



Standing Committee on Public Accounts

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS
2002**

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Lyle Stewart
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Milton Wakefield
Lloydminster

The committee met at 09:00.

Public Hearing: Finance

The Chair: — Good morning, everyone. Welcome to this Thursday morning session. This morning we're going to begin with the chapter 10 of the 2002 Spring Report entitled, Finance — learning culture for reporting results.

And before I do that, I'd like to have officials introduced. And as I forgot to indicate yesterday, Mr. Trew was in for Mr. McCall yesterday and as well today and all other members being present.

Mr. Wendel, please introduce your officials for the morning.

Mr. Wendel: — Yes. Good morning. With me today I have Rodd Jersak who attends all of our meetings, coordinates our work; Jane Knox, who's the principal author of the chapter you'll be hearing about shortly; Ed Montgomery, who leads our work at Finance; and Brian Atkinson, my assistant who attends all meetings.

The Chair: — Good morning and welcome to all of you.

Good morning, Mr. Styles, and I'd ask you to introduce your officials.

Mr. Styles: — To my left is Terry Paton, the Provincial Comptroller from the Provincial Comptroller's division. To my far right is Glen Veikle, the assistant deputy minister, treasury board branch. To my immediate right is Naomi Mellor, executive director, performance management branch. And behind me, directly behind me is Kent Walde, the director of research and board secretary for the Public Employees Benefits Agency.

The Chair: — Good morning and welcome to all of you. Okay, as our custom we'd ask Ms. Knox to make the presentation on behalf of the auditor's office.

Ms. Knox: — Thank you. Good morning, Mr. Chair, members, and colleagues. Thank you for the opportunity to review with you how the Department of Finance is working to build the capacity of departments to report their results to the public. We believe that improved government reports will improve accountability.

Reporting results is fairly new in Saskatchewan government departments. This type of reporting is not a report of activities or actions taken. I would like to mention three features of reporting results that members of the Assembly may wish to watch for.

Results should be reported in terms of outcomes rather than activities. The public wants to know what happened as a result of government activity. They are less interested in the activities themselves. When organizations report results, they should report their results compared to their plans. Often this is called performance reporting and there are several ways to do it.

Some organizations report indicators of success for each

objective. Other organizations explain their progress toward what they plan to achieve — that is, their targeted results. When reporting results, organizations should identify their risks — that is, what could prevent them from achieving their desired results. Reporting risks gives organizations an opportunity to explain what they do to manage these risks.

One of the objectives of the Provincial Auditor's office is to encourage good reporting by government. Good reporting is key to strong accountability.

When we are building capacity for better reporting, we need to think in terms of three things: better planning, a focus on results, and an ability to analyze and use the reports of results so as to govern and to manage the risks.

In 2000 we began a series of audits by outlining the basic ways that the government can build capacity for reporting its results. First, it needs to sustain commitment from leaders. Secondly, with this major change, it needs to promote a learning culture. Third, enhancing processes is important so that the right material is collected and information is reported in a way that is reliable and relevant. And finally, it's essential to ensure that the reports are credible.

The audit before us today examined the second of those requirements for building capacity, the learning culture. The objective of this audit was to assess whether the Department of Finance adequately supports a learning culture to improve public performance reporting by government departments. We focused on reports to the public, although we are keenly aware that managers also need better information about results.

We noted that the larger Crowns in particular are a little bit further ahead in performance reporting so we focused our attention on government departments. And the time period during which we considered the Department of Finance activities to support performance reporting was 1999. That was November to December of 2001.

To achieve improved reporting, we audited whether the Department of Finance emphasized three elements of a learning culture. Our criteria were that the Department of Finance should promote and provide education, help managers to adapt, and encourage continuous improvement. We found that the Department of Finance adequately supports a learning culture, with two exceptions, and we made two recommendations.

First, we recommended that the Department of Finance should give departments a multi-year timetable with targets for incremental improvements in reports to the public. Giving departments advanced warning of expectations and expected improvements gives them time to learn the required skills, and make other preparations to improve their reports to the public. In addition, a timetable might allow some departments to move ahead more quickly as role models for others.

In July 2002, the Department of Finance told departments what it expects up to July 2003. We support this incremental beginning. In line with Finance expectations, nine departments have now reported their plans to the public. The nine departments include: Finance, Agriculture and Food, Labour,

Northern Affairs, Highways, Environment, Justice, and the new Corrections department. And I understand that officials have those reports with them today if you're interested and have not had an opportunity to look at them.

In particular we would like to congratulate the Department of Finance for reporting their own performance plan and for setting the stage for further developments in the reports about results of all departments. We believe that these plans will help the Assembly with its oversight role. A good first step has been taken. We continue to recommend a longer-term timetable to help sustain the improvements already achieved.

Second, we encourage the department to be proactive in considering ways to support a stronger learning culture. We recommend that the department consider using various electronic resource sites so that departments can easily learn about best practices and the lessons that have been discovered by other departments. We understand that the Department of Finance is considering this recommendation.

During 2003 we will report the government's progress on the recommendations you are discussing today and we will also report how the Department of Finance promotes leadership commitment to report results. Your role as elected members of the Assembly is critical. We hope you will continue to ask for reports of results and thus stimulate improved accountability.

Thank you, Mr. Chair.

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

Mr. Styles: — We've made many improvements to the quality and timeliness of financial reporting over the past number of years and at the present time we're focusing on providing better information about government's plans and actual performance results. Over the past two years departments have been developing performance plans and measures that will provide specific information not only on what they spend but also what they plan to achieve in that year, and what they actually achieve.

I'm pleased the Provincial Auditor's report concludes that the Department of Finance is making good progress in helping staff and line departments develop the skills they need in adapting new reporting requirements. The auditor makes two recommendations and the department is making progress on both.

Eight departments, Agriculture, Food and Rural Revitalization, Environment, Finance, Health, Highways and Transportation, Justice, Labour, and Northern Affairs released their 2002-03 performance plans with their 2001-02 annual reports this past July and will release actual performance results in July of 2003. In addition, Corrections and Public Safety is releasing its 2002-03 performance plan to staff and key stakeholders.

The plans outline the goals and objectives that each department is striving to achieve over the next several years as well as a series of specific actions that the department will take this year. In addition, specific performance measures that departments will use to gauge their progress are included in six of the plans. We anticipate that all departments will release 2003-04 plans

with their 2002-03 annual reports in July 2003.

With respect to the second recommendation, Finance will begin working on developing a Web site by the end of this fiscal year. In the meantime we continue to communicate frequently with departments both in person and in writing, as well as providing the necessary training.

Thank you very much.

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

Members, the chapter is found on pages 93 to 108 of the 2002 Spring Report. As indicated by Ms. Knox, there are two recommendations. They are found on page 104. But before we get into the two recommendations, comments or questions from members of either of the presenters?

Mr. Wakefield: — Just an opening question, Mr. Chair, to Mr. Styles. The second recommendation covers the information, or Web site information. What do you envision will be available on that Web site, and what will be its primary function or primary target purpose?

Mr. Styles: — I'm not sure we've . . . I'm not sure we've worked out all the details to that, but as a minimum we'd obviously put up the existing performance plans, okay, for departments, and now they are on the Finance Web site in terms of the ones that have been released already. But we would see that as a minimum.

I think in addition the performance results reports again would have to be integrated into that. We have, over time, provided guidelines to departments in terms of the preparation of the various documents. It seems to me the Web site would be a good place to post those and make them universally available, okay, to staff in the departments in electronic format versus a paper format.

I could also see, I guess, the latest articles, research, things like that, being brought into the Web site and posted, or at least the links being posted as well. Generally I think we'd use it just as a much improved communication device — one source, in effect, that they could go to.

Mr. Wakefield: — Just a follow-up. The whole idea of performance-based management and results-based management practices, is that an awkward thing to try to change? Is it useful? Are you finding it useful? Is it something that's been imposed and you'd like to kind of set it aside, or is it a very practical, functioning way of doing business? Is it just a pain in the neck?

Mr. Styles: — I mean we're sincere believers. Okay, this is the right thing to do for government. You simply have to look across Canada at other jurisdictions; you look at private sector companies, okay. All of them employ some measure or some degree, okay, of performance measurement. It is important I think. If you want to know where you want to end up, you need to understand how you're going to get there and how you're going to measure I guess your progress towards that particular destination. It's important at this level, quite obviously for the various reasons I think the Provincial Auditor has outlined. It's also important within an individual organization to have clear

communication with your staff as to what you expect from them and where you expect to arrive at a certain point in time — allows them to make positive or efficient resource allocation decisions.

And so again, I think it's important at a variety of different levels. But the department is true believers and I think generally across government it's well accepted. There is good support for it. It takes time to introduce something like this and to change the culture that goes with it.

Mr. Wakefield: — I'm very pleased to hear that.

The Chair: — Any other comments or questions? Okay, could I turn you to page 104, turn your attention to page 104 where we have the two recommendations listed. First one, I believe Mr. Styles has made a comment about progress and the intent of the departments. Anyone prepared to move resolution?

Ms. Atkinson: — I move that we concur with the auditor's recommendation.

The Chair: — Move the concurrence of recommendation no. 1. Any question of the motion?

A Member: — And note progress.

The Chair: — Note progress, yes, I think is what Mr. Styles indicated. Any further discussion? Seeing none, all those in favour? Carried. Opposed — none.

No. 2 regarding the Web site and the intranet of the departments. We've also had comments from Mr. Styles on that one as well. Moved by Mr. Wakefield that we concur and note progress. Any discussion of the resolution? All those in favour? Opposed? Carried.

Thank you very much to the officials and Ms. Knox for taking us through this chapter. We're a little ahead of schedule. Liquor Board Superannuation Commission is next and your presenter, Mr. Wendel, is Bashar and he's not here yet. Right? Okay, the official from the auditor's office is not here yet so we'll sort of just recess. We won't have any adjournment. Don't go anywhere.

The committee recessed for a period of time.

Public Hearing: Liquor Board Superannuation Commission

The Chair: — Okay. We'll reconvene again, ladies and gentlemen. And I'd ask Mr. Wendel to introduce his official that will be helping us through this chapter.

Mr. Wendel: — Yes. Thanks, Mr. Chair. I have Bashar Ahmad who leads our work in pensions and he'll be making the presentation of the Liquor Board Superannuation Commission.

The Chair: — And on behalf of . . . Mr. Styles, I know he's already been introduced but indicate that.

Mr. Styles: — . . . Kent Walde, the director of research and board secretary for PEBA (Public Employees Benefits Agency).

The Chair: — Great. Thank you very much and welcome.

The chapter that we'll be dealing with is in the 2002 Spring Report, chapter 15. Bashar, I'd ask you to go ahead with your presentation.

Mr. Ahmad: — Thank you, Mr. Chair. Good morning. I will provide a brief overview of chapter 15. This chapter is on pages 145 to '48 of our report.

In this chapter, we provide our audit conclusion and findings for the commission for the year ended December 31, 2001. In our opinion, the financial statements of the Liquor Board Superannuation Plan are reliable. The commission had adequate rules and procedures to safeguard and control the plan's assets and to comply with the law except for the matters described in this chapter. I will get to those in a minute. The commission complied with the law governing the plan's activity except for the matters again reported in this chapter.

In this chapter we report two matters. First, we report that the commission needs processes to ensure the plan's investments comply with law, and second, we report that the commission needs processes to ensure compliance with the law for pension payments to retired members who return to work for government.

Now the first matter. We reported the commission needs processes to ensure the investment managers comply with law and the plan's investment objective. The commission is responsible to ensure the plan's investments comply with plan's . . . The Pension Plan Benefits Act, and the plan's investment objectives. The plan receives quarter investment compliance reports from its investment manager, however, the plan does not have adequate processes to verify the investment manager's compliance report. The verification is difficult because of the lack of information regarding full fund investment. As a result we do not know whether the plan's investments comply with the law and the plan's established investment objectives.

On page 148 we recommend that the commission establish such a process. Management told us it plans to address this matter.

The second matter we report relates to the pension payment to retired members who return to work for the government. Section 27 of The Superannuation (Supplementary Provisions) Act sets a requirement for stopping pension when retired members receiving pension return to work for the government. The commission does not have adequate process to know if retired members are working for the government. We continue to recommend the commission should do so. Alternatively the commission should seek changes to the Act.

We reported this matter in our 2001 Spring Report. Your committee considered this matter in November of 2001 and concurred with our recommendation. Management told us it plans to seek changes to the Act. That concludes my overview. Thank you.

The Chair: — Good. Thank you very much. And Mr. Walde, comments? Or Mr. Styles first?

Mr. Styles: — I'll actually go first. Mr. Walde's here to

provide support if you want to get into further detail. With respect to the first recommendation, as has already been pointed out, we're committed to working on this issue with respect to the Liquor Board Superannuation Plan and putting something in place — processes in place, okay, that satisfy the Provincial Auditor.

With respect to the second issue regarding retired members returning to work, the management of PEBA right now is continuing to examine legislative amendments to address the issue with respect to the Liquor Board Superannuation Commission. We would hope in the next couple of years we would bring forward such amendments to resolve the issue.

The Chair: — Thank you for those comments. One recommendation, page 148. Before we go into that recommendation, questions or comments of members of the two presenters?

Mr. Wakefield: — Oh, I'll ask a question. There's a considerable number of superannuation plans. Is there a redundancy? Is there a need to make them at least work with the same objectives or . . . it seems that we hear that whenever we talked about a superannuation commission it has its own board and its own particular problems. Is this . . . could it fit in something else?

Mr. Styles: — With respect to the actual plans themselves, each is unique I guess to their group of employees and to the employers and a large part of it is determining collective bargaining processes. So the fact that they are unique, separate, have some different overall guidelines, would be expected. I think the area where over time we'd like to see maybe a bit more standardization is in how they're administered so that the governance rules, the processes, etc., okay, are similar across all plans. And PEBA is working with the various boards I think to accomplish that.

This is an area where there has been a great deal of development with respect to governance over the last, say, 10 years. And things like Enron in the States, okay, and a number of other problems that have developed are ones that I think are continuing to push the need for improved governance practices.

