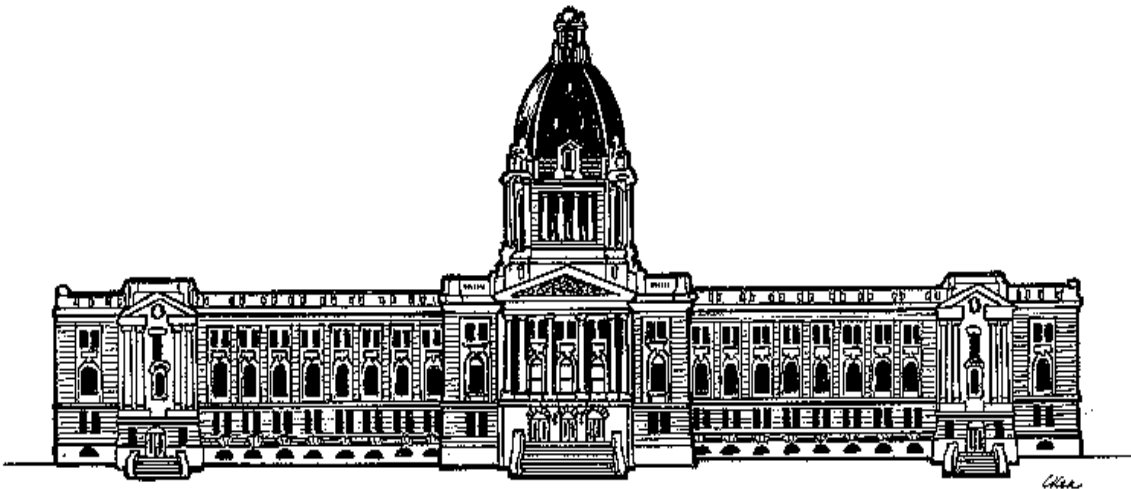




STANDING COMMITTEE ON PUBLIC ACCOUNTS

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS
2005**

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Rosetown-Elrose

Mr. Lon Borgerson, Deputy Chair
Saskatchewan Rivers

Mr. Ken Cheveldayoff
Saskatoon Silver Springs

Mr. Michael Chisholm
Cut Knife-Turtleford

Mr. Glenn Hagel
Moose Jaw North

Mr. Kim Trew
Regina Coronation Park

Mr. Kevin Yates
Regina Dewdney

[The committee met at 09:00.]

The Chair: — Good morning, ladies and gentlemen. I'm pleased to welcome you to our Public Accounts Committee meeting on November 30 . . . or December 1, pardon me. I think this is probably going to be the last Public Accounts Committee of the year 2006.

We'll keep it fairly short, just two items on the agenda. We have a volume from the Provincial Auditor on *Understanding the Finances of Government*, a little bit like the finance for dummies, I suppose. And then the last item is to review the first report of the Standing Committee on Public Accounts. We want to leave a few minutes at the end of our hour to review the document which I believe all of the committee members have received.

Understanding the Finances of the Government
2005 Report (Volume 2)

The Chair: — We have of course several officials here from the Provincial Auditor's office. We want to welcome each one of you here, along with the Provincial Auditor, Mr. Wendel. And we also want to welcome officials here from Finance, including the usual from the comptroller's office. We welcome you to this meeting, and we'll be putting you on the hot seat in just a few minutes.

But first of all I understand we have a PowerPoint presentation from the Provincial Auditor's office. Mr. Montgomery is going to present that to us. Then, Mr. Styles, deputy minister of Finance, we'd invite you to briefly respond, allowing us some time for any questions that the members might have. Mr. Montgomery, please.

Mr. Montgomery: — Good morning, Mr. Chair, committee members. Our presentation will take about 10 minutes. For your convenience we've provided you with hard copies of the slides. And at the end of the presentation, we'd be happy to answer your questions.

In this report we focus on the government's financial condition at March 31, 2005. To report on the government's financial condition, we look at three things. First, we measure whether the government is living within its means. Second, we measure the government's flexibility to meet its commitments by increasing its revenues or borrowing more money. Third, we measure the extent to which the government relies on the federal government to pay for existing programs.

We concluded that the government's financial condition significantly improved in the past year. The government's raised 844 million more in revenue than it spent. The provincial economy grew by almost 10 per cent. The net debt was reduced by 0.8 billion from 9.3 billion to 8.5 billion. And as a result, the net debt as a percentage of GDP [gross domestic product] decreased from 25 per cent to 21 per cent. Also interest costs declined from 12 cents per dollar over revenue to 10 cents.

However despite the considerable improvement in the government's financial condition, significant risks remain. The provincial economy remains vulnerable to the risks of low

commodity prices, higher interest rates, and bad weather. Also the net debt of 8.5 billion is still large for our population of 1 million people.

In 2005 much of the improvement was due to one-time equalization revenue. The 2006 estimate for equalization revenue is half a billion dollars less than was received in 2005. Also non-renewable resource revenue was at an all-time high in 2005 due to high prices for oil, potash, and natural gas. Accordingly the government needs to continue to manage carefully the risks to its future revenues and expenses.

The first graph I want to highlight appears on page 12 of our report, and it's also included in your slides. This graph shows that, after three years of living beyond its means, the government lived within its means in 2005. By that we mean that the government's revenues were more than its spending in 2005. In 2005 the government had the largest annual surplus in 15 years or since the government began preparing summary financial statements.

The next graph I want to highlight appears on page 13 of our report. This graph shows the size of the government's net debt as a percentage of the provincial economy. It helps you to assess how much debt the government can afford to carry, and the thinking behind this indicator is that a person with a 50,000 per year income can afford to carry more debt than a person with a 30,000 per year income. Therefore the larger the economy, the more debt the government can afford to carry.

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

In 2005 the net debt as a percentage of GDP has decreased to 21 per cent. This is a substantial improvement over 2004. As a result the government improved its ability to carry its debt and to forward it to existing programs with the money it raises from the provincial economy.

