



# **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**Hansard Verbatim Report**

**No. 10 – November 26, 2008**



**Legislative Assembly of Saskatchewan**

**Twenty-sixth Legislature**

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

Mr. Harry Van Mulligen, Chair  
Regina Douglas Park

Mr. Warren Michelson, Deputy Chair  
Moose Jaw North

Mr. Fred Bradshaw  
Carrot River Valley

Mr. Michael Chisholm  
Cut Knife-Turtleford

Mr. Jeremy Harrison  
Meadow Lake

Mr. John Nilson  
Regina Lakeview

Mr. Jim Reiter  
Rosetown-Elrose

[The committee met at 09:30.]

**The Chair:** — Good morning everyone, and welcome to another meeting of the Standing Committee on Public Accounts. Today we're going to first be dealing with the 2008 report volume 2, understanding the finances of the government. Later in the morning we will be moving to regional economic and co-operative development and going back to the 2007 report volume 3, chapter 21.

### Understanding the Finances of Government

**The Chair:** — With us are officials from the Department of Finance, and I wonder if the deputy minister, Doug Matthies, might introduce the officials that are here with him. Then I'd like to turn it over to Mr. Wendel and Judy Ferguson for their comments on their volume 2 report. And then let's get into any response you might have and then into questions and answers.

And for the public that are following this, if they want to see a copy of the Provincial Auditor's report, I believe the Provincial Auditor's report website is [www.auditor.sk.ca](http://www.auditor.sk.ca). Okay. And with that, Mr. Matthies.

**Mr. Matthies:** — Thank you, Mr. Chairman. With me this morning I have Brian Smith who is the assistant deputy minister responsible for the Public Employees Benefits Agency. On my left I have Joanne Brockman who is the executive director of economic and fiscal policy within the Ministry of Finance. And then I have . . . of course I'd also like to introduce officials who are normally sitting with the committee, but Terry Paton who is the Provincial Comptroller and Chris Bayda who is also in the comptroller's office.

**The Chair:** — Mr. Wendel, Ms. Ferguson.

**Mr. Wendel:** — Thank you, Mr. Chair. With me today are Judy Ferguson, Corrine Rybchuk — these two women lead our work on understanding the finances — and Kim Lowe who attends all the committee hearings to facilitate our work here. I'll turn it over to Judy at this point.

**Ms. Ferguson:** — Good morning, Mr. Chair. Actually as was indicated, we're presenting this report here. I've got a PowerPoint presentation, but some of the slides aren't as clear to see, so I'd encourage you actually to pull out your report and we'll follow along. If you don't have a copy with you, there's extra copies on the side there. So thank you.

So over the next 10, 15 minutes I'm going to focus on a few key graphs in the report and explain the two new recommendations that are included in the report. At the end of the presentation, as always, we'd be pleased to respond to any questions that you may have.

Consistent with prior years, this report explains the financial condition of the government at March 31, 2008, including interprovincial comparisons where possible. In addition it looks at the nature and extent of information the government published to aid legislators and the public's understanding of the government's financial performance.

My first comments are going to focus on the government's financial condition. And then I'll follow it up with really the state of the government's financial reporting. The government's financial statements provide a complete set and complete financial picture and key financial information on the financial activities of the government as a whole. In this report, using those financial statements, we focus on the government's financial conditions at March 31.

First, we measure the government's ability to meet its existing program commitments and creditor requirements without increasing its net debt — that is, living within its means. We call this sustainability.

Second, we measure the government's flexibility to meet its commitments by increasing its revenues or borrowing more money. We call this flexibility.

Third, we measure the government's dependency on monies from the federal government to pay for existing provincial programs. In simple terms, this government measures the extent to which a government can manage its affairs without having to rely on others. We call this vulnerability.

So what are our key findings? In 2008 the government's revenues increased about 20 per cent primarily because of higher non-renewable resource revenues. As a result, the government's annual surplus was much higher at \$1.9 billion. And it was higher than the two prior years which were 570 million in 2007 and 679 million in 2006.