But I think generally it would be fair to say that with respect to all of the plans, our governance process is really sound. There's always room for improvement, and you learn new things as you go. But generally, it's a fairly positive situation.

The Chair: — I'm wondering, on the top of page 147 it sort of gives an explanation of the plan, the amount of dollars that come into the plan in the way of actual contributions, and then indicating that refunds of 2.9 million versus the contributions of 2.32. That would indicate of course that refunds are larger than the contributions, also indicating then that the plan held assets of 14.1 million and had liabilities of 27.9.

Could you explain those numbers. Are they of concern since liabilities exceeds assets and contributions do not meet refunds?

Mr. Styles: — This is a closed plan so there's no new liabilities I guess, in essence, being developed. With respect to the issue of assets versus liabilities, SLGA (Saskatchewan Liquor and

Gaming Authority) is committed to maintaining the assets at \$14.1 million until such point as the assets and liabilities coincide, are comparable.

So it is a deficiency at this point in time, okay, but there is a mechanism in place to address it and over time it will simply play itself out.

The Chair: — When you say that there are no new members, did you say no new members or no new changes to the liabilities?

Mr. Styles: — No new members. This is a closed plan is the phrase, I think. It's a closed plan.

The Chair: — Okay. As a defined benefit plan then, and you mentioned that the plan is constructed through negotiations and the different terms . . . Is this plan, do the members of the superannuation plan, do they have indexing applied?

Mr. Styles: — This particular plan does not have an indexed component to it. There is ad hoc increases, okay, depending upon the financial circumstances each year. But it's reviewed on an annual basis.

The Chair: — Seeing no further comments or questions, the recommendation on page 148:

. . . that the Commission should establish rules and procedures to verify the investments manager's compliance reports.

And we've heard comments from Mr. Styles about that. Anyone willing to propose a resolution?

Ms. Atkinson: — I would move that we concur with the auditor's recommendation.

The Chair: — Concurring with the recommendation. Any further questions of that resolution?

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

With only that recommendation, that brings us to the end of chapter 15. I want to thank Mr. Styles and Mr. Walde for assisting us and Bashar as well from the auditor's office.

We will recess until 10:30 for . . . Yes, there are two presentations, members, and I'm wondering just to enable the time period there to fit in before lunch, because of the length maybe of two presentations, could we start a little earlier since we are recessing a little bit earlier?

Let's go with 10:15, please. Okay? Reconvening at 10:15.

The committee recessed for a period of time.

Understanding the Finance of the Government

The Chair: — Okay, ladies and gentlemen, I'd ask you to reconvene and we'll begin with our section for the balance of this morning on understanding the finances of the government.

And we're dealing with the 2001 Fall Report and the 2002 Fall Report Volume 1 in each case.

I'd ask Mr. Wendel to introduce I believe a couple of new people that have arrived this morning, first.

Mr. Wendel: — Yes, Mr. Chair. Over on the far side we have Charlene Paul and over here we have Corrine Rybchuk, and they're Ed's able assistants in helping to put this report together that you're discussing this morning.

The Chair: — Good morning, ladies, and welcome. And Mr. Styles, I understand there's another person that wasn't introduced this morning as well?

Mr. Styles: — Actually I have two additional members of the Provincial Comptroller's staff, Jane Borland and Tamara Stocker to my left. Oh I'm sorry, and Al Dennett as well is here, who's the executive director of operations.

The Chair: — Thank you very much, Mr. Styles, and welcome to all three officials from the two departments. Okay, let's begin.

Mr. Wendel: — The presentations will be a little different than you're used to this morning. Ed's going to make a presentation on the chapter and then there'll be a joint presentation with the Department of Finance on some other matters. And then I think Finance itself will be presenting some information to you. So it's up to the committee whether you want to pause at the end of each presentation to ask questions or whether you want to wait until the end — whatever you wish to do. So I'll turn it over to Ed.

The Chair: — Good, okay. Mr. Montgomery.

Mr. Montgomery: — Good morning. I think, for your convenience, we've handed out some hard copies of the slides we're going to use in this presentation so that you can . . . and for the joint presentation that we're going to make with Finance. And Mr. Styles will be handing out copies of those slides as well.

Okay, our report has two main focuses. First, we use indicators to report on the government's financial condition as at March 31, 2002. Second, we recommend that the government change the financial information that it provides in its budget to the Legislative Assembly. In addition, we provide information on how other governments have approached this issue in appendix 4 to our report. And we'll also present some of that information in our joint presentation with the Department of Finance.

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

To report on the government's financial condition, we used indicators from a research report commissioned by The Canadian Institute of Chartered Accountants. First we measure whether the government is living within its means. And second, we measure whether the government's flexibility to raise more revenue from the economy or to borrow more money to meet challenges such as an economic downturn, new programs, or a natural disaster. And third, we measure the extent to which the

government relies on the federal government to pay for existing provincial programs.

So what did we find? We found that after seven years of gaining strength that the state of the government's finances weakened over the past year. Over the past year, the government spent 483 million more than it raised in revenue and its accumulated deficit increased to 8.7 billion.

Also the government relied more on the federal government to pay for provincial programs. Transfer from the federal government increased 489 million to 1.5 billion in 2002.

We also looked at how the government's financial condition compared with other provinces and concluded that Saskatchewan continues to compare favourably with most other provinces.

Our report has several graphs that we used to illustrate the financial condition of the government. Now I'm going to highlight a few of the graphs included in our report.

On page 10 of our report, graph 1 shows that after seven years of living within its means, that the government lived beyond its means in 2002. That is, it spent more than it raised in revenue.

On page . . . Sorry about that. On page 12 of our report, graph 3 shows the annual percentage change in Saskatchewan's GDP (gross domestic product) since 1991. The graph shows that the Saskatchewan economy is subject to significant fluctuation as it remains vulnerable to changes in commodity prices, interest rates, and the weather.

In 2002, after two years of growth, the Saskatchewan economy weakened due to the impact of drought on agricultural production and falling oil and gas prices.

On the same page, graph 4 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 50,000 a year income can afford to carry more debt than a person with a 30,000 per year 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. The trend in the accumulated deficit between 1991 and 1993 was not sustainable. As a result of that trend, the government had fewer borrowing sources, paid higher interest rates, and needed large amounts of money from the federal government to pay for provincial government programs.

The graph shows that by 2001 the accumulated deficit was 24 per cent of the provincial economy. This improvement is a result of the government reducing the accumulated deficit by 2.7 billion since 1995 and an \$11.5 billion growth in the economy during that period. The improvement to 2001 put the government in a better position to afford its accumulated deficit and existing programs with the money it raises from the provincial economy.

In 2002, the percentage increased to 26 per cent due to the 483 million increase in the accumulated deficit and the 1.5 per cent decline in the GDP over the previous year.

On page 14 of our report, graph 5 shows an interprovincial comparison of accumulated deficit as a percentage of each province's GDP as at March 31, 2001. This graph shows that at March 31, 2001 Saskatchewan's accumulated deficit as a percentage of Saskatchewan's GDP is among the lowest in Canada.

Please note that for the interprovincial comparisons, we used the year 2001 to compile this information. This is because when we prepared this report, this 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 earlier than most other provinces. In fact, I think they're one of the best performers on that in Canada.

So far only five provinces — one I just got yesterday — five provinces have issued their summary financial statements for the year to 2002. These are Alberta, British Columbia, Manitoba, New Brunswick, and Saskatchewan.

If we updated the graph for this year's results, Alberta and Manitoba would be unchanged; BC (British Columbia) would increase to 18 per cent, and Saskatchewan would increase to 26 per cent. New Brunswick decreases from 34 to 33 per cent.

On page 16 of our report, graph 7 shows how much of each dollar of revenue that the government raises goes towards paying interest on the government's debt. In 1993, 24 cents of every dollar of revenue went towards paying interest. In 2002 that has improved to 13 cents of every dollar of revenue. This 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 900 million the government pays for interest on its debt remains significant. It continues to be the government's third largest expense after health and education.

Our report also provides an interprovincial comparison which shows that at March 31, 2001, Saskatchewan is fifth, or in the middle of the range of the 10 provincial governments for this indicator.

On page 18 of our report, graph 9, which is a new graph this year, shows the annual percentage change in the net book value of the government's capital assets from 1997 to 2002. We've been unable . . . we've been able to include the graph this year because the government has now improved its disclosure of capital assets in the summary financial statements by including its investment in infrastructure — of roads, bridges, and dams — for the first time in 2002.

The annual percentage change in the net book value of capital assets is an important indicator because it measures the extent to which a government is maintaining or failing to maintain the capital assets needed to deliver its services. Although a failure to maintain essential capital assets can improve the government's financial results in the short term, such deferral of capital spending will lead to higher costs and poorer financial

results in future periods.

This graph shows that for the last six years the government has increased the net book value of its capital assets. Since 1996 the net book value of the government's capital assets has increased by 9 per cent.

We're not able to include an interprovincial comparison for this indicator as complete information is not yet available for all provinces. For example, Manitoba has yet to include their infrastructure assets in their summary financial statement.

On page 18 of our report, graph 10 shows the government's revenue demands on the provincial economy. The graph shows that the revenue raised by the government from the provincial economy has remained fairly constant since 1991. During the period there have only been two movements of more than 1 per cent.

In 1996, own-source revenue as percentage of GDP increased by 2 per cent, from 18 to 20. And that increase was largely due to the \$615 million gain from the sale of government investments.

In 2002, own-source revenues as a percentage of GDP dropped by 2 per cent, from 18 to 16 per cent. And that drop was largely due to the impact of drought on the agricultural economy and falling oil and gas prices.

On page 19 of our report, graph 11 shows an interprovincial comparison of own-source revenue as a percentage of GDP for 2001. The graph shows that Saskatchewan's own-source revenue, from taxes and other revenues as a percentage of GDP, is tied with Ontario for the second lowest among the provinces. Also the graph shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces.

For the 2002 results, Alberta's own-source revenue as a percentage of GDP would be 13 per cent, with the decrease being from non-renewable resource revenue which falls from 7 per cent to 4 per cent.

For Saskatchewan in 2002, own-source revenue as a percentage of GDP falls to 16 per cent, made up of 3 per cent for non-renewable resource revenue and 13 per cent for taxes and other revenue.

For British Columbia, own-source revenue as a percentage of GDP falls to 18 per cent with the decrease being from taxes and other revenue, which falls from 17 to 15 per cent.

For Manitoba, the percentage of own-source revenue falls from 19 to 18 per cent. And New Brunswick is unchanged at 16 per cent.

On page 20 of our report, graph 12 shows how much the government has relied on the federal government to pay for provincial programs. Since 1991, 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. Revenue transfers from the federal government have decreased from 1.6 billion to 1.5 billion, and revenue raised by the government from the Saskatchewan

economy has increased from 3.7 billion to 5.4 billion. As a result the government is less reliant on the federal government to pay for its programs than it was in 1991.

Our report also includes a interprovincial comparison which shows that at March 2001 Saskatchewan is in fourth place among the 10 provincial governments for this indicator.

Now I want to talk about the second focus of our report. The second focus of our report is on the government's budget. We report that it is time to change the focus of the financial information the government presents in its budget. Currently the government's public financial plan focuses on the General Revenue Fund. That plan is not sufficient to have an informed debate on whether or not the people of Saskatchewan can afford new and existing government programs, because it excludes a significant amount of the government's revenue and spending.

Also a plan focused on the General Revenue Fund is not sufficient to inform legislators and the public if the government plans to live within its means. For example, the government's public financial plan for 2002 said that the government planned to raise 3 million more than it would spend. And the actual results for the General Revenue Fund reported that the government raised 1 million more than it spent for 2002.

However the financial results for the entire government showed that the government did not live within its means for 2002. In fact the government spent 483 million more than it raised.

Legislators and the public need a financial plan that's focused on the condition . . . on the financial condition for the entire government. This information is necessary to know if the government is planning to live within its means. That is, are the total revenues equal to or more than the planned spending or will the plan 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 financial plan on the entire government. These eight governments show the full picture when they present their budgets. These governments have moved away from presenting a financial plan based on only part of the government. By doing so they foster an informed debate about the entire government's financial condition and on the affordability of new and existing government programs.

Only Newfoundland, PEI (Prince Edward Island), and Saskatchewan have not changed their budgets to focus on the planned financial results for the entire government.

Finally to conclude this part of the presentation, our report has four main messages. First, the financial condition of the government weakened in 2002 after seven years of gaining strength. However, because of the previous seven years, the government is better able to manage the effects of this downturn.

Second, we urge continued careful management of government revenues and spending. The size of the accumulated deficit is still large for 1 million people and the provincial economy can

change quickly because of changing commodity prices, interest rates, and the weather.

Third, Saskatchewan's financial condition continues to compare favourably with most other provinces because of the improvements of the past seven years or the previous seven years.

Fourth, 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. This information is essential to hold the government accountable for performance and for an informed debate on the affordability of new and existing programs.

That ends the first part of the presentation. We can either take questions at this time or move into the next presentation and take questions at the end — whichever you prefer.

The Chair: — It's entirely the wishes of the committee members. Do you want the complete overview? Okay. So we'll move then to the second part of the presentation and that'll be from the Department of Finance. Mr. Styles.

Mr. Styles: — The second part will be a joint presentation between ourselves and the Provincial Auditor and I'll bat cleanup on this.

Mr. Dennett: — Good morning, Mr. Chair and members. At the November 27, 2001 Public Accounts Committee meeting, the Provincial Auditor and the Department of Finance were asked to prepare a presentation to this committee on how other governments had approached the issue of publishing a financial plan for the entire government.

Both the Provincial Auditor and the Department of Finance agreed that the best way to present the information to the committee was first to agree on the facts of how other governments had approached this issue. This part of the presentation represents the facts that both can agree on. Subsequently the auditor's opinions are presented in its annual report and Mr. Styles from the Department of Finance will present the latter part of the report expressing some of Finance's concerns.

Before examining the various consolidated financial plan approaches that other governments use, we thought it might be useful to review some of the above concepts. That way it'll be easier to understand the concept of a consolidated financial plan for the Saskatchewan environment.