The next graph I want to highlight appears on page 14 of our report. This graph shows a cross-Canada comparison of net debt to GDP at March 31, 2004. We used 2004 for the interprovincial graphs because this is the most recent information available. I should point out the Department of Finance does a good job in completing the public accounts early and is usually tied with Alberta and BC [British Columbia] for the first jurisdiction to complete their public accounts. The others are somewhat later, so we can't update our graphs for this purpose. As you can see from this graph, Saskatchewan compares favourably with most other provinces.

The next graph I want to highlight appears on page 15 of our report. This graph shows how much of each dollar of revenue that the government raised went towards paying interest on the government's debt. In 1993, 24 cents of every dollar went towards paying interest. Since 1993 that has improved to 10 cents of every dollar of revenue. This improvement is the result of larger revenues, lower interest rates, and a smaller net debt. However the 900 million the government pays for interest on its

debt remains significant and is the third largest expenditure after health and education.

The next graph I want to highlight appears on page 17 of our report. Graph 8 shows the government's revenue demands on the provincial economy. This graph shows that since 1991, the revenue raised by the government as a percentage of GDP from sources within the province has remained fairly constant at 17 to 18 per cent.

The last graph I want to highlight appears on page 19 of our report. This graph shows how much the government has relied on the federal government to pay for provincial programs. The graph shows that in 2005 the government is less reliant on the federal government to pay for its programs than it was in 1991, but that it is more reliant than it was in 2004. The increase from 2004 to 2005 was mainly due to the 500 million increase in equalization revenue, most of which I said earlier was one-time revenue.

Our report also contains many other graphs showing trend lines and interprovincial comparisons that will help you understand the financial condition of the government.

Now I want to talk briefly about the government's financial plan. We were pleased that in March 2004 the government published its first overall financial plan. This improved the government's accountability by helping legislators and the public to understand the impact of the budget on the entire government's financial condition and on the affordability of new and existing government programs.

In the mid-year report the government shows the interim projected results compared to the summary financial plan. We encourage the government to improve its accountability further by reporting the interim projected results compared to its summary financial plan quarterly. This will help legislators and the public to assess whether the government's financial plan performance is better or worse than what was planned.

In summary our report contains three messages.

First, the government's financial condition significantly improved in 2005. Second, we urge continued careful management of government revenues and spending because significant risks to the government's financial condition continue. As well, Saskatchewan's net debt of 8.5 billion is still large for our population of 1 million, and the provincial economy remains vulnerable to the risks of low commodity prices, higher interest rates, and adverse weather. The government's interest rate is the third largest expense after health and education. Third, we encourage the government to improve its accountability by publishing interim results compared to its summary financial plan quarterly.

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

The Chair: — Thank you very much, Mr. Montgomery, for that overview of the provincial finances. The presentation was well prepared, and we thank you for that. Mr. Styles, welcome again to our committee. Would you like to introduce your colleagues and proceed with a quick response.

Mr. Styles: — To my left is Terry Paton, the provincial comptroller, and to my right is Joanne Brockman who is the executive director of economic and fiscal policy in the Department of Finance. And I really have no opening comments. We can proceed to questions, so that's fine.

The Chair: — Very good. Mr. Cheveldayoff, if you want to lead off the questioning.

Mr. Cheveldayoff: — Thank you, Mr. Chair. Thank you to the auditor and his officials for coming this morning and also to the officials from the Department of Finance.

I'd like to go to page 5 of the auditor's report 2005 volume 2. And just looking at the numbers provided for us, I guess to the auditor first of all, some points of clarification. If we look at the last five years — I think it's fair to look at that portion as being the current government or the current administration's handling of the finances — the way I look at it here, and I'm looking at the 2001 to 2005, we indeed had two years of surpluses and three years of deficits. Would that be an accurate statement?

Mr. Wendel: — Yes.

Mr. Cheveldayoff: — Okay. Thank you. If I look at the total numbers of 2002, 2003, 2004, 2005, and . . . or the last five years 2001 to 2005, I see surpluses of 461 million and 844 million, and deficits of 483 million, 654 million, and 100 million. So total deficits would be 1.237 billion, if I'm correct, and total surpluses would be — what — 1.3, just over 1.3 billion.

So really over the last five years we've been at a net wash almost as far as the finances go, surpluses and deficits. Is that correct?

Mr. Wendel: — It would seem that they would balance out, yes.

Mr. Cheveldayoff: — Okay. So if I was to make the statement or any politician was to make the statement that the last 11 years have been consecutive surplus budgets, would that be an accurate statement to make?

Mr. Wendel: — It would depend what you're talking about, whether you were talking about the General Revenue Fund budget or the summary financial statements. This information is based on the summary financial statements.

Mr. Cheveldayoff: — Right. Now are these talking about summary financial statements and the budgets or the information presented here?

Mr. Wendel: — Well the information that's presented here shows there were three years with deficits, from 2002, 2003, and 2004.

Mr. Cheveldayoff: — Okay. I just wanted to make sure because I've heard that statement mentioned several times in the House that there's been 11 consecutive surplus or balanced budgets, and it just didn't square with me. And I can see from your numbers here why.

I guess looking back to 1991, it's fair to say that there was indeed seven deficit budgets and eight surplus budgets. Is that correct?

Mr. Wendel: — That's seven deficit budgets, seven deficits reported here, yes. And I'd have to . . .

Mr. Cheveldayoff: — Okay. Well thank you for that. I just wanted to get clarification on it. Turning to page 9, there's a statement. And again the statement was made in the PowerPoint presentation that \$8.5 billion debt is still large for a population of 1 million people.

What would you say would be a more workable debt figure, I guess, an average type of debt for 1 million people?

Mr. Wendel: — I think the debt and the interest costs that we pay in Saskatchewan, we're paying close to \$900 million on interest costs. That's our third largest expense. And I think anything we can do to work that down would be a good thing. I don't have a dollar number that I would give you as a target. I think it's important that what we're doing here is setting out trend lines. So you can follow the trends. Is the financial condition weakening or strengthening? And that's all we're trying to do here.