**Mr. Nilson** — Billion.

**Ms. Ferguson:** — Billion, thank you. Million — no, million. Surplus is billion. Yes. And this surplus was about 2.6 billion more than the government expected.

The net debt as a percentage of GDP [gross domestic product] decreased from 16 per cent in 2007 to 11 per cent in 2008. This improved ratio is due to the net debt . . . is the net amount that the government owes, called net debt, being at the record low of 5.8 billion and continued growth in the provincial economy or the GDP.

Third, interest costs as a percentage of revenue declined slightly from prior year, from 8 cents per dollar of revenue to 7 cents per dollar of revenue.

However even with the government's improved financial condition, financial risks remain. Net debt of the 5.8 billion remains large for a population of 1 billion people. Interest costs are the government's fourth largest expense. The government relies heavily on revenues that are tied to the state of its economy. And those revenues change based on factors beyond its control. The economy is exposed to changes in the Canadian dollar; commodity prices such as oil, potash, grains, and cattle; and interest rates. Furthermore the government has limited control over the amount of federal government transfers it receives. The government needs a strong financial condition to withstand swings in its revenues, and it must continue to manage its spending and debt carefully.

You'll find that the report contains over 30 graphs of trends and interprovincial data. And I'm going to highlight six of those graphs. If you could turn to page 5 of the report, graph 1. It's called annual surplus or deficit. The annual surplus or deficit shows the extent to which a government spends less or more than it raises in one fiscal year. An annual surplus means the government has lived within its means, whereas a deficit means it has not. This graph shows that the government has lived within its means for 11 of the last 15 years. The growth in the annual surplus was primarily because of increases in non-renewable resource revenues exceeding its spending.

Now if you turn to page 8 of the report, graph 4, net debt as a percentage of GDP. Net debt as a percentage of the provincial GDPs measures the level of financial demands placed on the economy by government spending and revenue-raising practices. It provides a measure of how much debt a government can afford to carry. The thinking behind this indicator is that a person with \$50,000 per year income can afford to carry more debt than a person with \$30,000 a year per income. Thereby the larger the economy, the more debt a government can afford to carry.

Higher ratios means the government is placing a growing debt burden on its taxpayers, and it will need more future revenue to repay the debt. Higher ratios can adversely impact the interest rate at which a government can borrow — that is, the credit ratings — and, really, lower or decreasing ratios are better. This graph shows that the net debt was at 47 per cent of the provincial economy in 1994. This net debt was not sustainable. As a result, the government had fewer borrowing sources, paid higher interest rates, and needed large amounts of money from the federal government to pay for its provincial programs.

The government shows that since 1994, the net debt as a percentage of GDP has gradually dropped. In 2008, the net debt as a percentage of GDP has decreased to 11 per cent. The government, since '94, has increased its ability to carry its debt and afford its existing programs with the money it raises from the provincial economy. As shown on the previous page — page 7, graph 3 — you'll see that the steady growth in the Saskatchewan economy has assisted the government in decreasing its net debt and improving this ratio.

Moving on to page 9, graph 5, net debt as a percentage of GDP by province. This graph shows across Canada comparison net debt to GDP at March 31, 2007. The 2007 data was the most recent data available at the time the report was prepared. As you can see, Saskatchewan compares favourably with most other provinces.

Moving to page 10, graph 6, own-source revenue as a percentage of GDP. Own-source revenue as a percentage of GDP shows how much revenue from the provincial economy a government raises through taxation and user fees. High ratios or increases in ratios means that a government is placing higher demands on the provincial economy. Its demands are outpacing the economy in these situations. This can make future increases in taxes or user fees difficult.

The graph shows that since 1994, the revenue raised by the government as a percentage of GDP from sources within the province remained fairly constant. That suggests that the paces

in the increases in the government's revenues matched the increases in the provincial economy.