The budget approval process. The Legislative Assembly currently approves General Revenue Fund budgets which include the transactions with other components of government. Boards of directors and CIC (Crown Investments Corporation of Saskatchewan) board approve CIC Crown corporation budgets, and board of directors, ministers, and Treasury Board approve the budgets of government organizations responsible to Treasury Board.

For the purposes of a consolidated financial plan, we conveniently, I guess, break down government into three major components. The GRF (General Revenue Fund) or what other

provinces sometimes refer to as the Consolidated Fund, which consists mainly of departments and includes transactions of that fund with other components of governments, i.e., grants or dividends.

Another component is government enterprises. These are commercial and self-sustaining in nature. Examples are SaskPower, SaskTel, and the Saskatchewan Liquor and Gaming Authority.

And government service organizations. These are the other organizations that aren't government enterprises. Typically, they provide public service but require some government financial assistance. Saskatchewan Crop Insurance and regional health authorities and Saskatchewan Transportation corporation would be examples of these organizations.

A complete listing of government organizations and enterprises is included in schedule 14 to the summary financial statements, which is also set out in the last page of the Provincial Auditor's Fall Report Volume 1.

A consolidated financial plan that is being proposed here would include, in some form, the financial plans of all the three above components. Currently the government, at budget time, produces the financial plan for just the General Revenue Fund.

Voted in statutory appropriations. All GRF expenditures are reviewed by the Legislative Assembly. The original concept of a GRF or a Consolidated Fund was to have all public monies deposited into that fund and for the Legislative Assembly to authorize all disbursements from it. These disbursements were to receive annual approval.

Some GRF expenditures, like interest on the public debt, required ongoing authority. So legislation was provided that would provide these types of expenses with ongoing authority as opposed to the annual approval process.

Over time, governments have expanded and changed and all public monies are no longer available for appropriation. An example of that would be federal crop insurance money that goes to the Saskatchewan Crop Insurance is not available to the Assembly to vote for things like highways or health care. Other examples would be a lot of the utility sales from our . . . a commercial Crown corporation.

The legislature then created by statute other entities outside the GRF which could receive these public monies and disburse these monies in accordance with the statute without getting annual approval from the Legislative Assembly.

Mr. Montgomery: — With respect to voting practices for capital expenditures, some governments amortize their capital assets over time and others expense the full cost in the year of purchase. Saskatchewan would expense theirs in the first year of purchase. However, although governments use different accounting methods to record their capital assets in their financial statements, all assemblies vote on the majority of capital expenditures included in the Consolidated Fund or the General Revenue Fund.

For those governments that amortize capital expenditures over

time, they also vote approval for the total cost of buying the assets as part of a capital budget.

For government enterprises and government service organizations, capital expenditures are generally authorized by statute and are not voted on.

Provincial governments use two basic approaches to present their financial plan. One approach is an overall financial plan in some form that covers the entire government reporting entity, including all the three components of government. The other approach is a Consolidated Fund/General Revenue Fund approach which covers the financial plan of the fund which is required to be reviewed and approved by the Legislative Assembly.

There are two models for the overall financial plan approach. One model is a summary budget model. Essentially it's the same model as the model used to prepare the province's summary financial statements. The other model is called the modified summary budget model, and this model starts with the GRF or the General Revenue Fund financial plan and adds the planned net income of the other components of government.

The GRF or Consolidated Fund model is the approach currently used by the government which does not provide an overall financial plan for the entire government. This approach is based on the financial plan of the General Revenue Fund.

We use the term summary budget to describe the budget model where the budget is prepared on the same basis as that of the government's summary financial statements. It includes all of the three components of government. This model includes the detailed — if you look at the top line of the GRF and government service organizations revenue and expenditure — so this model includes the detailed revenue and expenditure information for the General Revenue Fund or Consolidated Fund, and for government service organizations. Now that's the same as how the financial statements are presented.

For government enterprises, the model includes only the budgeted net income and not the detailed revenues and expenditures of those government enterprises — for example, SaskPower or Liquor and Gaming.

This slide is a more detailed example of the last slide and as you can see, it is in that same format as you see it on the government's summary financial statements. Therefore the advantages of this model are that it provides an overall financial plan. And that plan is easily comparable with financial results. There is a line by line comparison between the plan and the actual results.

The disadvantages of this model compared to the modified equity . . . the modified summary model is, unlike this modified summary budget model which I'm going to go into in a few minutes, there's no link back to what is actually voted on and it does not show the plans for the significant individual components of government.

I refer to the next model as a modified summary budget model. Again it includes all three components of government — that is the GRF, the government service organizations, and the

government enterprises. This model is prepared on the same basis as the province's summary financial statements with one exception. The exception is that for government service organizations the model shows only the budgeted net income and not their complete revenues and expenditures.

The model set out in appendix 3 of the Provincial Auditor's Fall Report Volume 1 is prepared using the modified summary budget model.

This slide is the same model as on the previous slide and is an abbreviated example of the model shown in appendix 3 to our Fall Report. The advantages of this model are that it provides an overall financial plan. Both the summary model and the modified summary model provide an overall financial plan.

Also here, unlike the summary budget model, there is a link to the plan voted on. You can see the GRF, revenue, and operating expenses, and surplus. And it includes the planned plans for the significant components of government. For example it shows the planned net income for the regional health authorities, Saskatchewan Crop Insurance, CIC, and other government service organizations.

The disadvantage is the plan is not easily comparable with the financial results. If you remember on that last one there was a line by line comparison. On this one the only comparison is the bottom line. The bottom line is comparable with the financial results.

The last model we refer to as a single-budget model. This model includes only the General Revenue Fund or the Consolidated Fund. It's not a summary or consolidated plan for the entire government because it does not include the significant activity that takes place in government service organizations or government enterprises

At one time all provinces used this model but most have now provided some form of a summary or consolidated financial plan in addition to the GRF plan.

As I said previously, Newfoundland, Prince Edward Island, and Saskatchewan still use this model.

The next one really just shows the budget model currently used by each province and by the Government of Canada. Most seem to use the summary budget model which has the easy line by line comparison with the financial results. A few, British Columbia, Manitoba, and Nova Scotia use the modified summary budget model, although British Columbia now in their latest budget kind of showed both.

It should be noted that regardless of whether an overall plan is presented, in all jurisdictions legislative assemblies only review and vote the expenditures of their equivalent to the General Revenue Fund. So they're generally not voting the expenditures of government enterprises or government service organizations.

There are a few minor exceptions out there. I think Alberta votes the expenditures of its lottery fund, which is a government service organization, and New Brunswick votes on three of its government service organizations. But the general rule is only voting on the General Revenue Fund.

Although not all expenditures are voted annually, all governments provide additional information in the plan on expenditures authorized by statute so that the plan is more complete. In addition, plan results should be readily comparable with the actual results and therefore governments that publish an overall financial plan model present their plans in a comparable manner to their summary financial statements.

Governments' budgets include prudent assumptions and caution to ensure estimates made are reasonable and achievable. Most also build in contingency funds or forecast allowances to offset the impact of unexpected events.

For example, British Columbia included a forecast allowance of 750 million in its 2003 budget on a total budget of 26 billion. Alberta uses what they call an economic cushion in its 2003 budget to ensure there's sufficient cushion between the revenues and expenses to allow it to balance the budget even if the revenue forecasts fall short. In 2003 the target cushion is 724 million on a \$19 billion budget.

Ontario also use an amount for contingencies. It calls it a reserve; it works similar to BC's forecast allowances, and it's about 1 billion on a budget of 66 billion. Quebec also uses a reserve or . . . they call it a contingency fund, similar idea to Ontario and British Columbia.

That ends the joint part of the presentation, and at this point I'm taking direction from Mr. Styles to switch his slides to the right spot.

Mr. Styles: — Thanks very much. The previous joint presentation provides an excellent base of facts on the issue of summary financial budgeting, but there are other considerations that we believe have to be taken into account in discussing the topic.

Saskatchewan has a very diverse non-GRF sector. Other jurisdictions in Canada have similar sectors. An example would be the Alberta treasury board branches . . . pardon me, Treasury Branches, the BC Ferry Corporation.

However, on balance Saskatchewan has a much wider diversity. We've got commercial Crown corporations; we have insurance, or self-balancing enterprises; enterprises that are involved in sin taxes such as SLGA, the Gaming corporation; third parties, such as the regional health authorities; economic development organizations; and public service organizations such as Sask Housing.

The size of Saskatchewan's non-GRF sector is often noted in the auditor's reports. The largest of these Crown corporations are in or are moving into a competitive environment — SGI (Saskatchewan Government Insurance), SaskTel, SaskEnergy, and SaskPower to some extent — and do need some degree of budget confidentiality, a fact which needs to be considered in any discussion of summary financial budgeting.

The broader range of entities I've listed have very different financial frameworks to match their mandates and the objectives, in addition to which they use different accounting practices. You have GAAP (generally accepted accounting principles) versus PSAP (public sector accounting principles),

and again that makes the issue of comparability a little bit more difficult.

These are some of the issues that must be considered both with respect to, should we move to summary financial budgeting, and if we do move to it, what does it look like?

Governments typically raise revenues — taxes, royalties — to provide public goods and services that are unrelated to the taxes. Business organizations, on the other hand, derive their revenue from the sale of goods and services that they acquire or produce. Revenue and expenses are directly linked for those organizations. If you don't spend money to produce electricity, for instance, you cannot sell it to produce revenue.

Businesses also need to retain some revenues for reinvestment purpose or maintain their debt/equity ratio. So again, different purposes between Crown revenues and the revenues, for instance, that may come into the GRF.

A second difference to consider is that the GRF expenditure budget is reviewed and approved by the legislature, and this imposes spending controls on the amount and type of expense. Business budgets are more in the manner of a forecast of spending as it pursues its business plan. There's no spending limits and spending can be moved to different purposes during a particular budget year.

Finally, how do we reconcile the inherent differences between taxes on one hand and fees for service on the other? Tax rates are set by legislation. For instance, SaskEnergy rates are set on a commercial basis through a rate review panel so you get much different processes. Should the rates be set through legislation raises those kind of questions when you start doing comparability between them.

Does combining the budgets for such dissimilar organizations better inform or confuse the reader because in the bottom line is what we're looking to do is provide better information for the stakeholders than may be available. Does it promote comparability that really doesn't exist, I think is one of the questions that has to be answered.

It should be noted that Saskatchewan's revenue volatility is quite high and that's why those revenues have been stabilized by SLGA and CIC dividends in the past and more recently, Fiscal Stabilization Fund transfers.

Finance examined estimates going back to the 1930s and it appears that Liquor Board revenue was used as a stabilizer even at that early date. Every government in Saskatchewan has seen the need to use stabilization funds in its planning process. Alberta who experiences similar revenue volatility has recently announced plans to create a stabilization fund similar to the old Saskatchewan Heritage Fund. So you actually have a province now that seems to be going back to the type of mechanism that we have rather than to the type of idea of a cushion.

Ensuring some stability in the expenditure plans is necessary from a management perspective to ensure effective program delivery. In point of fact, it's also important for external rating agencies and the investors who buy our bonds as they look for general trends to assess the province's performance. We need to

keep in mind that investors that we sell to in places such as Europe or even Eastern Canada often don't follow Saskatchewan to the same extent the Saskatchewan people would, and they again look to sort of general indicators of where we're going and some stability in those indicators as an indication of general direction.

The next chart that is up shows . . . it's a comparability between summary financial statement revenue and GRF revenue. I would note that with respect to GRF revenue there's one exception. The special \$360 million dividend from CIC was eliminated from the GRF revenue in '96-97 because that dividend had to go to pay down debt and therefore was not available to government programs.

The point here to be made is that changes to annual revenues . . . Pardon me, the changes here as well to annual revenues have been adjusted for inflation. But the point here to make is that in almost all years except '98-99 the changes to summary financial statement revenue are far more volatile than GRF revenue. Using a stabilization fund is the only thing that allows that to be stabilized and to be able to see a projected line or trend over a number of years.

I want to point to three specific funds, government enterprises, to give you some indication again of challenges around comparability. The Saskatchewan Crop Insurance Fund and the Crop Reinsurance Fund are on the chart, the Workers' Compensation Board and the Saskatchewan Auto Fund. It's important to look at these both in reference to volatility and comparability. These types of funds are expected to be self-balancing over their lifetime. They do not have so much as an annual view, but rather a 15-year or a 20-year view of things.

In the late 1990s, these funds were all in a surplus situation which increased the summary financial statement bottom line. These profits, however, were not available for public programs but rather were surpluses that were expected to be drawn down when the need arises.

By 2001-02, two of the funds were actually recording a deficit. With reference to crop insurance, it's actually fortunate that we built up a surplus over time because, as people are probably aware, we expect the payout this year to be upwards of 1 billion dollars. If you hadn't built the surplus up but had spent it over those years in some way, shape, or form, it would not be available at this point in time. We would expect the fund, now being drawn down in this particular year, hopefully begin to build up again next year and for the following number of years, okay, until we experience one of the inevitable droughts that seems to hit Saskatchewan.

A key question in examining summary financial budgets is should public programming, such as health care, be based on annual revenue volatility or on the long-term revenues that are available to the GRF. There's always public pressure to provide more programming, especially when it's believed that government is running a surplus. If government was to plan its public programs around the good years with windfall revenues as opposed to parking those monies in a rainy day fund, then the surpluses and then deficits could become the norm. Summary financial statement accounting does not allow governments to park above-normal revenues into a rainy day fund.

An option might be for the province to budget a contingency fund — and it was briefly talked about in the previous presentation — and do away with the Fiscal Stabilization Fund. However to avoid any deficit without a stabilization mechanism like the summary financial statement would mean the government would have to base its programming on the lean years or the down cycle in revenues.

Fiscal stabilization allows the province to attempt to provide public programming based on stable revenues over the long run. Investors again, especially foreign investors, prefer balanced budgets. Wild swings concern them unless they have an understanding of the underlying causes.

The Provincial Auditor is recommending that government adopt the modified summary financial statement budget as a good first step. Government however needs to consider where it wants to be in the long run. The issues Finance has raised up to now apply to the modified summary approach.