Mr. Cheveldayoff: — So you don't have a short-term goal for us to look at.

Mr. Wendel: — No I think that's an important . . . that's something that the policy-makers should decide.

Mr. Cheveldayoff: — Right, okay. I was just wondering if you could give us any advice in that area. On page 10 you say, we encourage the government, top of the page, second paragraph:

We encourage the Government to provide information to inform legislators and the public of the impact of changing demographics on the provincial tax base.

Could you elaborate on that, and are you receiving the information that you need currently, and is there anything specifically that we as legislators and as the government can provide for you to help you do your job?

Mr. Wendel: — I think I'll ask Mr. Montgomery to respond.

Mr. Montgomery: — I guess during our strategic planning exercises one of the things that we were interested in is the changes in the amount of people working, the increasing amount of retirements and the increasing Aboriginal population and depopulation of rural Saskatchewan. And we wondered, you know, what impact that would have on the tax base. So as a project we tried to spend a little bit of time to see if we could figure that out.

Unfortunately there wasn't enough information available to us for us to decide, so what we're really doing here is encouraging the government to perform that analysis so that we know, and the public knows, what the impact of these increasing retirements, etc., would have on the provincial tax base. But as at the moment we don't have the information, and I'm not sure that the government has either. You'd have to ask them whether

they have the information to know the impact on the provincial tax base.

Mr. Cheveldayoff: — Okay thank you. Then to Mr. Styles. Do you indeed have some additional information that you can provide to the auditor's office in this regard?

Mr. Styles: — No. Tax information isn't collected on the basis for which I think the Provincial Auditor's office would like to look at — the variability for instance. There's no designation on a tax form for Aboriginal, as one example. It's even very, very difficult to separate agricultural community, okay, and try to establish what the impact of tough economic times is on the tax base due to low commodity prices, is one other example. Again so most of these variables are something not collected by the tax system, so it's very difficult to try to assess the impact of it is.

I'd also note that we do look at those sort of trends within, sort of, the four-year projections. Our experience to date has been that anything past four years is strictly what-if scenarios, okay. It's not an extremely valuable; it's not a very valuable exercise to be engaged in. And just in point of fact, if you look at the past, sort of four or five years and the kind of variability we've had in most of our tax bases, okay. I think that's a further illustration of the point that anything past four years is again strictly a what-if scenario. Really it's not that valuable.

Mr. Cheveldayoff: — Okay but the auditor is saying that the information would be valuable to him. So . . .

Mr. Styles: — We would disagree with that assessment, okay. Again anything outside of four years, we just don't see it having value.

Mr. Cheveldayoff: — Okay well I guess I'd probably side with the auditor on that one, but we'll go on.

Again to the auditors, on page 10, on the bottom of page 10, it talks about government including analysis of sustainability, flexibility, vulnerability in its performance reports:

Performance reports show planned and actual results . . . [and] provide the Government with the opportunity to set out its thinking on the underlying issues . . .

And again, "The Government should include . . . [this] analysis in . . . performance reports."

Could you expand upon that and the value that would have for the auditor's office?

Mr. Wendel: — The value wouldn't be to the auditor's office. The value would be to you as legislators and the public if the government would put out performance targets for some of the indicators we have here, and then you could debate, you know, and understand, assess whether the performance is as they estimated they would achieve. And that's really the purpose of this, so . . .

Mr. Cheveldayoff: — Okay yes. You're indeed correct, Auditor, that the reports would be valuable to legislators. And I guess to Mr. Styles then, is there plans for any reporting such as

mentioned in the bottom of page 10 here from your department?

Mr. Styles: — We carry out a body of work in conjunction with rating agencies and our syndicate members in terms of our debt borrowings, okay, along these lines. At the present time it's all done in a . . . purposeful, just for the borrowing of debt. It's not done from a public consumption perspective.

We have talked from time to time about a report that might be similar in some sense to what the Provincial Auditor actually releases right now on our provincial finances but haven't come to a decision I guess or a conclusion on whether or not to get involved in it. Any additional work that's carried out always costs money, and so we're always very conscious of that fact and look to make sure that it would have value to the public.

Mr. Cheveldayoff: — Okay. Thank you very much. Turning to the bottom of page 11, the auditor outlines that in 2005 the government's revenue exceeded expenses by \$800 million. And, you know, \$582 million of that was a transfer from the federal government.

And I was reading through this last night and trying to think of an analogy that I could come up with here. And, you know, what I did sort of come up with was, it's like your grandparents giving you \$582 and you telling your parents that you've paid \$800 on your credit card down. You know, it's an accurate statement I think, but you indeed have to give some of that credit to the grandparents who gave you the \$582 million. That's just a comment that I wanted to make.

And turning to page 12, when we look at the province's gross domestic product and the government's net debt, in looking at the changes over time, I see a high of \$10.8 billion on the bottom there, and we're down to \$8.5 billion on the debt side. But really the growth has been in the gross domestic product which is up almost double what it was in 1991.

So I think it's fair to say when we talk about the change in net debt as a percentage of gross domestic product, that a lot of the change is due to the growth in the province's GDP. Is that correct, Auditor?

Mr. Wendel: — That would be correct.

Mr. Cheveldayoff: — Okay. Moving on to page 14, middle of the page under the flexibility category, it talks about the unfunded pension liabilities of \$4.2 billion, and that's something that we hear about time and time again as legislators.

Could the auditor talk about the 4.2 billion — and I believe that's an increased number from 2004 — and just the situation the province currently faces with the unfunded liability on pensions.

Mr. Wendel: — Well the situation that the province faces with the unfunded liability is no different than it faces with the other debt that the province has for debentures and bonds. It's a debt that has to be paid. It accumulates interest as it goes along. And we're just disclosing that's what it is.

That information also is disclosed in the government's financial statements. That's where all this information comes from.

The Chair: — Right. Can you elaborate on why we saw an increase in that amount from 2004 to 2005?

