from the committee after the last presentation. Thank you.

**The Chair:** — Thank you very much. Okay, we'll now move to a presentation on part B from Ms. Knox.

**Ms. Knox:** — Thank you, Mr. Chair, and good afternoon, members and colleagues. We turn now to page 21 in chapter 1 of our 2001 Spring Report to the Assembly. In this report our focus moves from broader planning processes to the actual written plan, in this case the capital asset portion of the plan.

One of the priorities of our office is to assess the risks that the government faces regarding public infrastructure and to make recommendations to reduce those risks. We did this particular work in 2000 to highlight the essential elements of a plan that reduces risks related to infrastructure. We focused on those parts of infrastructure that we called capital assets, and we defined capital assets as buildings and large equipment, whether you think of road-building equipment or the health sector's MRIs. (magnetic resonance imaging).

Our focus is on plans to improve informed management decisions, so not necessarily public plans but more the plans that managers use.

Capital asset plans are really important in a province like Saskatchewan where we have large geography, a small population, perhaps some days a small and maybe shrinking tax base. Capital asset plans can reduce a wide range of risks.

For example, capital asset plans can help the government to avoid using unsafe buildings, and can prevent the use of equipment that is not maintained in good condition or perhaps is no longer able to finally give a diagnosis, for example, in the health sector.

Capital asset plans help the government to align its buildings and equipment with the direction that it wants to go. We live in changing times and good planning increases flexibility.

To safeguard the government's ability to provide services, capital asset plans must be future oriented beyond next year's purchases. Long-term capital asset plans ensure that buildings and equipment are available when and where they're needed to provide government services.

Capital asset plans can also help the government to provide effective services. For example, the plan may ensure timely repairs or maintenance to keep major equipment operating.

Of course the benefits of capital asset plans as set out here can only be fully realized if the capital plan both exists and is used.

This report explains the criteria we set out for effective capital asset plans in the public sector. At this time I will highlight some of the challenges that government managers face in preparing capital asset plans.

Government managers need information to determine what capital assets will be needed in the future. For example, a manager must understand the direction the government plans to take over the long term and must anticipate how service delivery could change over perhaps the next 10 years.

Technology and many other factors change the nature of government services, and this is difficult when we tend to focus on annual plans.

Capital asset plans should explain the gap between the assets that the government requires and the assets that the government has. Government organizations must monitor trends in the condition of buildings and equipment to prepare useful capital asset plans. At present many capital asset plans focus on the immediate purchase needs of an individual organization for its annual budget purposes.

Capital asset plans really should show in a summarized form how the organization plans to manage its buildings and equipment, that is, how it will operate them, maintain them, and dispose of assets that are no longer useful, as well as showing how the organization will obtain new assets when that's necessary.

In our review of the literature and the experience of others, we found strong support for capital asset plans that justify the strategies that are chosen. If the plan explains why certain strategies were selected and what major alternatives were considered, that can be very helpful if the organization has to suddenly change its perspective.

And this certainly has happened often in Saskatchewan. In the health sector for example, they've had unexpected influx of multi-millions of dollars, and it's really helped those agencies if

they have a better understanding of what they're trying to achieve with their capital assets.

The financial portion of a capital asset plan needs to show whether the organization will require public money only, or whether donations or other sources will be used to finance the capital asset plan. Sometimes it's possible for partners to share the cost and this should be clearly stated in the plan — whether it is, for example, a health foundation or perhaps a Crown Corporation, or there are other kinds of donations that sometimes are helpful in the public sector.

As part of our work on this project, we invited officials from six government agencies to assist us. The Department of Finance sent us people from both their Treasury Board branch and from the performance management branch. And we also had assistance from Education, Health, Highways and Transportation, and the Saskatchewan Property Management Corporation, and SaskEnergy.

The officials agreed to comment on our work and to discuss the criteria for effective capital asset plans together as a group. We found their contributions very helpful and I might say that it was extremely interesting to have all of them gathered in one room. I think that was one of the most helpful approaches that we took in this project. I would like to take this opportunity to thank all of those officials publicly for their assistance and for the support of the resulting criteria.

Government officials told us that most agencies now plan for capital assets over a five-year period with a strong focus on the amount of public money needed to purchase new buildings or equipment in the year immediately ahead. Very few departments plan for expensive capital items over a longer time frame. The officials encouraged us to continue with our expectation that capital assets consider at least a 10-year time frame. And we appreciate that that's difficult but certainly worthwhile.