Budgeting on a full, summary financial basis, combining the GRF and the GSOs (government services organization), would add some additional complexity. Breakdown of expenditures in our summary financial statements is by theme and not attributable to a single department or minister. So again, depending how you set it up, the issue of comparability at a more micro level becomes much more difficult. It doesn't represent a plan to spend money on that theme. It's simply the addition of various programs and spending that seem to fit into that theme better than other themes.

There's also a question that should be . . . that should the spending set out in summary financial budget basis lead to having Legislative Assembly review and vote those expenditures. Currently no other jurisdiction is voting non-GRF spending with a couple of exceptions that were mentioned earlier.

If the Legislative Assembly wishes to review more than the GRF budget . . . and there's probably also some implications for the organization of government. Right now there's essentially two streams. There's a CIC stream and a Department of Finance stream. You would need to look to mechanisms that potentially would provide a much better integration.

I would note that the current balanced budget legislation in Saskatchewan and in most other jurisdictions is intended only to apply to the GRF as well. This legislation was to ensure government lived within its means by balancing over the longer term a four-year framework. The four years corresponds roughly to a legislative cycle and not to a business cycle which is more of what the summary financial statements also would tend to represent.

To move to a summary financial statement basis, some budgeting may require actually rethinking The Balanced Budget Act as well.

In summary, Finance would note there were a variety of issues with the summary financial statement approach to budgeting that need to be considered, both with respect to should it actually be implemented and then secondly, how it should be implemented if you made the first decision.

It's difficult to know if the summary financial statement budget will help or actually confuse the users of government budgets. To our knowledge at Finance, there's been no extensive investigation of other jurisdictions' experiences in comprehensive budgeting from a stakeholder perspective. And again, we keep coming back to that because that's really . . . it's the stakeholders that we prepare the information for, to keep them informed and to allow them to maintain a level of accountability with the government.

I would also note the government is still working on its four-year financial plan. Underneath The Balanced Budget Act, 2003-04 is the last year of that plan and generally it's that plan right now that the public holds the government accountable for.

With that, I will be answering any questions.

The Chair: — Okay, thank you very much to Mr. Montgomery, Mr. Dennet, and Mr. Styles for presenting members with the information that you have given us.

First of all let's move to questions or comments of the reports, since that's the process we agreed to — to hear all of the presenters and then clarify or question.

Mr. Gantefoer: — Thank you very much, Mr. Chair. And thank you both to the auditor's office and Mr. Styles for a very enlightening presentation.

There are a few things that I need to understand a little better in order to get my head around the specifics of the presentation, so I'm not . . . Please, whoever would like to answer this please do. I'm not entirely sure who to direct the questions to.

In the summary financial statement budget model and in the modified budget model, I'm trying to understand in more precision the details. And I also want to say, and start, that the summary financial statements in those reports are comprehensive, are complete, and are well done.

I think the point that the auditor is making is that it would be useful to we, as legislators, to have more of this combined information available when we're making decisions and voting decisions on the General Revenue Fund side. Because if it was presented as potentially a \$400 million deficit combined, you may make your decisions a little different in terms of authorizing expenditures on the General Revenue Fund side in light of those figures.

I also understand the issue of the concern about competition and competitiveness in the Crowns and things of that nature. So to my question.

On this summary financial statement budget model, it talks about that the departments in the General Revenue Fund are still detailed but we'd look at then just the net income from government agencies and service organizations. And we would not be looking at the details of SaskTel's budget, for example, revenue and expenditures which would potentially or arguably put the competitive position at jeopardy. So we would be just looking at the net income of all of the combined or say SaskTel is going to have a net income of \$100 million. Would you break it down that much or how would that be presented?

Mr. Montgomery: — I can answer that and maybe Finance can jump in if there's more information. But if we're talking the government enterprise, the SaskPowers and the SaskTels and those entities, the only information we're looking at is the actual net income, not the detail of the revenues and expenditures. It's the planned net income and that information gives you the information of the total income available to the government.

Mr. Gantefer: — Would it be net income by agency, like SaskPower net income, SaskTel net income, or combined?

Mr. Montgomery: — Yes, we would like . . . Generally it's been done as the net income by significant agency. Like if there were some that were not significant they would be combined in another column.

Mr. Gantefer: — And when we look at the summary budget model in six or so of the jurisdictions, that's how they report their significant entities?

Mr. Montgomery: — Yes.

Mr. Gantefer: — I guess the question then to, perhaps Mr. Styles, in that model does that erode the competitive issue for the Crowns? Or by reporting a net income expectation does that allow the Crown to still be able to have the privacy within how that is arrived at that would not jeopardize their competitive position?

Mr. Styles: — Can I just have . . . Mr. Paton would like to make just a small point and I'll come back to that.

Mr. Gantefer: — Thank you, thank you.

Mr. Paton: — Yes. Mr. Gantefer, in clarification to your . . . the actual question, were you looking at the bottom on page 5 of the . . .

Mr. Gantefer: — On page 5.

Mr. Paton: — Yes. Just to be clear, that the revenues and the expenses that are shown on there include the General Revenue Fund . . .

Mr. Gantefer: — Yes.

Mr. Paton: — . . . plus a number of other entities that are included in there. It's not just the departments.

If you note, it says revenue from the General Revenue Fund plus the government service organizations, and there's roughly 50 or 60 other organizations that are included in there. So I just want to be clear that's not the General Revenue Fund on the top side.

Mr. Gantefer: — So it's modified from the current practice?

Mr. Paton: — It is modified. It includes a number of other entities. The only thing that . . .

Mr. Gantefer: — Those entities wouldn't be in a competitive consideration though?

Mr. Paton: — No, but I wanted to clarify. The only ones that are shown on a net basis in that model are the competitive ones.

Mr. Montgomery: — And the competitive ones are shown on a net basis on both the overall financial plan models, whether it be the summary model or the modified summary model.

Mr. Styles: — I guess the question, you know . . . The answer to the question, on an annual basis I would expect that maybe it wouldn't have a large impact in terms of their competitive position. But the question is probably better asked to CIC and to those Crowns.

I think on a longer term basis — and I tried to point this out in I think the second-last slide that I was going through — if we're going to embark down sort of this path, this summary financial budgeting and that becomes the decision, I think you want to understand or I think the government should understand at least where it wants to end up, where it will end up.

And if the idea and the theme is, okay, where people want to drive this is that, you know, potentially it would come to the legislature for instance for voting or potentially there might be more detail in a second phase of this or a second step of this, I think there needs to be an understanding of that.

And so I would simply submit that you need to have a longer term view of summary financial budgeting. Taking a first step without knowing what the second might be or the third might be, I don't think is a good thing for a government to do.

Mr. Gantefer: — So under this model would you . . . what would you vote? You said in this combined model there are other agencies that are inside the detailed budget process and that really the ones that are summarized are the competitive ones. Would the Assembly be expected to vote on all of those issues exclusive of the competitive ones which would be excluded? Or would they only vote those departments or expenditures that are currently voted?

Mr. Styles: — I think there's two aspects to the . . . I guess to the answer of that type of question.

There is nobody from my perspective — I don't know if the Provincial Auditor will agree or not — there's nobody from my perspective actually doing true, conceptual summary financial statement budgeting. If you believe that the entire government budget, okay, should come back to the legislature for appropriation or that it should be laid out on a theme basis, okay. Some of the general tenets to the concept . . . those jurisdictions, I think, in the slides that we talk about doing full summary, they're doing some modification of it as well. Okay? It's almost two different versions of modification. I think that is part of the discussion around the topic is what works good in our particular jurisdiction that would work good in any particular jurisdiction, and finding the modified version. You know, if there's a decision to go that route, find the modified version that works.

But again, I think there's that initial decision: do you want to do something like this. And secondly, if you want to do it, what are all the components and how does it make good sense for our jurisdiction in terms of providing good, solid information;

comparable information okay, for the stakeholders?

But I don't think there's a simple single answer. I think you can discuss it through and sort it out in a sense to what fits the situation.

Mr. Paton: — Yes, Mr. Chairman, if I could just expand on that slightly. One of the confusions that we have when we're talking about summary statement budgeting is the term budgeting itself. In Saskatchewan we have a unique situation actually where we budget and appropriate on the same basis, meaning that the budget documents that are presented and the estimates that are approved are on the same basis. That's not the same case in other provinces. In many cases their budget document is more of a plan and what they appropriate is on a different basis. And it could be different for what's included in that budget — do we have the same entities? And they also sometimes will do their plan on an accrual basis and they might appropriate on a cash basis. So we've tended to budget and appropriate on the same basis but other provinces don't necessarily do that.

In the presentation, I think Mr. Montgomery indicated that the government may want to continue to appropriate approved spending on simply a GRF basis but may want to plan on a broader basis.

Mr. Montgomery: — That's correct. I'll just add there, as you look across the country, everybody votes on the General Revenue Fund or their Consolidated Fund. They vote on that. Nobody votes on the competitive, those SaskPower, SaskTel — nobody votes those expenditures. And also for the government service organizations, that other component, it's rare that anybody votes that. The only exceptions I've listed was the one in Alberta where they actually vote on the expenditures of the lottery fund which is a government service organization there, and in New Brunswick where there was about three of a number . . . three that they voted on of a number that they didn't, you know.

So in general, the voting is General Revenue Fund or Consolidated Fund right across the country. And then they put a plan together that shows you the entire picture of the government's finances and financial plan.

Mr. Gantefer: — Thank you. The issue — and I'm trying to find where they are in here and I'm giving up — the issue of planning for stability or contingency funds, or cushions or that sort of concept in this combined budget planning process — it struck me, or as I understood it and maybe I understood it incorrectly, is that there's almost an understating of potential revenue that provides this cushion amount. Is that how it would work when you're doing the combined statements, or you would say that the net dividend or the net amount that is available from the competitive Crowns would be less than it actually might be? How is that cushion, or whatever the right word is, in other jurisdictions provided?

Mr. Styles: — As I understand it, in the other jurisdictions what they simply do is have a line item, in effect, okay, that, you know, adds in 700 million or 400 million or 500 million or whatever the number may be as an expenditure line. And so the revenues and expenditures are balanced. But over time

somehow you have to build up that size of cushion, either through getting your revenues up or potentially curtailing your expenditures. Because if you want to build a cushion in there, it's on an annual basis and you lose it, in a sense, from year to year.

Mr. Gantefer: — So if you were to start this, you'd have to start with it at zero unless you planned for a surplus and . . . which you could allocate to that cushion. Is that right?

Mr. Styles: — It seems you'd have to do something on a phased basis, okay. I mean, that's what it would appear to me. If you notice . . . If you look at the numbers for a lot of the other jurisdictions and you translate it into percentages, okay, in Saskatchewan you'd be talking somewhere in the neighbourhood, as I would compare it, around the \$200 million contingency that would be put into our expenditure side.

Mr. Gantefer: — The advantage is that it's all seen on this combined budget planning document. And I think that that's the important concept in my mind is that you have the benefit when you're making decisions . . . And I appreciate that the decisions, the budget votes are occurring only in the General Revenue Fund but if you understood the total picture, it may have a significant impact on the approach you would take in terms of voting expenditures in the General Revenue Fund. You may tend to be of a mind that you'd be more progressive in terms of improving programs or adding on to programs if indeed there was a period of surplus occurring as compared to a period in the combined fiscal position of a serious deficit.

Mr. Styles: — Yes, I'd make two comments about it. I guess first that when we put out our budget document we show exactly what we're going to draw from the Fiscal Stabilization Fund, so how much from, sort of, our contingency funds we're going to draw or make available in that particular year. So I think the two are still in a sense comparable. You can still see the amount that's been drawn or expects to be drawn from contingency.

The second part — and again it's all, I guess, perceptions on how people believe this will be seen — when you put the contingency fund in, I think there will always lead to this belief by some of our stakeholders, by some of the people who receive money from government, that there is this pool of money available and, you know, it leads to more pressure on making spending decisions.

Now there's always pressure on government for spending decisions, okay. It never ends in a sense. So does it add material amount on top or not? I think everybody will have different views on it.

But it definitely, I think, in the context of our jurisdiction, would end up being in a sense a target. You know, people that have a problem, they say, lookit, you have \$200 million here; we need to step forward and use it. The idea behind a contingency fund is to only use it for very specialized situations.

Alberta, and I'm going to quote a number and I might be a little off, but I think their firefighting budget this year ended up being around 300 million or 283 — something in that range anyways

— substantially higher than it's ever been in the past for them. In fact, I think they spent more on one single fire in Alberta than I think our entire forest fire budget. And that's a special circumstance and that's what it should be designed and what it should be used for.

But it does create a target and people will come after it from a spending perspective. So I think that's part of what I've tried to reference in my presentation. This information is used by a wide variety of stakeholders and I think it's important to think about all the stakeholders and sort of how this meets their needs or how it doesn't meet their needs.

Mr. Gantfoer: — In my mind the significant difference is, is that when we're doing it the way we're doing it now and we can say that we're drawing money from a contingency fund, when we look at the combined statement it may or may not exist.

And when we look at this combined statement and you budget a contingency fund of, using your example of \$200 million, it would clearly show if that 200 million indeed is available or not or would actually put the overall combined position of government into deficit or not. That I think is the difference and it's significant.

So thank you, Mr. Chairman.

Ms. Atkinson: — Obviously what the Provincial Auditor is recommending has some significant implications and I understand the Provincial Auditor's arguments. But I have a number of questions.

If we went to summary financial statements, would the government be able to continue with the Fiscal Stabilization Fund? To the auditor, yes.

Mr. Wendel: — If the government wants to continue to have a Fiscal Stabilization Fund, that's a government policy decision if they want to do that. What I'm asking for is to take all funds and add them together so you can see the whole picture. So I don't have a quarrel if they want to have a Fiscal Stabilization Fund or any other fund.

Ms. Atkinson: — So the province could still continue to have a Fiscal Stabilization Fund?

Mr. Wendel: — They could have a Fiscal Stabilization Fund but what they need to have still is adding up all of the funds, the General Revenue Fund, the Fiscal Stabilization Fund, and all of the other government service organizations and enterprises.