Mr. Wendel: — Well the increase would be determined by actuaries. I'm not sure whether it was . . . All the specific reasons, I don't have with me. Unless, Ed, could you speak to that? I'd have to have a different person from the office here . . .

Mr. Cheveldayoff: — Okay.

Mr. Wendel: — To talk about that.

Mr. Cheveldayoff: — No problem. I'm sure we'll have ample opportunity to get into that at some point in the future.

Moving on to page 16. There's the interesting discussion on the value of tangible capital assets in the province. And I was just wondering, are highways considered in there at all? I don't think so, but are they indeed considered part of the tangible capital assets?

Mr. Montgomery: — Yes they are actually.

Mr. Cheveldayoff: — Okay. Is there a breakdown of that category by subject area? I'd be interested to see where the highways would . . .

Mr. Montgomery: — Yes it would be included in the Public Accounts. And if I just . . . I don't know if you've got a copy of the Public Accounts with you but there's a breakdown on page 55 of the Public Accounts. It's volume 1. Highways . . . The transportation is sitting a net book value at the end of 2005 that 85 . . . oh sorry, that's just equipment.

I guess it's included in the infrastructure number of 1.8 billion, but there's not a breakout in the Public Accounts of how much of that infrastructure relates to highways and how much relates to the dams and things like that. I don't know if the Department of Finance would have the breakdown with us, or do we have that? Oh, okay. I'm informed on page 19 there is a breakdown in the General Revenue Fund. Okay. The number in the General Revenue Fund of highways is 1.4 billion. So the remaining about 400 million in the summary financial statements would be mainly dams.

Mr. Cheveldayoff: — Okay. Well that is information that I think will be valuable to us as legislators as we continue to look at the numbers over a long period of time. I think that's all for my questioning for right now, Mr. Chair.

The Chair: — Mr. Hagel, and then Mr. Chisholm have requested time.

Mr. Hagel: — Thank you, Mr. Chairman. Going back to page 5, the financial and economic indicators for Saskatchewan — the chart indicating at the top, the annual surpluses and deficits — does that include the revenues received from the Fiscal Stabilization Fund, those figures that are here?

Mr. Wendel: — Those figures would include all government agencies. They would all be combined in here.

Mr. Hagel: — But my question was, does it include monies

that were contributed to the government financial statement from the Fiscal Stabilization Fund?

Mr. Montgomery: — The summary financial statements is the consolidation of all the entities within government. When you think of the summary financial statements, you have to understand that all those transactions between the individual entities are eliminated on consolidation. So what the summary financial statements represents is revenue collected from entities outside the government reporting entity. So you know the fiscal stabilization wouldn't enter into the summary financial statements.

Mr. Hagel: — Right, so that it is accurate in fact to say when one considers the significance, the contribution from the Fiscal Stabilization Fund, it's not represented here. I think that's what you're saying to me.

Mr. Montgomery: — That's correct. The money that might have flowed through the Fiscal Stabilization Fund would have come from, say, oil revenues. Well the oil revenues is reflected here.

Mr. Hagel: — Okay. So in fact it is accurate to say, when you're considering the Fiscal Stabilization Fund, it is accurate to say that there have been 11 consecutive balanced budgets. All of which I think, when I look at the numbers here, point out to me the wisdom of having a Fiscal Stabilization Fund to protect against the vagaries of, in our economy, of unpredictable rises and falls related to the risks that you pointed out. And I appreciate that very much.

I just wanted to get some clarification. When I look at the long-term report that we received this morning, actually I find it fairly encouraging all things considered. And one of the things that I note on page . . . well I guess on page 3 of our charts here, when we look at net debt as a percentage of GDP that there has been, it looks to me as though there has been a significant progress over the portion of the time reported here which was preceded of course by those horrendous Conservative debt years that we experienced here in Saskatchewan that we still find ourselves, unfortunately, paying significantly. And I see the trend here that we come from a high of 49 per cent of debt as a percentage of GDP in the '93 year to 21 per cent now which is very encouraging. And that's been a steady trend. I guess that's the encouraging thing about that, is that's been a steady trend.

Then I note with interest that that would put Saskatchewan as the province . . . when I turn to the next chart, as either this '04 year that you have here or '05, it looks as though Saskatchewan has the third lowest debt as a percentage of GDP in the country.

Would you have any indication as to . . . When we went back to '93, where we would have ranked in the country with our debt as a percentage of GDP? Would we have been third lowest then or would we have been substantially different?

Mr. Montgomery: — What year was that?

Mr. Hagel: — '93.

Mr. Montgomery: — No. We've really only be doing the

interprovincial comparisons for about the last four or five years I think. But certainly not back in 1993.

Mr. Hagel: — Okay. Then we look at . . . it would certainly be my . . . As I remember those years and the sacrifices that were needed to be made to recover from that massive Tory deficit, their debt that was inherited by the people of Saskatchewan, that our ranking, my recollection that we were substantially higher in the . . . not only in the percentage of debt compared to GDP, but further down the line, much further down the line by comparison to other provinces.

We look then at the interest costs as a percentage of revenue, and again a very, very steady trend which is very encouraging to our province, from a high of 24 per cent interest cost paid by the province and as you point out it's still to this day — the legacy of that Conservative government is that we're still paying — our third highest payment is interest on the debt. But a high of 24 cents on the dollar to 10 cents on the dollar now.

What you don't have here is a comparison to other provinces. And do you have . . . Can you tell me where Saskatchewan would rank with payment of interest as a percentage of our revenue as compared to other provinces?

Mr. Montgomery: — In our report, we have a graph on page 16, and Saskatchewan is looks like it's in sixth place, sixth place in 2004, in sixth place.

Mr. Hagel: — 2004. And in 2005 that's when we were at 12 cents on the dollar where now at 10.

Mr. Montgomery: — 2004 we were at 12, and now 2005 we're at 10. Unfortunately not all the provinces have completed their public accounts for 2005, so we aren't able to generate that table yet for 2005.

Mr. Hagel: — Okay. I think that's all for now, Mr. Chairman. Thanks.