We focused our work in this area on buildings and equipment. Planning for larger infrastructure would perhaps require an even longer time frame than the one required here, perhaps 30 years or longer — also very tough.

A long-term perspective is essential, but we recognize it's very difficult in the public sector environment. We will continue to encourage and support government officials to take a long-term view in their capital plans. Planning is an important administrative function that deserves the time and the attention required to do it right.

We hope that this report will encourage legislators like yourselves to ask questions about capital asset plans or the component of a strategic plan that relates to capital. We continue to encourage the government to improve its capital asset plans. In the future, we intend to audit the capital asset plans in several parts of government. And Judy Ferguson told you yesterday that we would be beginning our work in this area quite soon with one report of capital assets in the health sector released in December of this year and another audit underway at the present time.

Mr. Chair, with your permission, I'd be pleased to answer

questions and I'd welcome comments from my comments.

**The Chair:** — Great. Thank you very much, Ms. Knox.

Any comments from Mr. Styles or Ms. Mellor? No. Okay.

Are there any questions right now of Ms. Knox on part B? If not, then we'll move . . . Yes.

**Ms. Jones:** — Thank you. I'm wondering . . . it has a different heading, "Principles for performance reporting," and "An overview of infrastructure risks." And I'm wondering how the request being made of us differs from . . . Although yesterday there were no recommendations, there was certainly a good deal of discussion about the difficulties associated with how we capitalize infrastructure. And this chapter just almost felt like déjà vu to me. And yet we have a recommendation today to deal with what we didn't have to deal with yesterday.

So perhaps you could shed a little light on that and if Finance has anything that they would like to share with us, I'd appreciate that.

**Mr. Wendel:** — Mr. Chair, members, there's no recommendations on this particular section. The recommendations relate to the general planning and the item that Mike is going to present next.

But the way we approach our work when we get into an area like infrastructure, we identify the key risks for that, and there might be five or six risks, and then we'll go about setting out the best practice for each of the risks. So the chapter you had yesterday talked about infrastructure very broadly and identified five key risks.

What this chapter is doing is taking one of those risks and setting out expectations for plans. That's one of the key risks, making sure you have good plans. So this is setting out expectations for plans and getting it out there to the public and to departments and agencies so that as we come along and audit these risks, they have an opportunity to begin to change how they're planning.

So that's the objective of this chapter — information for you to understand where we're going, what we're expecting agencies to achieve in the future, and we will then be auditing against these criteria as time goes on. So that's the objective of this.

**Mr. Styles:** — I'm not sure I have a lot to add to what Fred has said. I mean it's just good sound business practice essentially to know the variables that have an impact on a potential business plan. If you set out a particular target, whether it's demographics or economics, I mean there's a variety of things that can have some impact for; you need to be aware of those, be able to quantify in some way how each of those might shift your business plan, and be in a position to be able to react to it. And again it's just good sound business principles really is what it comes down to.

**The Chair:** — Okay. Seeing no further questions, I'd ask Mr. Heffernan to assume the chair again and give us his presentation on part C.

**Mr. Heffernan:** — Thank you, Mr. Chair. Part C, “Principles for performance reporting,” starts on page 31.

In parts A and B of this chapter we’ve talked about the importance of long-term planning in managing for results. In part C we talk about the importance of governments reporting on the progress in achieving results.

For governments to be accountable for the results, they need to change how they report on their performance. Shifting from reporting primarily on spending and activities to reporting more information on cost and results is a big change for governments.

Good public reporting can also help governments to improve their performance. Goals and objectives set out in public reports guide boards of directors, managers, and staff, and focus them on getting results. As well, performance commitments made publicly give directors, managers, and staff powerful incentives to achieve those results.

I think it’s important to describe principles of performance reporting for three reasons: first, we want to help legislators to appreciate the importance of good performance reporting by the government and its agencies; second, we want the government to consider our views when it prepares reporting guidelines for its agencies; and third, we wish to show agencies the reporting principles we would look for when we assess their performance reports in future years.

In the past few years a lot of work has been done by professional bodies and governments on performance reporting. There is now a general consensus that the broad principles for good performance information include relevance, reliability, and understandability.

Again, on this project we worked with officials with the Department of Finance and Crown Investments Corporation to develop detailed reporting principles and we appreciate their co-operation and assistance.

Performance information should be relevant. Relevant performance information focuses on plans and results. In the public sector, useful performance information describes what a government has achieved compared to its plans. Objectives and targets help citizens to understand the government’s progress.