Ms. Atkinson: — Okay. In the department's view, do you believe we could still have a Fiscal Stabilization Fund?

Mr. Paton: — Mr. Chairman, in answer to that, we would still have the Fiscal Stabilization Fund but the effect of it in balancing the fluctuations would be eliminated on a summary basis. And that's what you see in the summary statements. We still have the fund in the summary statements but the balancing effect is eliminated.

Ms. Atkinson: — Okay.

Mr. Paton: — It doesn't really act as a mechanism to stabilize your revenues and expenses.

Ms. Atkinson: — So as I understand it, if you went to summary financial statements we would not be able to have a fund that would stabilize our revenues which tend to fluctuate dramatically?

Mr. Paton: — That's correct. The slides showed the fluctuations that exist when you consolidate and eliminate the effect of the stabilization fund.

Mr. Montgomery: — Well actually, one thing to remember, you should probably remember, there's nothing in the fund. There's nothing in the Fiscal Stabilization Fund, so when you put it together it doesn't actually stabilize the financial position of the entire government because when you put it all together it's eliminated. It's not there. There's nothing.

Ms. Atkinson: — Okay. We have . . . There's been reference to crop insurance, to the Workers' Compensation Board, and the Auto Fund. Tell me what would happen to those funds when they are in a surplus position under summary financial statements. Would they exist?

Mr. Wendel: — The funds continue to exist. They do continue to exist. We're not suggesting that you change your organization structure. You'd continue to have all those funds and manage them the way you manage them. We're not questioning that.

Ms. Atkinson: — What does the Department of Finance have to say about that?

Mr. Styles: — What happens with the funds is that where they generate a net income, if I can use that word, okay, in a particular year it shows the summary financial statement revenues as growing.

On the flip side, where there's a huge draw on that particular fund in one particular year, you get a very large loss in that particular year which again swings the revenue that comes out of the summary financial statement. And so that becomes sort of the impact from a volatility perspective and I think I've represented that appropriately, Fred. That's where you get your volatility from.

Ms. Atkinson: — Okay. So an example would be when the province first introduced its Fiscal Stabilization Fund and there was a huge amount of money in the fund — 700-and-some million dollars — and as I recall there was huge legislative pressure to spend the money because it was displayed in the budget book. Do people recall that?

So is part of the difficulty here that in good years, when you are displaying summary financial statements where there appears to be a huge amount of money, there obviously would be a huge amount of pressure on the province to spend that money?

Mr. Styles: — Absolutely. In the early years of summary financial statements — I think probably beginning about '93, '94 — you saw quite large surpluses in the summary financial statement documents. If those had been taken as . . . If those had

been interpreted in the same way that GRF surpluses and deficits were interpreted, then that would create the automatic pressure, I think, from a lot of stakeholders that those should be spent or somehow used in those particular years.

So again, it's how stakeholders perceive a lot of the information, how they interpret it. In truth of fact, some of the surpluses in those early years were a buildup in funds like this, where the money was being built up to correct maybe a past deficit or the money was being built up to take care of what would be an anticipated deficit in the future, such as crop insurance.

Ms. Atkinson: — Okay. So an example of this would be I guess Saturday's *StarPhoenix*, December 2, I believe it was 2000, when during the mid-year financial review, the Minister of Finance indicated that there was a \$370 million oil and gas windfall, essentially. And at that time the government announced that it would be placed in the Fiscal Stabilization Fund. As I recall it from the newspaper clippings, the Leader of the Opposition indicated that there should be a fall session to figure out how that money should be spent.

And so, if we were to display all of the various revenues of government entities and GRF, obviously any government would be in a position where there would be huge pressure to spend that money when really the money needs to be used to stabilize our fluctuations in revenue.

Mr. Styles: — That's correct.

Ms. Atkinson: — So that is part of the concern, I gather.

Mr. Styles: — It's an issue that needs to be considered in all of this.

Ms. Atkinson: — Okay. I guess this is a question to the Provincial Auditor. Does Saskatchewan have the most volatile revenues in the country, from the information that you've been able to glean from other jurisdictions?

Mr. Montgomery: — I don't think I could answer that but I could say that Alberta surely has pretty volatile revenues. And I don't . . . I'm not sure. I really couldn't give you a feeling as to whether BC was different from Saskatchewan in that area. We didn't really look at volatility as much.

Ms. Atkinson: — Does the Department of Finance . . . have they looked at this question?

Mr. Styles: — Depending upon the time period that you were to select, okay, it's a toss-up between ourselves and Alberta. Again, different time frames we're probably a little bit more volatile, other time frames Alberta's a bit more volatile.

Where I would say there's a difference between ourselves and Alberta is usually in the fact that we have a lot more downside volatility whereas Alberta's volatility seems to be primarily upside volatility. So when they set their budgets, they will set oil and gas at, I think last year, twenty fifty, something like that anyways. And so they develop it, you know, in order that any volatility they're going to have is going to be upside. They will come in with another \$500 million, \$700 million, whatever, in

revenue. Where for us, changes in things like the equalization formula, for instance, give us a lot of downside volatility as well. So we're a little different from that perspective with Alberta.

Ms. Atkinson: — All right. Given our revenue volatility, wouldn't it be better from a planning perspective to be able to carry future revenues into or revenues — not future revenues — but revenues into future years?

Mr. Styles: — Well that is the position and the mechanism that the government has put in place so it's effectively the financial policy we have right now.

Ms. Atkinson: — So with the auditor's recommendation, would we be able to carry those future, those revenues into future years?

Mr. Wendel: — I don't think there's any revenue to carry forward to future years. I think when you look at the entire picture, we have an accumulated deficit so there's no way to put money away in a surplus account that you can use for a rainy day in the future. What happens is you pay down your deficit as you go along. If you happen to have some good years, you're reducing your deficit. That's what in fact is happening in Saskatchewan.

As to revenue volatility, when I look at the summary financial statement results here on pages 38 to 39, it seems like a fairly constant trend. There are occasionally some volatility but there is no revenue being set aside. I mean all the revenue is recorded and it's in the books. And you can't set aside a surplus when you have a large deficit. There's no surplus to set aside.

Ms. Atkinson: — Okay. But let's go back to the Auto Fund, let's go back to crop insurance, let's go back to the Workers' Compensation Fund. What happens to that money in good years?

Mr. Wendel: — That money's set aside for those purposes. It can't be used for any other purpose.

Ms. Atkinson: — But would there be . . . but my view is that there would be huge pressure . . . I mean if the thing is displayed in the way you're suggesting, there would be huge pressure to spend that money, to spend the net assets or the net revenue.

Mr. Wendel: — Well that would be something that would have to be managed. There's always pressure on government to spend money and they have to manage those things. So it would be one more thing they'd have to manage, certainly. If there's pressure to spend money, I mean, that's never ending. But telling people what's going on, I mean, that's very important. They need to know what's going on and where it's been earmarked for something, it's earmarked for that.

Ms. Atkinson: — But I guess my question is this. In the report of the Provincial Auditor, Volume 1, it appears as though we do tell people what is going on when it comes to the information as it pertains to Crown corporations. I just have to find it. On page 60 . . .

Mr. Wendel: — Is it page 82? Is that what you're looking . . .

Ms. Atkinson: — Yes, page 82, right. It appears as though we do indicate to the public what's going on.

Mr. Wendel: — And I want to say that the government does a very good job of producing the actual results. And we've said that many, many times that the Department of Finance does an excellent job of telling people what actually happened. What you're missing is what was planned for the financial results for this particular year that just . . . here's the actual results, and we're saying, well what was planned to hold the government accountable?

You don't know what was planned for the entire government. You only know what was planned for one fund. You do get the actual results at the end but if you want to hold somebody fully accountable, you need to know what was planned. And that's the point I'm making.

And then secondly, throughout the year when you're getting quarterly reports, I think it's important for you to know where the entire government sits, not just the General Revenue Fund. Like you may be on track for the General Revenue Fund, but what impact has the drought had on the entire government, or on the forest fires had on the entire government? Like what impact has it had on us? How has that put us off our entire plan?

And that's what I'm trying to get to. I don't want you to have to vote anything more. I just want people to know what's happening.

Ms. Atkinson: — So your argument is that in order for government to be transparent, government needs to put forward proposed revenues and expenditures for all government entities, including the GRF.

Mr. Wendel: — That would be my statement. And if you look at the model we proposed, it shows you that. It shows the net incomes for the government service organizations, the net incomes for the government enterprises . . .

Ms. Atkinson: — And how would I be more knowledgeable as a legislator? How would this help me do my work?

Mr. Wendel: — I think you would know how the General Revenue Fund budget links to the entire government and what impact it will have when you approve that level of spending. Will that result in the overall government ending up in a deficit position or in a surplus position? And then throughout the year you'll know how we're progressing. Are we . . .

Ms. Atkinson: — But last spring I think we knew that we were spending more money than we were taking in but we used the Fiscal Stabilization Fund to balance the budget when the Minister of Finance presented his report, or budget, to the legislature.

Mr. Wendel: — That's what the General Revenue Fund indicated.

Ms. Atkinson: — Right.

Mr. Wendel: — But what was the plan for the entire government?

Ms. Atkinson: — And we indicated at the time X number of dollars would be taken from CIC and other places to help us balance the budget. So obviously there was a commitment; there was disclosure on this.

Mr. Wendel: — There's disclosure on the General Revenue Fund. I'm not quarrelling with that. I'm saying you don't see the entire picture; you don't know what the total spending is.

Ms. Atkinson: — But we are transparent in the mid-year, as I understand, the mid-year financial report in terms of how well we're doing.

Mr. Wendel: — No.

Ms. Atkinson: — And then when public accounts come, you have an indication of how well we're doing.

Mr. Wendel: — I think at that point, in the mid-year reports and quarterly reports, they're not transparent. You don't know where the entire government is. You only know where the General Revenue Fund is.

Ms. Atkinson: — And that's not good enough for the Provincial Auditor?

Mr. Wendel: — No. Our recommendation is you need to know where the entire government is.

Ms. Atkinson: — Well I'm not sure how that is going to help me do my job as a legislator. I'm not sure how it would help the opposition, given that they vote against every budget anyway. I don't know how it helps the opposition in that they vote against the budget. How does it help us? You know, I don't . . .

The Chair: — Are you . . . Was that a rhetorical question, Ms. Atkinson, or are you . . .

Ms. Atkinson: — Well I'm not . . .

The Chair: — . . . asking for a comment?

Ms. Atkinson: — No. I'm not asking for a comment. I'm just not sure how this helps us do our job, given that we are considered to be . . . And I've heard the Provincial Auditor say it in the past. We have the best — as I understand it — the best books in the country. We get our public accounts together faster than most other jurisdictions. We have improved dramatically our accounting practices, our transparency practices. I mean there's . . . no one is cooking the books. I mean it is . . . we are in really good shape from a transparency point of view.

And so I'm not sure how this helps me, as a legislator, do my job. What I do think this does is put huge pressure on any government, particularly in good times, to spend a lot of money. And I've seen it when we have had good times, the pressure that's been put on government to escalate spending. And really, what you're trying to do is plan.

I mean the other thing that I would say, is even though

Saskatchewan is one of three jurisdictions that does not present its entire government assets . . . or expenditures and revenues, we've had 10 straight credit upgrades from Moody's. I mean we are in good shape.

And we have been able to reduce our debt as a percentage of GDP to, well, 26 per cent from 45 per cent in 1995. And that's cutting the debt burden in half basically in six years. I mean this . . . we have done a tremendous job and we have increased our credit rating.

I'm not sure what this does to improve those kinds of results, other than I think it would put huge pressure on any future government.

So I'm of the view that we need to continue to work on this, given some of the many issues around this notion, even a modified notion of summary financial statements.

The Chair: — Thank you, Ms. Atkinson.

Mr. Goulet: — Yes. I just wanted to get into it a little bit more on the, you know, on the detailed questions, but I'd like to make a general comment.

On the budget itself, you know, and the fact that it does drop to a minus four eighty-three is what you say. You know we've had an excellent record over the many years. And this is a first year that you've brought out this information.

And also in terms of planning, we lay out our plans. I mean we have a budget that's laid out to the public. We debate the budget to the public. The opposition is there in a democratic sense to debate the budget and they focus in on the strength . . . basically the weaknesses on what they see in there and we produce our strengths in regards to the budget. And it is debated that way.

And we also have the Crown Corporations Committee. We have the committee of Public Accounts. When you look at the whole system in terms of transparency, we have some of the best systems, you know, there is in governance and accountability.

And I'm looking even at the recent reports and statements by your office vis-à-vis those points. But I'm also looking at the recent, you know, commentary on your concern on the first time on this first year. And I'm looking at it and I'm saying to myself, what does the public hear from the auditor?

And I'm hearing that there was a problem in agriculture; there was concern in the agricultural sector. There was concern in the resources sector. There was concern in the health side, and that's what the public hears, you know, out there.

And then I'm thinking to myself, well what is there that's new that you would want to get at if you already know the information in agriculture, if you already know the information in health, and if you already know the information on the resources strategy, and you also know it's four hundred and eighty-three down. What is the new thing that you would like to know?

What new information would you like to have besides the

debate on, you know, our Crowns on the fact that they have to compete fairly? Besides that debate on the Crowns, on the competitiveness fairness of the Crowns, what is the new thing that you would like to see besides this general debate on the format? What new information do you not have that you would like to have? Could you clarify that for me? What is the actual new information you would like to have that you do not have besides the debate on the enterprises?

The Chair: — Mr. Wendel or Mr. Styles, I'm not sure. You were directing that question at the auditor's office, Mr. Goulet?

Mr. Goulet: — Yes.

Mr. Wendel: — As I said earlier, you get a very good report here on what actually happens. You get a very good . . . And you do present what's happened in all of these places including your Crowns and your crop insurance and your forest fires and all the other things in resource revenue. It's all there. What you don't have is what was the plan for the overall picture. You don't have that.

So when you get the actual results on these summary statements, you don't know what was planned. So you don't know whether the results that are shown there is good or bad performance because you can't hold someone accountable unless you know what they planned to do.