The Chair: — Thank you. Mr. Chisholm.

Mr. Chisholm: — Yes. On page 24 of the report, item no. 5, it talks about the investments that Saskatchewan has sold over a period of years from '92 to 2002. I guess my question is, where would I be able to find out what investments we still have — if you can refer me to where that is — and how are they valued at the end of each year? Are they just carried at cost until they're sold? Or are they . . . Is there updates if they go up in value or down in value? Where are we sitting with our investments?

This just tells us that we lost some money on some, and we made some money on some over a period of 10 years. But I'd just like to know where we're at right now on what we call our investments.

Mr. Montgomery: — If you look at the items on page 24, you'll note that nearly all of them are in the Crown corporation sector. So basically the consolidated financial statements of CIC [Crown Investments Corporation of Saskatchewan] should have all of those type of investments there.

In terms of some investments, it depends on the type of

investment. Some investments would be carried at cost, you know. And some would have been written down depending on, you know, the circumstances. But the basic accounting policies, etc., for how those investments are valued are sitting in Crown Investments Corporation.

Mr. Wendel: — Just as a matter of interest, if you go to volume 1 of the Public Accounts, on page 71 there's a schedule of other investments, and you might just want to go through those. It's quite detailed, provides you with a lot of information on carrying value and what they are.

Mr. Chisholm: — So on page 71, as well as investments we're also . . . On page 72 we talk about government business partnerships. Are partnership interests carried at cost, or are they accounted for on an annual basis if a partnership interest goes bad or . . . Maybe you could explain that to me, how we carry those costs and show those gains and losses.

Mr. Montgomery: — The government business partnerships are accounted for on the modified equity basis, which is the same basis largely as we account for SaskTel and those other corporations. So I mean they would be affected by a valuation allowance on an investment, for example. That would reduce the value of the government investment. So the modified equity basis is the method.

Mr. Chisholm: — Okay. Thank you. I had a question too just on page 38 of last year's report and page 36 of this year's report. I notice that we no longer show on the bottom of the financial statement the surplus or deficit. We show that, but we don't show the accumulated deficit or the adjustment to the accumulated deficit or the accumulated deficit at the end of the year. What would be the reason in changing the reporting procedure?

Mr. Montgomery: — It got a little bit more complex this year. Last year the accumulated deficit was basically a summary of the annual surplus deficits for many years. And this year the government changed its accounting policies. And if you look at the Public Accounts on page 49 or thereabouts, we now have recorded another category called non-financial assets. And included in that are the government's capital assets largely and prepaids and inventories for consumption.

Well prior, the inventories for consumption or the government capital assets were not included in the summary financial statements. With this change they're now included, and the accumulated deficit is not the same as it was in prior years. In other words it's now been reduced by the amount of those non-financial assets, okay.

So really the comparison that remains consistent throughout is what we've switched to is net debt because that's substantially the same as what accumulated deficit was last year. So really we're trying . . . We thought if we put that in, it would get sort of too complicated to explain and probably wouldn't be worth the value.

Mr. Chisholm: — One other more specific question just on page 9, we talk about crop insurance. I'm just wondering if the Finance department has a handle yet on what the 2000 — well I believe they would call it 2006 — but the claims on 2005 crops

across the province. It's been a very varying thing. I would think that there would be less, probably less claims from crop insurance than we've had the last two or three years and it could be quite significant.

Mr. Styles: — At mid-year the Saskatchewan Crop Insurance Corporation was projected for '05-06 to have a surplus of \$45.3 million; in the Crop Reinsurance Fund of Saskatchewan a surplus of \$33.4 million. But it's early in the year I would caution. Those numbers would reflect end of September roughly. And as you're probably more aware than I am that most of the claims come later in the year, and at this point it's very much an early forecast. So the potential is there for change, I think, before it's finalized.

You'll see the final, next final number in our '06-07 budget numbers. We do a forecast at that point in time for '05-06, and those numbers will be pretty close to final.

Mr. Chisholm: — Thank you. I have one more question regarding the whole . . . in the report it mentions that there's management letters that are a normal part of the audit process. I guess I'd like to know what is the access, what is the procedure when . . . Like a management letter often will indicate maybe a minor problem or something that should be cleaned up, but it's not serious enough to be a note in the financial statements. That's my understanding of kind of . . .

So I'm just wondering when management letters are initiated by the auditors, what is the circulation on those? What is the . . . Just who gets them? Who doesn't get them? Are they available through freedom of information? Just what's the story on management letters?

Mr. Wendel: — At the end of each audit we would produce a management letter. It would be sent to the minister in charge. There would be a copy to the secretary of Treasury Board, the Provincial Comptroller, generally, unless it's a Crown Investments Corporation, in which case it would go to Crown Investments Corporation, a copy, and to the various officials in the departments.

And what happens to those management letters is that twice a year we prepare an annual report, a volume 2 of 1 and 3. And it's a summarization of those management letters and they come forward to this committee for discussion of any key points.

Mr. Chisholm: — Thank you. I just didn't know what the procedure was there to follow those up. That's all I have.

The Chair: — Thank you, Mr. Chisholm. Mr. Borgerson.

Mr. Borgerson: — Yes, thank you. I'm thinking in terms of the people of the general public. When they receive information like this, there's a whole variety of graphs that we saw earlier that were presented to us and that are included in this volume — net debt as a percentage of GDP; interest costs as a percentage of GDP; own source revenue as a percentage of GDP.

In your department, if there is one or two measuring stick that you use, one or two of these ratings that you rely on the most, that give the sort of best overall picture of the provincial

economy, what do you rely on? For the public, what should they look at first?

Mr. Styles: — Maybe I can start by maybe just broadening the answer a little bit from that, and I'll try to come back to it.

There's a wide variety of measures, and the Provincial Auditor uses a number I think that are very effective. They give you a certain story around certain parts of our budget, whether it be debt, interest costs. There's a whole variety of things. There's a lot more as well. We tend to use a number that are not in the report that we find more germane to public policy, more appropriate to the forums that we deal when the federal government, okay, interprovincial comparisons on taxpayer-supported programming.