Moving to page 14, graph 9, interest cost as a percentage of revenue. The amount of interest cost as a percentage of total revenue, sometimes called the interest bite, shows the extent to which a government must use revenue to pay for interest costs rather than pay for its services. In simple terms, the ratio shows how much every dollar of government revenue is needed to pay interest costs. A lower ratio of interest costs as a percentage of revenue means a government uses less of its revenues to pay for interest costs.

The graph shows that in 1994, 23 cents of every dollar went to paying interests costs. Since that time it's improved to 7 cents of every dollar of revenue. This improvement is a result of larger revenues, lower interest costs, and a smaller debt.

In '94, the government spent more in interest costs than it did on education, compared to 2008 where interest costs remain significant at 118.6 million. But they remain the government's fourth largest expense after health, education, and social services. As previously noted, while the interest costs have declined, they do remain significant.

Finally, turning to page 17, the last graph that we'll focus on, federal transfers as a percentage of own-source revenue. Federal transfers as a percentage of own-source revenue shows the extent to which a government is dependent on money from the federal government to pay for existing programs. A government showing increasing trends is becoming increasingly dependent on federal revenue to operate; that is, changes in the levels of federal transfers would have a greater impact on the government's ability to deliver its expected services.

The graph shows that since 1994, the federal government transfers as a percentage of own-source revenue has decreased. This has helped the government to become less dependent on the federal government. Note, you'll see an increase from 2004 to 2005. That was actually mainly due to a 500 million increase in equalization revenue that was a one-time revenue.

As previously noted, our report contains numerous other graphs showing trend lines and interprovincial datas that will help you understand the financial condition of the government.

Now I'm going to move on to the next part of the report which starts on page 19, and it's called importance of summary financial information. When we compare the nature and extent of summary level financial reporting of Saskatchewan to those of other provinces, we found that Saskatchewan has fallen behind in how it reports its finances. Key financial publications and related news releases of all other provinces focus first on the financial activity of all of their government. Saskatchewan does not. Rather, the government focuses primarily on the financial activities of the General Revenue Fund.

Page 20, table 1, provides examples where the focus is on the General Revenue Fund. Because of their completeness, the summary level financial statements should be the primary source of financial information to assess and understand the financial condition of a government.

[09:45]

On page 22, we make a new recommendation. We recommend that the government use summary reporting entity information as the primary basis for reporting its financial plans and results.

Moving on, for a number of years we also looked at a number of different aspects of financial reporting. For a number of years the government has provided the public with a budget and performance plan summary; that plan is based on the financial activities of the entire government. The summary plan not only helps legislators and the public understand the financial implication of the government's plan for the upcoming year, but it also helps assess the affordability of planned services set out in the estimates.

Saskatchewan's summary plan sets out the planned annual surplus and estimated debt. Unlike other provinces, it does not include a statement of operations; that is, it does not set out estimated revenues and expenses. We recommend it do so.

For interim reports, in our 2007 report volume 3, we had recommended that the government publish actual and forecasted results compared to its plan for the entire government in each quarter. While this practice does vary across Canada, the governments of BC [British Columbia], Alberta, Manitoba, and Quebec currently provide this information. Publishing periodic comparisons of actual and projected results for the entire government would help legislators and the public assess the government's progress in achieving its summary financial plan.

For the third area, as encouraged by the Canadian Institute of Chartered Accountants public sector accounting standards board, most — being six other provinces — are including financial discussions, statement discussion, and analysis along with their summary financial statements. The information of three of these six provinces provide most of the information suggested by the board. For the first time Saskatchewan included some of this information in its 2007-08 Public Accounts volume 1. We found this information to be a reasonable start and look forward to further progress in this area.

So in summary, our report contains three messages and two new recommendations. First, the government's financial condition at March 31 continued to improve, primarily due to unexpected increases in resource revenues. Second, the government needs a strong financial condition to withstand swings in its revenues. We urge continued careful management of the government's spending and debt because of significant risks that continue. The net debt of 5.8 million is still large for a population of 1 million people. And the provincial economy remains vulnerable to the risks of changes in the Canadian dollar, low commodity prices, higher interest rates, and adverse weather.