Mr. Goulet: — Yes, in regards to that. I mean, there is department . . . You know, I've been through the system, you know, quite a bit for . . . (inaudible) . . . There are interdepartmental plans, there are departmental plans, you know, that are out there. There is planning that is laid out by the government and the budget. There is plans in regards to the Crown corporations through each, in each separate Crown, and also through CIC. But obviously from your viewpoint that that planning there is insufficient to deal with the situations. That's what you said.

Mr. Wendel: — I'm not talking about the internal management the government has. They may be well aware of what all those plans are of all those organizations which you may have seen in, you know, when you used to be involved with this. What I'm talking about is what is made available to the public so they can understand the overall plan.

Mr. Goulet: — Well that's the point I was asking you, was this. The report you give is that, to the public, that was been made public, that the problem on the four eighty-three this year, you know, for the first time, and the problem, and the report you give is that there was problems in the agriculture sector, there was problems on the resources sector, there was issues relating to health, you know, on the expenditures side. That's what is . . . (inaudible) . . . to the public.

I asked you the specific question, what other new information could you get from your new system to provide you with that information is the question that I asked before, but you didn't answer it.

Mr. Wendel: — Well I thought I had but I'll try again. And what I was saying was if you know what the plan was for the coming year and you get reports back in the interim or the

mid-year or the quarterly reports, you'll know how you're progressing so that when the \$483 million deficit comes about, it will be known long before that. Before you approve the budget, okay, you would know what actually happened the previous year, and you would also know what the plan is for the next year.

Mr. Goulet: — Now some of these plans of course, as you well know, are market related. If you knew and I knew and a lot of people knew what the markets were going to be, they would be in the money. And obviously a lot of people in the world don't know that because there's been a downturn. And if there is a factor there, then how would you know 100 per cent?

Mr. Wendel: — You have that same situation with the budget that you do have for the General Revenue Fund. You don't know what the market's going to do for oil and gas. But you already have that situation.

Mr. Goulet: — In other words, therefore, you would not fully know.

Mr. Wendel: — With regard to that, you will not know. No.

Mr. Goulet: — Okay.

Mr. Wakefield: — Thank you, Mr. Chair. I have a couple of comments I would like to make. It seems to me that if I'm going to do my job as a legislator, representing the people that I've been elected from, I want to be able to tell them that I was aware when we were discussing how the province is doing. I want to know all the information that I possibly can. And at this point I don't know.

When we're at the point of discussing how the province is planning to unfold their economic strategy for the year, you're absolutely right, we do know in detail — and I think it's been mentioned that the results are displayed well for us — but that's after the fact.

How do I know, how can I convince my, the people I represent or how can we convince people that want to invest in this province that the province is going to be okay to invest in if we don't know what the situation is as we're planning the year? And just because we have a surplus that will eventually show up as it is now, just because we have a surplus, that shouldn't be an indicator or it shouldn't be any reason for us not to administer that surplus in the best way that we can. We shouldn't be hiding it from the people of this province just because there's going to be pressures on us to spend a surplus.

The point is we have to understand what the plan is — the full plan, as the auditor has said. And we don't know that. As legislators, we don't know that. I think we owe it to the people that we represent and we owe it to the people that we hope will invest in this province that there is a full disclosure. And if they want to invest, they understand the full situation of where the province is at this time which we see but also what it's being projected to in the full disclosure of what the plan is. And I think that's very important. If we don't do that, I think we come up short in what our responsibilities are as legislators.

Ms. Atkinson: — Okay, to the auditor. If you budget \$60

million to fight forest fires and you have a really bad year and, you know, you thought you might have a good year but you had a bad year and in fact it was \$114 million, does that mean you're a bad planner?

Mr. Wendel: — No, it doesn't mean you're a bad planner. I think what you do is have to explain what happened.

I mean, it's not to place blame. I mean, the purpose of accountability is to tell people what you're planning to do, tell them what actually happened, and explain what was different to what you thought was going to happen. Doesn't make you a bad planner.

Ms. Atkinson: — Okay. If you have a Fiscal Stabilization Fund and if you receive windfall oil and gas revenues, which happened to Saskatchewan and Alberta, and you decide that in November what you're going to do is create a three-year highways fund — and you say that mid-year, you don't say it in March or when you come down into provincial budget — and you're going to perhaps create a centennial fund or centenary fund and if you say you're going to, you know, put out an energy rebate because you have volatile gas prices, gas prices are going up and down and you do this mid-year, would the Provincial Auditor then say the following year well, this wasn't part of the plan. Because this wasn't planned for in the . . .

I mean, there are . . . I guess what I'm trying to get at is there are moments when you have excess revenues, you have pressures. And certainly, highways in 1999, if I recall, were huge pressures. And then you have, because of what we did in the 1990s, you had huge infrastructure issues where infrastructure begins to deteriorate and what you do is you take your excess revenues, one-time revenues and you use them for capital construction. Now that wasn't part of the plan in March. Would the government be criticized for that if they did it in November?

Mr. Wendel: — They wouldn't be criticized from my office. They might be criticized from the opposition, you know, on their plan. I mean, that's . . .

Ms. Atkinson: — Which they were. Which we were.

Mr. Wendel: — I mean, that . . . If you change your plan, you have to explain why you change your plan and that's something you have to answer for. I mean, that's what accountability is, having to answer for what you've done — what you plan to do and what you've done.

So if you had a plan to do something and you did something else, well you just have to answer for that. Some people would agree with what you did and some people will disagree. But it won't be me saying that that was a wrong policy. It won't be me talking policy.

Ms. Atkinson: — I guess to the officials in the Department of Finance, if we were to go to summary financial statements — obviously the Provincial Auditor believes there are benefits for the province, benefits for legislators — explain to me what are some of the pitfalls that we would have to deal with in terms of our credit rating agencies, in terms of planning that the Department of Finance has to address? Because Department of

Finance doesn't only plan for one year, it looks into the out years. Tell me what we would be dealing with and would this stabilize our ability to plan?

Mr. Styles: — Let me first start with I guess the credit rating agencies and the investors in the province. With the credit rating agencies probably not a lot of difference. They're very sophisticated, okay. So when they look at our books and they look back at our budget, they're able to ascertain what the trends are and so they're very happy with the information that's available.

Investors is where the challenge becomes. Most of the investors we deal with . . .

Ms. Atkinson: — Could you speak up, Mr. Styles?

Mr. Styles: — I'm sorry. Most of the investors that we deal with are ones that only see . . . well look at, first, the credit ratings and then secondly, have a close look at our surplus or deficit. So the numbers that are in the GRF budget is what they tend to look at. That tends to be their focus.

If what you're showing or if what you do is you shift the focus from GRF to, say, the summary financial statements and you're showing a lot more volatility, okay, there will be more concerns. I can actually relate this to something that is occurring right now in the market.

We did not get a second upgrade from S&P (Standard and Poor's Corporation) this year. We had expected it. It would have brought our credit ratings between S&P and Moody's to roughly comparable levels. So we're a little off-kilter right now.

In Canada that has no impact for us. In Canada we now trade about five basis points below Ontario in the short run, a little bit more in the long run. So we're very close.

You take us over to Europe though where they pay attention to just the credit ratings — they don't know us so they depend on the credit rating agencies, okay — we'll trade 15 basis points behind Ontario. And the simple reason is they don't know us, they look at the credit rating information that's available, they have a quick look at surpluses and deficits, and they draw their own conclusions. And so we trade at a big disadvantage.

So we tend not to float very many issues in Europe any more because of that. This sort of situation again would tend to exacerbate that to some extent. So that's the, I guess, the first part of it.

Maybe a comment on accountability and I was driving a little at it with some of the slides I had. The legislature with some of the entities has set a framework for that entity, and the three that I've talked about — and you can apply this to others — but the three I talked about was the Crop Insurance Corporation, the auto fund, and WCB (Workers' Compensation Board). And it has set a framework that over a longer period of time should result in it balancing out.

I would question whether there's any real accountability for the financial performance of that organization in any one year to the legislature. On a long-term basis I would suggest there's

accountability because you want it to be actuarially sound, you know, you want it to perform well over that longer term period. But on an annual basis, it's a different type of accountability would be the observation that I would draw — the accountability is for the mechanism rather than in a sense for the budget.

But again it's a perspective on, sort of, what type of accountability. It's definitely a different type of accountability than it would be for say the Department of Health or any of the executive government departments, as examples. So I would make that observation that it is a little different.

I also go to the issue of multiple stakeholders. The information that we provide is used by a wide variety of stakeholders here in the province. The media obviously make good use of it — you know, each time we come out with a budget they scrutinize it and have their own perspective and view on it. The people in the province are very much the same.

In looking at summary financial budgeting, I think it's very important for the government to consider how all of the different stakeholders, okay, will perceive it and whether or not the information being provided while technically or in theory might provide I guess better comparability, whether in truth or point of fact it does provide better comparability for the general public. And again I simply lend these as observations to, I guess, in looking at the issue or considering the issue. But I think those are the types of things that need to be taken into account.

And again in the final analysis, and I think I went into this earlier, it's a . . . there's two sets of decisions in here, I think. One is, does the government want to go to something like summary financial budgeting. But then second, if you do, then what does it look like. The Provincial Auditor has provided, sort of, one perspective into what that first step might be. I think it's important to think not only what the first step might be, what the second, the third — where you end up on the long term.

Ms. Atkinson: — Mr. Styles, on page 10 you have the revenue stability summary financial statement versus GRF. It's the slide at the bottom. Is this what you're talking about when you say . . . when you talk about investors, that this is what they would look at and they'd think, oh this is volatile?

Mr. Styles: — They will tend to look more at the balances, okay. So it's the GRF balance right now that we're doing presentations to a group of investors that we will tend to show. Okay? If we moved away from GRF as being the focus and rather it is the summary financial statements and the surplus or deficit that's in the summary financial statements, then what you would tend to see, again just assuming that we continue sort of the same type of approach, I guess, generally in terms of our revenue and expenditure decisions, you'd see surpluses and deficits, okay, in individual years. Even if the GRF is balanced, surpluses and deficits, okay.

And again things like crop insurance, you know, you get the wide swings. You get a billion-dollar payout this year. Auto Fund I think has had some of those swings in the past and there are others too. I mean the Crowns experienced some of this

volatility. I'm not an expert on SaskPower, okay, but SaskPower I know is very open to fluctuations in things like foreign exchange, for instance, or open to fluctuations on water levels. You get a bad year of water coming out of the snowpack in the Rocky Mountains for instance, okay, and they get, you know, quite significant swings.

These things tend to balance over time for them but in any one individual year there is significant swings for them, so . . .

Ms. Atkinson: — So what . . . my question now is to the auditor. When the auditor is making a recommendation that we should go to summary financial statements, does the auditor take into consideration the fact that the province, as a large entity, has to deal with the investment community? And was that a consideration of yours when you were making this recommendation? And if it was a consideration, can you explain to me your position on this?

Mr. Wendel: — I would think the investment community would know what the summary results are for the government and they would factor in all of those things. So they already have the results. They've already produced them. They're available, they're a public document, and I'm sure the investment community has them. So they will look at that and see and make their own judgments on it. So that those results are already there.

Ms. Atkinson: — Then if the results are already there, then why do we need to do this if the Department of Finance believes there's a risk in going to your . . . your position, moving to your position?

Mr. Wendel: — Why they need to do this is so there is accountability of the government to the Assembly for the results. You have the results. You don't know what the plan was.

Ms. Atkinson: — But as I understand it, the Department of Finance, which has to deal with the market, is concerned that if we went to this it would have some impact with investors. Your view is that they already have the results, so we don't need to worry about it.

Mr. Wendel: — I think my view is if they already have the results from the prior year, my guess is that if they're sophisticated investors, they would ask, what's the plan; where do you think you're going to be for the entire organization?

Ms. Atkinson: — Can the Department of Finance comment on what the Provincial Auditor has just suggested.

Mr. Styles: — I'll maybe find some halfway point between the two. What most of the investors or a lot of the investors, especially ones that are outside of Canada, depend upon is the rating agencies.

And the rating agencies take this information into account. Again, they're very sophisticated; they sort through it. They understand both our Crown sector well, our government enterprises, and the GRF.

And so in a sense that, does the information make its way to

investors? Yes, but only through the rating agencies and the ratings that they establish. The information itself, my experience to date — I will remind that I've only been in the job for about 16 months — but in my experience to date, when you talk to the individual investors, of which I've met a number out of Europe over time, they depend on those, and then they look to the kind of presentation that we make to them about what we're doing in terms of the GRF and the type of trend lines that we have on both revenues, expenditures, and deficits or surplus. And so they are. . . they do less research.

In Canada that's not true. In Canada you will find the large investment pension funds, etc., will do a lot more research. And I go back to again sort of a real life example of it. We trade much closer to a province like Ontario here in Canada, get much better rates than we do Europe.

In Europe they don't understand the province as well and therefore they depend on the ratings. The ratings end up with a much higher spread versus Ontario. In Canada the investors understand this quite well and we trade quite narrow to Ontario. So there's a real life example right now that actually is out there.

Ms. Atkinson: — Given that we continue to have a difference, I would move, seconded by my colleague, Mr. Harper:

That the Standing Committee on Public Accounts recommends that in light of the fact that there are a number of concerns related to summary financial statements budgeting, and in light of the fact that The Balanced Budget Act pertains to the General Revenue Fund and covers the four-year period ending 2003-04, be it resolved that the Minister of Finance have his officials continue to examine this issue and to discuss it further with the Provincial Auditor.

I so move, seconded by Mr. Harper.

The Chair: — The proposal is a different motion. We have now two motions from the auditor that are before us. I would like to deal with the motion first that's before us, and that's found on page 25. So I would just put yours into a hold position.

Mr. Gantefoer, do you have a recommendation for dealing with the resolution before us?

Mr. Gantefoer: — Yes, Mr. Chairman. I will move that we concur with the Provincial Auditor's recommendation no. 1 on page 25 of the 2002 Fall Report Volume 1.

The Chair: — Okay, we have procedures at this level to either concur or not concur or to create a new motion, and we've already heard that there probably will be another motion.