The numbers you're dealing with here include the Crowns, etc., and as probably everybody is aware, we have a very large Crown sector in Saskatchewan versus provinces like Alberta that have no Crown sector. So as an example, the interest cost numbers include the interest that SaskPower pays on its debt, where when you look at Alberta and you make comparisons, okay, the Alberta power companies are privately owned and therefore their interest costs are not incorporated. So, you know, comparability is a very difficult issue. And again, the report is a good report, but again there's lots of different numbers.

For the public it's difficult to find one or two, but I would tell you there are one or two that I believe are the very best. The public is not very aware of them, okay. Like they see one of them from time to time. First is the rating agencies. The rating agencies look at a province and they look at these ratios and these numbers in a very holistic manner. They look at your economy and your ability to sustain and your economic performance, not just GDP growth but how diverse your economy is, for instance. And Saskatchewan's history in terms of ratings, okay, across all three rating agencies is as good as you're going to find in Canada right now.

We received two additional rating upgrades in the past year. And if you look at our rating upgrades, even when the province had negative economic growth — we had two very tough years from an agricultural perspective — we still received rating upgrades. And I think that's an indication that the rating agencies, in looking at us, believe that even during the down part of the cycle for our province — and every province has some of those cycles — we've done a very good job of managing the fiscal situation. So I would point you to the ratings. And again the public I think is quite aware of that.

The second measure from my perspective that I take always as a very strong indication of how people see the province and how they rate us, okay, is market purchase of our debt. And right now Saskatchewan is the fifth best credit in Canada. The only credits better than us are the Government of Canada, the Government of Alberta, the Government of BC, okay, and the Alberta I think it's called Municipal Finance Corporation. But we're the fifth best credit in Canada and again I see that as a very strong endorsement by the people that actually buy our bonds, okay, and have to assess whether or not those bonds are, you know, of a sufficient nature.

Maybe to add a little bit more perspective in terms of a

comparison of ourself to BC, for instance, which is slightly above us, it's only one basis point. And so we trade very, very close to BC at the present point in time. A slight change in our . . . improvement in our fiscal situation or a fall-off in theirs and very easily we could be the fourth. And so again those are two that I think kind of roll all these numbers together and talk about sort of where we rank on a grand Canadian basis.

You know if you wanted to get into the actual financial statements and that, that is a good number to look at. Looking expense growth across the cycle again, both ups and downs around our revenue growth, I think those are again very important numbers to have a look at.

You know, growth in your assets because you know it's always an issue to make sure that you're keeping your infrastructure up to date, that you're adding new infrastructure and being prepared for the challenges that face you in the future I think is another aspect of it as well. But the two I mentioned to begin with are the two key ones from my perspective and the two that we try to use as a gauge on how we're performing.

Mr. Borgerson: — Just following up on the rating services, the auditor indicates Dominion Bond, Moody's, and Standard & Poor's. Now as a novice myself I'm very curious to know which one of those do you find the most accurate or . . . What's the first one that you look to? I'm just very curious to see.

Mr. Styles: — I need to be careful since I deal with all three agencies but . . .

Mr. Borgerson: — You don't have to answer.

Mr. Styles: — The three are a little different, S&P [Standard & Poor's] and Moody's are international agencies. They rank provinces or sub-sovereigns, okay, around the world. They take a little different view of things, a little broader of view of things. They look at comparability between ourselves for instance and jurisdictions in South America, Mexico, Italy, you know throughout Europe, etc., so take a little different approach.

I tend to pay a little bit more attention to those two. They're more important to us in terms of being in on the world markets. If we decide to borrow in Europe or Asia or wherever else, okay, those are the ratings that will be used, okay, by those investors in those particular regions and so they're a little bit more important to us. They're also the ones that essentially dictate who can buy our debt. Until we got to be AA, for instance, a lot of pension funds in the United States could not buy our debt. So those are two I'd pay a little bit more attention to.

Dominion bond rating agency is a Canadian company. It tends to be a bit more of a corporate expert. It is well recognized for the ratings it does for corporations in Canada and the United States and people pay a lot of attention to them.

When it comes to Canadian sub-sovereign provinces, they're a little harder in terms of their ratings. They take a little bit more of a . . . you know, you've got to show us the improvement before they tend to change the ratings. So they're a little harder. And if you do comparisons between the ratings that S&P and

Moody's, you'll tend to find them a little behind the curve. S&P and Moody's will usually bring a province up and then you'll see DBRS [Dominion Bond Rating Service] follow, okay, within maybe a year or two years or something. So a little different.

DBRS is not that important to us in terms of the Canadian market. We have an ability to enter and exit the Canadian market without DBRS rating. So again it's more of a . . . in a sense a support, okay, for that particular rating agency and the work it does here in Canada. All the provinces use them as well.

So I would tell you again, each has its purpose but S&P and Moody's are the two that we pay the most attention to and are most valuable to us in terms of working in the world debt markets.

Mr. Borgerson: — And I guess I would just indicate when I look at this report, page 8 and 9, I think give for me the basic summary. And I'm just . . . would like your response on this that, number one, that all of the indicators that the auditor has used indicate an upward swing and progress in terms of the economy of this province. The government's financial condition continues to compare favourably with most other provinces, the auditor says. But there is a caution throughout the report that in this province, as we well know, that there is a vulnerability and a volatility that can occur because, as the auditor says, low commodity prices, adverse weather, high interest rates, and I guess I would add exchange rates as well.

Mr. Styles: — Saskatchewan, based on sort of all the numbers we've seen over time and the market, considers to be about the second most volatile province in terms of our revenue stream. So we still have that volatility but the flip side of it is that the volatility we have now is nothing to what it was maybe even ten years ago or even eight or nine years ago.