Third, the government's financial reporting practices have fallen behind. As a result, we make the two new recommendations on the following, summarized on the following overhead. First, we recommend the government use the summary reporting entity as the primary basis for reporting its financial plans and results. Second, we recommend that the government include a statement of operations with the

estimated revenues and expenses in the summary financial budget.

That concludes my presentation, and we'd be pleased to respond to any questions.

**The Chair:** — Mr. Matthies.

**Mr. Matthies:** — Thank you, Mr. Chairman. I think I'll keep my comments relatively brief. First of all, I think I would observe that the comments made by the Provincial Auditor's office in regards to the sustainability, flexibility, and vulnerability measures that are set out in the report are generally positive indicators for the province. I think the trend lines are important, and I think they're all generally going in about the right direction.

The auditor also identified in the presentation that it's important for government to continue to keep an eye on spending and debt levels. Certainly we agree with that. The auditor also in the report, on pages 11 through 13, talked about the importance of maintaining capital assets up to date and at adequate levels. And certainly that's another area that the government is very interested in.

There were two recommendations that the auditor highlighted and two sort of follow-ups. And so I'll speak to the follow-ups first. The one was in regards to preparation of financial information that would include actual, not just forecasted, information on quarterly reporting. We discussed that in this committee last year. And essentially what Finance undertook to do was to take this issue away and study it and see what we might do in terms of being able to further improve the transparency and reporting practices of the government.

I would advise the committee that over the past year, the comptroller's office has worked with all ministries in government to get them to a point where we can have, say, a good cut-off if we move to providing actual information when we do some of our updates. And that was sort of the first step.

The second step that we're undertaking this year is we're now working with ministries to try and make sure that on the quarterly basis that we actually have budgeted information that is better designed, if I could describe it that way, for quarterly. Most of the ministries I would describe do a lot of the budget work sort of on the annualized basis. We think that it's important if we move forward in this area that we don't just take sort of a one-twelfth, one-twelfth type of approach as you move through the year, that we need to make sure that the budget plan on a sub-annual basis, or less than annual basis, reflects the intentions and expectations of the province.

So our anticipation, or our expectation rather, is that as we move forward into '09-10, that we will start with the mid-year report, the '09-10, providing some actual to budget information as well. So that when we publish the mid-year report next year, we will look to include not only the forecast for the year, but also actual information to the end of the first six months. Our intention is to go as . . . to implement that with the mid-year report. We want to make sure that we sort of do it right and that we're walking before we start running, but that's our intention in that regard.

The secondary that the auditor spoke to, in terms of a bit of a comeback perhaps, was the financial statement discussion and analysis. And the auditor noted that for the very first time, it was included when the province published its Public Accounts at the end of last year. We also agree with the auditor's assessment that it is a good start when we undertook that process because it does improve the reporting and again the transparency of government, that it would be an exercise where we would take a start. And then we would continue to review and potentially look for improvements as we move forward.

So the observation of the auditor was that it was a reasonable start. We certainly think it is a good start. And it is our intention that we'll continue to be reviewing what we're providing in that information and try to further improve the explanations and information provided to the public.

The other two areas or the two recommendations that the auditor spoke to are, I'll say, what I might describe as sort of long-standing points of disagreement between the Provincial Auditor and the government. The Provincial Auditor is advocating that the province use the summary financial statements as its primary financial statements. We do include in the public accounts documents both the General Revenue Fund financial statements and the summary financial statements. And on the summary statements, the auditor issues us a clean opinion with no audit qualifications.

The perspective of the government though is that the General Revenue Fund is the appropriate fund to concentrate on. It is the fund that is legislated to receive all of the taxes, all of the royalties. It is the fund that the Assembly votes on to determine where the dollar should be spent, where taxpayers' money goes. And so that is the primary focus.