The motion before you is that the PAC (Public Accounts Committee) committee concur with the recommendation. And again, as I said, it's a repeat of the one in 2001. Any question of the resolution? All those in favour? Opposed? Motion is lost.

I would now entertain the resolution put forward by Ms. Atkinson. Does the committee want it reread or do you want to

take it as is? You want it reread?

A Member: — Just take it as read.

The Chair: — Take it as read. Any discussion of the motion first? Seeing no discussion, all those in favour? All those opposed? Motion is carried.

That brings us to a conclusion of dealing with the reports, 2001 Fall Report and 2002 Fall Report, Volume 1 in both cases. And we have a section left for the afternoon that we put into the afternoon. So we will be reconvening at 1:15, please, and we'll deal with that.

Thank you to Mr. Styles and your officials and thank you to Mr. Montgomery and all of your people as well.

Mr. Styles: — Thank you very much, Mr. Chair.

The Chair: — Recess until 1:15.

The committee recessed for a period of time.

Managing Accountability Risks in Public-Private Partnerships

The Chair: — Okay. Good afternoon, everybody. We'll get started with our final session of the day and the entire three days that we've been here as a committee. I'd ask Mr. Wendel to introduce another official from his department.

Mr. Wendel: — Yes, thank you, Mr. Chair. I have Mark Anderson here as an additional member this afternoon and Mark will be leading our presentation on the managing accountability risks.

The Chair: — Great. And to help us with chapter no. 4 from that report, we have Mr. Frank Hart and welcome, Mr. Hart. And I would ask you to introduce the officials that you have with you as well.

Mr. Hart: — Happy to do that, Mr. Chairman. On my left is Brian Hansen, executive director responsible for public-private partnerships. And on my right is Peter Wyant who is the director of projects for CIC.

The Chair: — Great. Welcome, gentlemen. I'd ask Mr. Anderson to go ahead with the presentation. As indicated, we're dealing with Volume 2, the 2001 Fall Report, chapter 4 for members.

Mr. Anderson: — Thank you, Mr. Chair. I'm pleased to be here to present our chapter. Why did our office look at public-private partnerships? The Government of Saskatchewan has been exploring the use of P3s (public-private partnership) to increase its flexibility in pursuing public goals.

But working with entities outside government can complicate accountability. So the purpose of our chapter is to describe best practices for managing the accountability risks that are presented by the use of public-private partnerships, and I will use P3s and public-private partnership interchangeably in my presentation.

So what are P3s? Well there are a number of popular definitions. The concept itself is a bit elastic. P3s are arrangements where the government works with an outside entity. It works with that entity to deliver a service that has traditionally been delivered by the public sector. P3s themselves can be very different in how they are structured. They can be very different in how they divide up risk, reward, and responsibility between the partners.

P3s can include a broad range of interaction between government and non-government organizations. At one end of the spectrum a P3 may involve the government accessing private sector expertise to improve a government training program. The partner benefits from future access to more skilled workers.

At the other end of the spectrum a partner may design, build, operate, and own an asset that is used to provide public services. At this level of involvement it means the partner takes on more risks such as construction risks or usage risks, but then the partner will expect to be rewarded accordingly.

I'd like to make the point that P3s are not new. The government has always worked with entities outside of government to provide services. So what is different about P3s is that the focus is usually, as I mentioned, on services that were traditionally delivered directly by the public sector. And secondly, with P3s there are often significant transfers of risk and sharing of authority. And these in particular are the arrangements that we are interested in.

Proponents of P3s advance reasons for using them, including increased flexibility, reduced government cost, improved service, access to private sector expertise, and promotion of economic development.

Our chapter discusses areas where public-private partnerships would not be appropriate. The government should not use public-private partnerships where government control over public policy would be jeopardized. Nor should the government use a public-private partnership where the cost of transferring control and risk is too high, given the benefits that are expected.

So what are the risks to accountability? They include avoidance of public accountability mechanisms, difficulty in measuring the cost of proceeding versus the benefits of proceeding. The risks include loss of public control over important assets, circumvention of government control practices, and the risk of ineffective transfer of risk to partners.

There are some common themes that emerge from these and I'd like to pause for a moment to consider them. Some of these accountability risks might arise from . . . might result from the desire of a government or its prospective partner for confidentiality. However this confidentiality should not be allowed to override the need for the government to be accountable for the use of its resources for public money. Now this in turn does not mean that the private sector should be forced to disclose commercially sensitive information, but we recognize that there has to be a balance.

Other accountability risks result from the structure of the P3 arrangement, particularly where a new entity is created to carry

out the P3. That entity must not be regarded as being outside of government and thus not subject to the normal accountability that takes place through the Legislative Assembly. The government can delegate authority but it cannot delegate responsibility — working with a partner does not lessen the government's accountability in any way.

In the chapter at pages 51 and 52, we describe the best practices for managing these risks to accountability. I'd like to highlight some of these risks. The first is that the government should set out guiding principles in legislation or policy for the use of P3s. The government should confirm these principles with its stakeholders and integrate them into its operating practices.

The government should ensure that both it and its partners have adequate capacity to enter into and carry out P3s. For the government, capacity here means not just legislative authority but also that they have the right expertise on hand to evaluate and supervise a P3. The partner also has to recognize that the government retains its accountability.

The government should agree upon plans to carry out P3s. And here we mean that there has to be clear roles, responsibilities, and objectives. The plans should include clear performance targets and those targets should focus on outcomes.

So to manage accountability risks, the government should require effective reports on performance. This includes public reports with independent verification.

And finally, the government should ensure reasonable reviews of performance of P3s. This is another required element. There should be clear evaluation criteria. There should be regular legislative review of the performance of the P3. And I will note that if some of this sounds familiar to the committee, it's because we've been here before talking about the elements of sound public accountability systems, and those are reflected in these.

We urge the government to consider and use these best practices. In the future we expect to examine and report on P3s that the government may undertake. And we would also like to thank CIC and the Department of Finance for their comments and suggestions on this chapter.

Thank you, Mr. Chair.

The Chair: — Thank you very much, Mr. Anderson. Mr. Hart, comments from your point of view?

Mr. Hart: — Thank you, Mr. Chairman. I'll be very brief and just to say very simply that we accept these proposals by the Provincial Auditor. And further to his suggestion that we have a set of best practices or guidelines in place as a best practice, we're just distributing the guidelines that have been approved by the cabinet for the use in application to P3s in the province. I thought that might be of interest to the members prior to going into question and answer.

The Chair: — Thank you for that information, Mr. Hart. We'll open the floor to comments or questions of the two presenters. As indicated, in this chapter there are no recommendations from the auditor's office. It is an information chapter.

Ms. Atkinson: — I note on page 3 of your slides you indicate when not to use P3s and you say, where government control of a public policy would be jeopardized. Can you give me an example of that?

Mr. Anderson: — Thank you for the question. In the course of doing our work we came across many examples of use of P3s, and there were also examples of where there was much discussion about the use of the assets. One of the examples that we came across was schools that were built by private sector entities and then used, obviously, for public purposes. There was considerable debate over then use of those facilities, which previously would have been public facilities, but use of those facilities, for example, in evenings and on weekends when in fact those facilities were now private sector facilities that were made available to the public. So that's one example that comes to mind.

Ms. Atkinson: — Do you have any other . . . the reason I ask this is I think it's an important point that you're making that where government control of a public policy would be jeopardized . . . I mean, that's an important statement. But I'm trying to think of more examples. You've got one example; do you have some more?

Mr. Anderson: — It's probably possible to look at . . . as I say there are many examples of proposed uses of P3s, and one only has to consider all of the various uses that have been proposed recently, and you read about them in the media, to think of situations.

So another possible example of an area that was delivered publicly that now has significant private sector involvement is prisons. I understand in one jurisdiction in Canada they are looking at delivering that service through P3s. So again, there are obvious risks but they have to weighed with the benefits.

But once you are in the area of something that was previously delivered by the public sector . . .

Ms. Atkinson: — Are we talking about physical assets or are we talking about services?

Mr. Anderson: — We're talking about . . .

Ms. Atkinson: — Or we're talking about both?

Mr. Anderson: — We're talking about services, but often the delivery of the services necessitates the building or leasing of assets to deliver those services.

Ms. Atkinson: — Okay. Would an example be, for instance, in Alberta where historically certain surgery . . . or surgeries have been done in public institutions. It's been a public . . . It's been provided in a public institution, is a public service. And now we have private facilities delivering private surgeries but through a public system. Would that be an example of a public-private partnership?

You have public monies that are going to pay for those services, but the services are being delivered in a privately held building and a service provider is a private institution, not a public institution.

Mr. Anderson: — I think the definition of public-private partnership is certainly elastic enough to include that situation.

Ms. Atkinson: — Okay. Okay. When . . .

Mr. Anderson: — If I can just add to what I was saying before. The examples that I was listing were examples where there have been P3s. I did not mean to suggest that they were necessarily arrangements where you would not want to use a P3. But I would suggest that those are arrangements where considerable care would have to be taken in deciding whether or not to go with the P3.

So my hesitation had to do with just wanting to make clear that we have not done any assessment as to whether those would be appropriate circumstances for use of a P3.

Ms. Atkinson: — Okay. Then my next question is to the officials. Given that the Provincial Auditor has put forward the notion that we don't use P3s where government control over public policy would be jeopardized, you've now provided us with a set of criteria that government uses to determine when P3s will be used or will be, can be used. Where in the criteria would one find this notion that public policy wouldn't be jeopardized by the use of P3s?

Mr. Hart: — Well the first one says the public-private partnership's project must meet clearly defined public needs and protect the public interest. So in the spirit of that criteria, then the government is, in this case, the ultimate authority in terms of the public policy that is set with regard to that particular project and controls the public policy element by virtue of the contract that's specified with the delivering entity or something like that.

Ms. Atkinson: — Okay, now. I'm trying to think, if I was a citizen trying to interpret this, is there a mechanism for citizens clearly understanding when public-private partnerships would be entered into that wouldn't jeopardize public policy and would not jeopardize the public good?

Mr. Hart: — Sorry. Could you just repeat that.

Ms. Atkinson: — I'm trying to . . . If one's a citizen trying to understand the notion of P3s, public-private partnerships — and I think most citizens would say that government should not give up control over public policy that's for the public good — how would a citizen understand when a public-private partnership is acceptable, it wouldn't jeopardize public policy, and when it would? How could we clearly outline for citizens what's acceptable and what isn't? Because it seems to me it might be a bit of a judgment call, and it could differ from administration to administration.

Mr. Hart: — Obviously I think the general rule though is that when governments with more experience — in Saskatchewan at least — have entered into these kind of arrangements, there has been some public policy debate about whether it's in the general public interest to go down that road. There's not always agreement on it but there has been debate often in the legislature and inasmuch as the project is accountable to the legislature, there's that kind of a check and balance I guess to determine what areas are sort of in scope and what areas are out

of scope for projects.

And there has been, you know, quite a bit of variation. England, which is a jurisdiction that has quite a lot of experience under this, beginning with Prime Minister Thatcher and following through right to the current Prime Minister Blair, has looked at areas of transportation. So mass transit in London is a blend of a fully public system and a public-private partnership where the extensions of the mass transit system into new areas of London that weren't served or needed to be upgraded for service were undertaken by the private sector.

Social housing is an example they've used. Prisons are another area of fairly significant activity in public-private partnerships. Some outsourcing of the maintenance with regard to military aircraft I think have been used in England.

Australia has quite a lot of experience in this area as well, probably have gone further than England has; and New Zealand possibly even further than them.

But those are all areas where there was a public debate in the government environment as to whether they were sort of willing to be put in the public-private partnership arena for discussion and then a process followed to determine sort of how one fairly goes about assessing whether there's value for money at the end of the day for the taxpayer.

One of the things that's important to . . . one of the lessons I think that's been learned that's an important one is, because of the way government budgeting has worked in the past where everything is fully expended in the year it's incurred — and that means if you have a large capital expenditure you have to take the entire amount in the expenditure this year whereas the private sector would typically amortize that asset — and my understanding is now the rules are about to change for governments in terms of their ability to amortize. But there was some period of time there where I think governments were incented almost to move to a P3 sort of arrangement just to try to deal with that problem of how you had massive infrastructure investments and still maintain some kind of balanced budget.

You know, the better thinking that's emerged on it over time has been it's not moving it off the balance sheet of the government that's important; it's delivering the service with a lower life cycle cost to it. So that at the end of the day it's important that the private partner come in and prove that they can actually deliver that service over the 20-year period or 10-year period, whatever the life cycle of that infrastructure investment is, at a cost that would otherwise be lower than — with equivalent or better service to — the opportunity to do it in the traditional way through the public sector.

And so that standard has really become the de facto standard in terms of now determining what projects should be included and shouldn't be included once the debate has been held in terms of whether something is in fact . . . the public is willing to accept the private sector coming in and delivering a service that traditionally has been delivered by government.

Ms. Atkinson: — Okay. I have a third question. I mean, given that there's no question that the province needs to recapitalize its infrastructure, whether it's health, education, transportation,

universities — I mean you name it, we have, I would say, an infrastructure deficit. And I think part of the difficulty has been the way we haven't been able to amortize these projects over a 25- or 30-year period. I know that other governments, for instance in Atlantic Canada, entered into private-public partnerships with construction companies to build schools.

Mr. Hart: — Yes.

Ms. Atkinson: — And then they'd lease the school for 20 or 30 years. Prior to 1991, Saskatchewan had its own experience with the Parkridge Nursing Home in Saskatoon where the government of the day entered into I think a 30-year lease and at the end of the lease the now health authority has the option to buy the building or renew.

Has anyone done an analysis on whether or not this makes financial sense for the public to enter into these kinds of arrangements? And maybe it's no longer necessary, given that it looks as though the accounting practice might change and we can amortize it over a period of years without adding to our debt, I gather. Have we done that kind of work to determine whether it makes sense, or does it make sense?

Mr. Hart: — We've certainly looked at a lot of the experience around the world. Again mostly Australia and England have . . . I would say the two leading jurisdictions, would you agree?