Relevant information shows how results were achieved. It describes the agency’s mandate, vision, values, the goals and objectives of its programs and services, and the major strategies used to achieve objectives.

Relevant information sets out the cost of results. We just need this information to assess whether results achieved are worth the cost, and to assess a government’s efficiency.

Relevant information measures something of significance to readers. Government agencies, often large and complex, have the ability to report countless results at many different levels.

Agencies can help focus readers on what is important by dedicating a section of their annual reports to key performance information such as objectives, targets, and actual results.

Relevant information is reported in sufficient time to improve decisions. Late information is less relevant and less useful to readers.

Performance information should be reliable. Reliable information is reasonably accurate and complete, that is, it is free of material error or omission. Reliable information is verifiable, that is, an independent party should be able to reproduce the information or agree that the information is consistent with the underlying events.

Reliable information is neutral and fair. It faithfully represents the events, results, or situations that it is reporting. As a result, readers’ judgments on performance are not influenced by the way the information is presented.

Performance information should be understandable. Understandable information balances conciseness with completeness. It focuses the reader on the most critical aspects of the agency’s performance by, for example, highlighting performance targets and measures. Understandable information shows comparable information consistently. It provides performance comparisons for several prior periods and with similar organizations. Understandable information describes performance in the context of control and risk. Information on the effectiveness of an agency’s control, including its management of key risks, helps readers to understand and assess the agency’s long-term capacity to achieve its goals and objectives.

Finally, the Assembly and the public need independent audit assurance that the government and its agencies have prepared their performance information in accordance with sound reporting principles such as those set out in this chapter.

Independent assurance adds credibility to performance information; it enables legislators and citizens to place more confidence in our system of government and public institutions. Our office is working with all legislative auditors in Canada to share ideas and to develop approaches for providing assurance on the credibility of performance information.

On page 42, we recommend that the department consider the . . . sorry, that the government consider the reporting principles outlined in this chapter as it continues to develop public reporting guidelines for its agencies.

That ends my presentation. We’d be pleased to answer any questions you may have.

**The Chair:** — Any comments on section C from you, Mr. Styles?

**Mr. Styles:** — No. We’re in general agreement with the recommendations and the observations that are in all three chapters, actually.

**The Chair:** — All right. We’ll open it up to general questions of either the auditor’s office or the department, Treasury Board, on either sections A, B, C. Mr. Gantefoer.

**Mr. Gantefoer:** — Thank you, Mr. Chair. Just to clarify, Mr. Styles, the auditor’s recommending on . . . in the first section on

page 15, that the government consider what they've outlined as specific reporting methodologies and on page 42 on section C it's a similar type of recommendation in these two areas. And I heard you say that you're largely in agreement and concur with the government's recommendations.

Do I take it from your comments that, in essence, you're making progress in both of these recommendations, and you have no particular problem with the process as outlined by the auditor?

**Mr. Styles:** — No, the general principles are very solid. What we're involved in is implementation and in a sense finding the process that best fits the government of Saskatchewan, okay, our various organizational structures.

You want something that is not overbearing, obviously, okay, but one that has value to everybody. And that's really the process that we're involved in right now. But the observations, the principles, etc., that have been laid out are the same ones that, you know, from sort of day one we've tried to incorporate into the work we've done.

**Mr. Gantefoer:** — Thank you. I think as well the auditor recognizes, and I would like to concur, that the overall tone and the thrust and the direction of this whole process is a very good one and I hear that there's a high level of co-operation and collaborative approach to this between the government and the agencies responsible and the auditor's office. And I think you should be congratulated for that.

**The Chair:** — Further discussion? As indicated by Mr. Gantefoer, we have two recommendations, one in section B on page 15 and one in section C on page 42. So let's deal with recommendation 1 on page 15. Any resolution?

**Mr. Gantefoer:** — Concur and note progress.

**The Chair:** — Mr. Gantefoer, note progress . . . concur and note progress. Any discussion? All those in favour? Opposed? Carried.

On page 42, also a recommendation titled no. 1. Any discussion, further discussion of this recommendation? Seeing none, Mr. Wakefield?

**Mr. Wakefield:** — I'll move concurrence and note progress.

**The Chair:** — Concurrence and noting progress, Mr. Wakefield. Any discussion? All those in favour? Opposed? Carried.

Thank you very much, Mr. Styles and Ms. Mellor and Mr. Heffernan and Ms. Knox for your participation this afternoon and getting us through this chapter. And that concludes the agenda for this afternoon. With that, I will adjourn the meeting.

The committee adjourned at 14:02.