If you were to look at some of the banks and the materials that they put out . . . Laurentian I believe is the latest one that came out with something about three months ago, four months ago, and there was a long analysis in there about the change in the Saskatchewan economy. And it's something that we've been trying to I guess profile with the market and they're starting to realize that. Historically we've always traded behind Manitoba by one to two basis points, depending on where on the curve you are. And the rationale behind it was always that Manitoba had a much more stable economic base, much more diversified.

One of the reasons we're not trading through Manitoba and we're a better credit now than Manitoba is the simple fact that people recognize that we have a much more diverse economy. The instability in our revenues, okay, is now within a much tighter band than it had been in the past. And the market has now taken that into account and is rewarding us, okay, for that kind of performance as a province.

So you know our performance has been very good, not just on a fiscal side but on an economic side and it's been recognized again in the market over time by the people that invest in our debt instruments.

Mr. Borgerson: — Well thank you, Mr. Chair. I think I've run us out of time so I'll turn it over . . .

The Chair: — Thank you, Mr. Borgerson. I do want to sneak a couple of questions in here before we let our officials go.

I was interested in Mr. Hagel's line of questioning regarding the Fiscal Stabilization Fund. I just want to clarify a couple of issues with the Provincial Auditor. It is true that the way to determine whether a government has run a surplus or a deficit, to get the true picture, you need to use summary financial statements. Would that be a correct assumption?

Mr. Wendel: — Yes.

The Chair: — And would it also be a correct assumption that the way the government accounts for the fiscal stabilization, if they add monies or withdraw monies from the Fiscal Stabilization Fund, that has no impact on the surplus or deficit when you do summary financial accounting?

Mr. Wendel: — That would be correct.

The Chair: — So then it is true that in three of the last four years the government ran a deficit.

Mr. Wendel: — For the three years of the last five years, of course, yes.

The Chair: — Of the last four years, except for this year, the three previous years we saw deficits.

Mr. Wendel: — That's right.

The Chair: — Okay. I just wanted to clarify that because that's very important. I mean, there has been some misinformation in that regard and that had to be clarified.

Secondly, this is for Mr. Styles. And I don't expect you to have the exact numbers but again, there's a lot of bantering about which is right and which is wrong. What would you say if we . . . had the province been using summary financial statements — and I'm sure you can do the math in your head and come out with an approximate number — what would the provincial debt have been, both on the general revenue side and the Crown side, in 1981? Just roughly, what would it have been?

I guess that would include unfunded pensions if there were unfunded pensions back then too.

Mr. Styles: — So maybe I can first start with . . . in our examination of debt, okay, we do not look at unfunded pension liabilities.

The Chair: — Okay.

Mr. Styles: — That's not in our calculations. We tend to go with a market definition of debt, okay, which is the debt instruments outstanding. In '81-82 total government debt was \$3.5 billion.

The Chair: — Does that include debt in the Crowns?

Mr. Styles: — That's right. It's all government debt and Crown corporation debt.

The Chair: — And then given interest rates on that \$3.5 billion through '82 to '91, what would the interest costs have added to that debt if there was no payment of debt?

Mr. Styles: — Are you asking . . . I'm sorry. I'm not sure I understand the question. Are you asking me what the interest cost associated with the debt increase over that period of time . . .

The Chair: — From 1982 to 1991. Again approximately. I don't expect you to have the exact number. But I know interest rates were very high through that period.

Mr. Styles: — About 78 to 80 per cent of your present debt . . .

The Chair: — So at least 2 billion, at least 2 billion.

Mr. Styles: — Around 80 per cent of your present interest costs are associated with debt that occurred between '81 and '91. There are other issues that come to play in trying to make the calculation, okay: foreign exchange — we're completely hedged right now — and interest costs also play into that calculation. But around 80 per cent or so.

The Chair: — Okay.

Mr. Styles: — And almost, if I can, if you separate Crown corporation and government debt, if it was just government debt it would be close to 100 per cent. Because government debt at that point in time was very, very low, less than \$200 million.

The Chair: — Yes the debt was in the Crowns at that time.

Mr. Styles: — That's right.

The Chair: — All right. Very good. The other . . . And I apologize for taking this time but I wanted to get a couple of questions in.

Many provincial governments are using rolling usually three-year plans that they publish. We've had many, several departments appear before Public Accounts Committee and to my knowledge none of them are publishing rolling three-year plans. I would imagine Finance would have a great deal of influence on whether or not the departments were expected to do that. Are you considering asking the departments to publish three-year rolling plans? And of course once the first year's completed then another year is added on to the other end. Are you considering moving that way?

Mr. Styles: — I mean it's a practice that's used in the United States. There's a number of states — Minnesota is the one that comes to mind right away — that uses it. They actually do two-year appropriations if I remember correctly.

It's not used in Canada . . .

The Chair: — I'm not talking about budgets; I'm talking about published goals.

Mr. Styles: — Plans.

The Chair: — Like Alberta for instance publishes three-year

rolling plans.

Mr. Styles: — No, we are not considering expanding to two years. We're still working on essentially getting down to a plan or a strategy in one year that has targets, you know, more effective targets, performance measurements. And we're still working our way through that. I think until that is solidly entrenched — and it takes time to get that into the bureaucracy and made part of what people, you know, are expected to do on a regular basis — until that's finalized and we've firmed it up, I don't think we'd start looking at two years. The idea has been there and it's been discussed from time to time in the department.

The Chair: — Okay. My final question is: does the Department of Finance ask every government department, including your own department, to do value-for-money audits for the services delivered?

Mr. Styles: — Not on a cyclical basis at the present point in time. There is selected programs that Treasury Board or cabinet will mandate an audit of some sort — I wouldn't want to necessarily characterize it as a value-for-money audit be carried out — and then that's brought back to Treasury Board as part of usually the budget development process.

But it's not always a value-for-money audit. It might simply be an efficiency audit; it might be a governance audit. You know there's a lot of different types of program reviews that you could do. But it's not on a cyclical basis at present time.

The Chair: — All right. Thank you very much. I think, colleagues, it's going to cut into our caucus time, so I would just want the member for Silver Springs, Mr. Cheveldayoff, to know that if you have a question, I'd appreciate it if it was fairly brief.