Canada has some experience. British Columbia has done a fair bit. Ontario has done a fair bit. You're correct, the province of Nova Scotia did enter into a fairly substantial arrangement with providers for public schools. One of the things that I think is important to understand is that there are assets for which the, if I can describe it this way, the use of that asset is largely for public benefit and has very little other application.

A good example is the schools one to use because in those cases, you know, the vast majority of the purpose of that school building is for public education, and that we all know schools are used for community meetings and all those kinds of things in the evening but relative to the amount of time that that asset is used for public education, it's quite small.

In the case of Nova Scotia, they really struggled to find enough use other than public education to justify having a revenue stream over and above the payments that the government would make for the use of that building as a school. And it didn't meet kind of a good accounting test in terms of there's enough other business to really make it a good public-private partnership where there's other uses of the facility. And so when the government changed, it was such a borderline accounting issue, they decided to bring all of that debt back onto the public books again.

And you could probably use a similar example with regard to roads. Although if you've got a situation where they lend themselves to some kind of tolling, they tend to work quite well as true P3s because they . . . the public will get a certain amount of access but they will pay for the use of that. And the use . . . the revenue generated from that use then can be channelled back into the maintenance of the infrastructure. Without that sort of way to bill extra revenue that goes back in the facility, it really tends to argue maybe it's best off just staying in the

public sector fully.

The other dimension of this debate has been a lot around the fact that usually the government's rate of borrowing is less than the private sector so that the overall cost of the debt is less to the government anyway.

But when looking at the reverse side of that, quite often the private sector is able to innovate in ways that the public sector can't, that contributes substantially to a lower cost over the life cycle of the asset, either by having alternative uses of that facility which, as I said, didn't always work out in schools but may work out in other areas, or can build the project a lot cheaper in terms of the total capital cost because of the way they go about the construction process as traditional . . . as traditionally, compared to the public sector.

So usually what is done is that the first kind of key piece of work that needs to be done to determine whether an asset, sort of, is suited for a P3 or is best left fully in the public sector is to do a public sector comparative, which is do a full life cycle cost of what the cost to the taxpayer is for that asset over the full life cycle of it, including all the debt amortization and operating costs that go into it, and all that kind of thing.

And then if there's a reasonable expectation that a private party could come in or other parties — and through the process of competition of course you tend to find more innovation — lower that life cycle cost and the public can be satisfied that at the end of the day the public is as well served as it would be if the facility were owned and operated fully by the government, then there's a case to be made for a P3, assuming the government of the day is prepared to go down that road because of course at the final . . . in the final analysis it is the government's choice as to whether they want to pursue that option or not or do it in the traditional way of organizing and delivering services as a government.

So that's . . . I don't know if I've kind of . . . I haven't given you a list of specific sort of things that are in or out. I mean, highways, schools are typically examples of ones, unless there's another good revenue source for the private sector and it doesn't tend to qualify, but there are instances where it perhaps could.

But it's more a question of the process by, first of all, building a public sector comparator and then seeing if there's enough innovation that the private sector can bring to make a case that it's worth . . . it's in the taxpayer's better interest to have it delivered through a P3 than the traditional government because it's a lower cost to the taxpayer over the life cycle. And so it's a process issue that sorts out where those decisions get taken to and where the assets stay within government.

Ms. Atkinson: — Okay. Thank you. I have a fourth question. In terms of . . . Now when the auditor refers to confidentiality, I am not talking about this argument that we were in a public-private partnership and for competitive reasons we can't release the information. I'm not talking about confidentiality in that sense.

I am talking about confidentiality in the sense of governments, for a whole host of reasons, have all kinds of information regarding citizens. And this was something that the previous

government got itself in a bit of a juggernaut about in the late 1980s when a private company was able to access public information to send a letter to citizens which raised, you know, the question of who has access to our confidential information and who doesn't.

So I'm wondering what kind of protections would the public have if government enters into a public-private partnership, that information that's within the public domain as in government is protected from, you know, private sector people. And this is certainly something that I think the opposition Health critic raised about prescription drug information, for instance, where private pharmaceutical companies access information on a sort of holistic basis. How do you make sure that the public private ... the public's information, which is private to them, is protected from private interests? So I'm wondering if you can comment on that.

Mr. Hart: — Sure. I'm going to ask Brian Hansen to give you an example from British Columbia.

Mr. Hansen: — Thank you and through the Chair, the one example I think of some significance is in British Columbia with respect to the BC on-line program where MacDonald, Dettwiler acquired the rights over a concessionary period to operate that entire program which included an awful lot of sensitive information related to titles and title transactions.

That entire operation is governed under the Privacy Act. And the Privacy Commissioner in British Columbia is required to vet all uses of information in advance by the company. So there is a process that's put in place to provide oversight and to ensure that the access to information has been vetted through the right commission, Privacy Commissioner, in that province. And it would be a similar approach were public-private partnerships to be part of that domain in a jurisdiction like Saskatchewan.

Mr. Hart: — Generally the ... If I can add just a comment, Mr. Chairman. In the event that a private operator was dealing with private information, they would be, they would have a contractual obligation to protect the privacy of that information. So those terms and conditions under which, how they could use the data, who could see the data, all those kinds of things would all be a required piece of the contract that gives them certain rights or retains certain rights to the government only. And that's normally how I think those kinds of things would be protected, augmented by the independence of the Privacy Commissioner's office to oversee that and regulate it.

Ms. Atkinson: — Thank you.

Mr. Kwiatkowski: — Thank you, Mr. Chair. My question's for the officials. If it is determined that a public-private partnership is required to meet a clearly defined public need and it is in the best interest of the province and perhaps the communities affected, and there are a number of different private sector groups available that could bring — you know with varying degrees of strengths and weaknesses — that could bring, that could all perhaps in some way contribute to the partnership, what type of analysis is undertaken to determine which one of or which combination of those private entities would be the ones that would be entered into the partnership with or would

become part of the public-private partnership?

Mr. Hart: — I can try to answer your question through the Chair and perhaps my colleagues can augment my answer if they can offer additional information.

But the first stage in determining whether a project is sort of something that is P3-able, if I can kind of define it that way, would be the ... obviously the sort of conceptual notion somewhere in the government that this is an area that they want to consider as a candidate area for a P3 initiative.

Then normally one would go about the process of defining what that service or infrastructure is, what it's required to do, what the public interest is in that particular service. And a public sector comparator would be built in terms of essentially the base cost for operating that service as in the normal course of government operations over the life cycle of the asset.

So that information is typically built first so that one has kind of a sense of the model that you're talking about in fact turning over, in whole or in part, to a private operator or to work with on a private-public basis.

Then there are a variety of mechanisms one could use to determine who are the best candidate operators to join in partnership with from the private sector. Sometimes you could use a request for expressions of interest where firms would simply, say, file a statement of interest and their qualifications, quite often without a specific bid price in. Because in the P3 — of course you know what your public sector costs are — you're looking for innovation from the private sector.

So the trick is not to in fact kind of issue a tender in the standard sense of pencils because by overdefining the way in which you're going about delivering the service, you tend to in fact then require the private sector to operate precisely as though they were in the public sector, with a preconceived operating plan which then tends to simply mirror the costs you would get in the public sector model, but simply to look for people who are qualified to be able to deliver that service and then perhaps go to a request for proposals if you have a shorter list of people who meet the qualification criteria. Or if somebody is sort of so outstanding in their qualifications, then go, proceed to a direct negotiation with them, concluding then that they would be the best party if they can deliver the service at a benefit to the taxpayer by lowering the total life cycle cost.

But there are a variety of mechanisms one could use to find them. Some sort of broadcast of the invitation of the opportunity typically is one way to do it.

Mr. Kwiatkowski: — If you had a couple of options available to you but they were different in the sense that there might be different strengths, perhaps different approaches that different partners may take, how would you determine which one of those might be the, I guess — and understanding that of course you're wanting that innovation from them, you're wanting them to be able to bring those kind of unique characteristics to the partnership — how would you determine which one of those would be the ultimate partner, in the sense of what they could bring that might be unique to them?

Mr. Hart: — Well typically — I'll ask my colleagues to help me out here — but typically innovation is going to be reflected in the lower life cycle cost and while maintaining some agreed-upon standard of service. It's not unusual, for example, to specify as a requirement, say, a standard of service.

Let me give you an example of the one and only area we're looking at right now which is the use of a public-private partnership to improve the, upgrade the forest fire air tanker fleet and so forth. And so in that instance, for example, one has to define, well what is an acceptable service standard that a private operator would have to hold to?

So that public policy standard is set by the Environment department in this case, which is I think going to be 90 per cent of all fires extinguished before they're 2 hectares in size. So that's the standard that one must meet.

Then the question is put to a variety of potential bidders. What configuration of aircraft, what type of operating system would you use in fact to deliver that standard? So the innovation is then left to the different parties to say, how would I get 90 per cent of the fires out before they reach 2 hectares in size?

And they might have very different fleets of aircraft to do that. Some would use land-based, some would use water scoopers, some would use a combination of those and helicopters, some would use different approaches; all of which might, in terms of your average cost of fighting a fire, expect it to be lower.

And then of course you'd pick one and then you'd measure against that kind of standard that was offered and proposed by the private operator. That's maybe the best way I can illustrate it.

But, Brian, do you have any other comments you could add?

Mr. Hansen: — In addition to that, not only performance standards are critical and the value for money issue paramount, but also the ability and willingness of partners to accept the risks that are part of the project or service. And the definition of risks are key to the building of a public sector comparator.

So part of the process is through the negotiation process with potential partners in trying to determine what risks would they be prepared to accept as you go through the listing of all the various risks associated with any particular project or service. So it's a combination of, you know, ability to adapt and perform, ability to respond to certain risks in a certain fashion, and paramount would be the ability to deliver at a greater value for money than the public sector delivering the same service.

Mr. Hart: — I could give you just an example of the illustration of how risk is applied. In the case of the mass transit system in London, in England, basically the operator is required to have so many trains running on time. A certain minimum percentage of trains have to be always on schedule, and if they're unable to run for any reason then the government doesn't pay its share of the annual or the quarterly payment to that operator until such time as they're back up and running again. So the private operator in that case is bearing the risk of ensuring that their trains are well enough maintained that they're able to run on time.

Mr. Kwiatkowski: — I very much appreciate the fifth point in your partnership criteria in that you indicate the process for deciding to undertake a public-private partnership and the partnership itself must operate in a manner that is as transparent as if the activity were being undertaken by the public sector directly. Now, of course, that's assuming that what happens in the public sector is always transparent.

But what steps do you take and how is it that you could guarantee, if you will, that this process will always be transparent and that public-private partnerships that are entered into will be something that the public can have confidence in because they are aware of what's happening and are feeling that this is something that's happened out in the open and perhaps even with consultation, through consultation with them?

Mr. Hart: — Mr. Chairman, in answer to the question, I believe the practice basically is that a P3 or a piece of infrastructure or a service, whatever it is, or a combination of the two, would typically be subject to the same kind of rigours that this committee would do with any public accounts process. So they would . . . the Provincial Auditor, for example, would have full access to the auditing of that . . . the provision of that service. There would be a standards reporting, all those kinds of thing, and then would be able to report to a body such as this in the normal process of whatever level of accountability there is.

So sometimes it's a bit of an adjustment for private sector parties to come into these things because they don't tend to face sort of the level of public scrutiny that say a public . . . a fully public organization would. And you know, the companies who've developed a business of P3s — whether it's in delivering prison services or school services or social housing services or transportation services, other areas — have learned that they have to essentially operate as though they were part of the public sector and report and be accountable and held accountable to the same standard that a government department would.

So the normal mechanisms of government I think would be essentially the channels through which accountability would be ensured and the, as representatives of the public then, elected members would have the ability to ask questions of the operators and so forth and see the books of the operations, how much money's gone in, what the government has got in return for those services, that kind of thing.

Mr. Kwiatkowski: — You use the example of the purchase of firefighting aircraft as an example of a possible public-private partnership. What other examples do we have in the province today of public-private partnerships?

Mr. Hart: — That's the only one that we have currently that we're working on.

Mr. Kwiatkowski: — Okay, thank you.

The Chair: — No further questions or comments from committee members? Okay. As I indicated, chapter 4 was here for information purposes and we've had some information provided back from Mr. Hart regarding the criteria that has been established for Saskatchewan. And we note, of course, on page 57 that the auditor's office will examine and report if P3s get up

and rolling, right? Absolutely, okay.

Ms. Atkinson: — Mr. Chair, just before we adjourn, I think that we would observe on our side that this chapter was very well done. And we want to congratulate the Provincial Auditor's department for the issues that he has raised and sort of the . . . The observations are very important as we make our way forward. So we just want to ensure that the Provincial Auditor knows that that there are many times that we agree with his observations.

The Chair: — Thank you for those comments, Ms. Atkinson.

Thank you, Mr. Hart, and your officials for being present this afternoon, and to you, Mr. Anderson, as well, for guiding us through.

That will be it for this section, so thank you very much.

And as our guests are leaving, I want to remind committee members of a couple of things that we have to take care of before we conclude our three-day committee meetings. The information just passed out to you is for our subsequent meeting which will take place on November 5.

And as indicated, originally we had looked at November 4 and 5, but in light of the letters or copies of letters that I provided to you yesterday with Justice's continued position that the Liquor and Gaming chapters should be still on hold, we will now move to only the Tuesday, November 5.

And we have indicated there are a couple of things. Agriculture and Food, there are some deferred things where PAC, on previous meetings, we had postponed our decisions. So those kinds of things will be brought forward again to ensure that members are fully aware of what has happened. Board of Internal Economy and Agriculture and Food are those two. The others are new situations that we still have to take care of.

So at the conclusion of Tuesday, November 5 we should have a small amount of old business left, and that'll be primarily the Liquor and Gaming Fund and SIGA (Saskatchewan Indian Gaming Authority).

Beyond then, though, we should see another report from the auditor and more chapters to review.

So this is the schedule, so there'll be no further communication with members or the comptroller's office. It will be November 5, full day, Tuesday.

With that, I want to thank all members for being so diligent in their work over the last three days and have safe journeys home if you are travelling. Thank you very much for your attendance. And to all officials as well.

The committee adjourned at 14:07.