Mr. Cheveldayoff: — Thank you, Mr. Chair. And I think it's important enough that we can cut into our caucus time a little bit. On page 30, graph 18, it talks about the government's liabilities. And I was I guess somewhat surprised to see that liabilities have gone up to a record level of \$21 billion. And I was just wondering if Mr. Styles could elaborate on the increase of I guess of 100 million over the last '04 to '05 and what precipitated that increase.

Mr. Styles: — Without having performed a little bit more detailed analysis I wonder if I could offer a few comments, if that's fine.

Mr. Cheveldayoff: — Sure.

Mr. Styles: — Maybe I would start with the unfunded pension liability. There is an expectation that it will continue to grow at a very low rate, okay, until . . . because the plan is closed but there are still employees who are in the plan at the present time. And assumptions do change over time in terms of longevity of individuals, etc., and so as the Provincial Auditor noted, as you continue to do actuarial studies that will continue to re-establish the number.

If I remember a study we brought forward to Public Accounts a number of years ago, six years ago, I believe, I think the plans,

the government plan for government employees, okay, I think was supposed to quit growing in about 2010, '12, something in that range. And I think the teachers' old . . . teachers' plan was supposed to quit growing about 2013 or '14. So this growth is expected, in a sense is planned for, is something that we do keep tabs on on a regular basis as well. And again once the employees that are in those plans are you know through their occupations either in government, okay, or as teachers you know it essentially will be capped and will decline over a number of years. So that is to be expected.

The other liabilities, I would bring you to bring page 75 of the Public Accounts book if you have it available to you, volume 1, '04-05. And if you look at schedule 5, accounts payable and accrued liabilities, gives you a bit of a sense of where some of the jump has occurred but it would take more analysis to sort of lay out all the different things. But some of it is simply accounts payable as one example.

Mr. Cheveldayoff: — Okay. That's something that, you know, I'll follow up on in the future. Thank you for your answers. I know we've been back and forth through this document and all over and we've had some interesting discussions.

I think a really interesting discussion would be — and the member from Moose Jaw North touched on it earlier — is looking at the deficits and the surpluses over the last, say, 25 years in Saskatchewan and comparing them to other provinces like Manitoba. Indeed was Manitoba running a deficit at the same time Saskatchewan was running a deficit? Were they running surpluses at the same time? And indeed even taking it as far as Ontario in the '80s and '90s and do that comparison to see relatively where we're at. Thank you, Mr. Chair.

The Chair: — Thank you, Mr. Cheveldayoff. Does anyone have a burning issue that has to be dealt with in 30 seconds? We have no recommendations in this chapter of the Provincial Auditor's report.

But I think we do need to again extend an expression of thanks to the Provincial Auditor for helping us understand the finances of the province of Saskatchewan. We appreciate the work you do and thank you for it. I would also like to thank Mr. Styles and his officials for being with us.

We have one more item of business and that's to review the first report of the Standing Committee on Public Accounts. You're welcome to stay around and listen if you'd like to, but if you have better things to do you're certainly free to be on your way.

First Report of the Standing Committee on Public Accounts

The Chair: — We briefly dealt with the report at our last Public Accounts meeting. There were a few errors noted, and our Clerk, Margaret Woods, has provided another draft. And by saying there was a few errors, I'm not in the least way saying that it wasn't an excellent work. It was a tremendous report. But I believe it's now reached perfection.

And so you've all seen copies. Are there any changes from the draft that was circulated just a few days ago, Ms. Woods . . . [inaudible interjection] . . . Okay perhaps you'd like to just

review that with us.

Ms. Woods: — There were a couple of minor changes. One was just to update it based upon the current meeting, so what took place this morning has been included. We've also updated the members section to include Mr. Chisholm's appointment to the committee.

The other significant change was back in the section dealing with succession planning for public sector agencies. That section had been . . . or incorrect recommendations had been included under that section which was noted at the last meeting, and I neglected to correct that. So that has been corrected in the final one that'll go forward today.

The Chair: — All right, colleagues, are there any questions or concerns regarding the first report of the Public Accounts Committee? Is there any discussion about the report? Our intention of course is to table the report this afternoon. I would expect that would be a motion I would make, seconded by Mr. Borgerson. You're prepared to do that, Mr. Borgerson?

Mr. Borgerson: — Yes.

The Chair: — All right, colleagues, we will need a motion to adopt this report. Is someone prepared? Mr. Yates, you're prepared to make that motion.

Mr. Yates: — So moved.

The Chair: — So moved. I guess we don't need a seconder for that, do we? All right. Is there any discussion on the motion? Seeing none, call the question. All in favour?

Some Hon. Members: — Agreed.

The Chair: — Carried unanimously. Thank you very much. We have done a significant amount of work since we first established this committee a couple of years ago. I want to thank all of my colleagues for their co-operative spirit and the ability to have caught up. When I was making unofficial reports to various colleagues in conferences I indicated that we were, as a committee, behind. I cannot say that any more. I have to acknowledge that until the auditor comes out with this next volume we are totally caught up.

I understand that there will be more work forthcoming very soon and we look forward to tackling that in the new year. We also would have to deal fairly early in the new year with the auditor's work plan and budget, so we will likely be convening a meeting I would expect in January at some point. I'll be collaborating with Mr. Borgerson and you will be informed as soon as we can nail down a date for that. So be thinking about that in your calendars.

I also want to wish all of you a very merry Christmas because we will not be sitting in this committee room again I believe until the new year comes around. It's been a pleasure being your chairman. It's been a pleasure working with you over the past number of months and we wish you all the best for the holiday season.

I also want to thank the Provincial Auditor and his office, as I

said, for being at every committee meeting that we've had. And I want to thank Ms. Woods particularly for her excellent work in supporting the efforts of this committee. She has done just a fantastic job and we certainly want you to know that we appreciate the work that you do on our behalf.

So colleagues, barring something that I've missed, I declare this meeting adjourned.

[The committee adjourned at 10:08.]