We do not believe that there is any loss of accountability because the summary information is provided in the public accounts, and also because all of the Crown agencies that are not part of the General Revenue Fund do appear before committees of the Assembly to have their activities scrutinized as well. So in that regard I would just advise that we do not agree with the auditor's recommendation to move to summary financial statements as the primary basis of reporting.

The second recommendation deals with what would be included in the budget documents, and it was a recommendation to include a statement of operations with estimated revenues and expenditures in the budget documents.

We think that, again, consistent with the view that the General Revenue Fund is the appropriate fund to emphasize for the government, the budget documents are lengthy and include lots of information in terms of all of the spending plans of the government. And including a statement of operations, we don't believe, is appropriate given that the focus of the budget is those areas that the government is voting on to deliberately make spending allocations on. So we have not included that in the budget documents of the province to this point.

We do however include in the public accounts document a statement of operations and expenditures which the auditor gives a clean opinion on. So with that, Mr. Chair, I think I would conclude my remarks.

**The Chair:** — Thank you very much. I'd just like to clarify something, and it's on page 10 of the report. And about halfway down, the first bullet where it says, taxes increased. I assume that you mean tax revenue is increased?

**Ms. Ferguson:** — Yes.

**The Chair:** — Okay. That's the little thing that spin doctors love to see where you talk about taxes going up and . . . but it's tax revenues. And that's a different issue.

I'd like to ask Mr. Matthies, page 8 of the report, it talks about credit ratings. Are you in a position where you're actually floating bonds these days? The means of borrowing or are you able to take revenues and . . .

**Mr. Matthies:** — Mr. Chair, the province, for general operations, is not in the capital markets this fiscal year. We continue to do the Saskatchewan savings bond program which is a debt-raising mechanism, but we are not going into the capital markets to finance the operations of government. We are in a healthy financial position. On the Crown side of it, there is some borrowing that is going on to finance Crown assets, but as far as financing the operations of government, we are not.

**The Chair:** — Any sense on how the Crown borrowing capital markets is being received relative now to Ontario and BC?

**Mr. Matthies:** — I think what I would advise the committee is that I don't believe that there has been any actual new borrowing in the capital markets for the Crown sector since spring, summer. We have not been into the markets during the current period of economic turmoil. And so there's a water to be tested there, I guess, at some point potentially.

I understand some provinces have gone into the markets post this recent period of turmoil, and they were fully subscribed. The indications we get from the folks in the capital markets is people are sort of looking for this flight to quality, so government debt is viewed as a much lower risk. And so while there may be sort of a widening of the yield curve, in other words sort of long-borrowing costs may be rising relative to say Government of Canada bonds, so provinces may see their borrowing costs relative to the federal government going up. However the notion that provincial securities are seen as better quality than some of the other paper that's out there seems to have been well received in the marketplace.

**The Chair:** — Okay. Just sticking with credit ratings for the moment, you note in the appendices that Manitoba is right at . . . similarly to Saskatchewan to the credit rating agencies. And I just want to follow up on Ms. Ferguson's comment that high federal transfers may create problems for provinces because I would also note that Manitoba has huge federal transfers from equalization on an ongoing basis, but their credit rating is very similar to ours. So is it federal transfers or other factors, like lower debt that they've had over the years, that's the significant source of concern for credit rating agencies? I don't know what . . .

**Ms. Ferguson:** — I think it's fair to say, like there's a number of factors that the credit rating agencies consider when they actually issue their ratings, you know, and it is the existing debt

load, the size of their economy. You know, there's a whole range of factors that are considered beyond the extent of transfer payments.

[10:00]

**The Chair:** — Mr. Matthies.

**Mr. Matthies:** — Mr. Chair, if I could just offer a supplementary comment. I think the recent experience with the economic concerns in the country and the decision by the federal government to announce, for example, as it relates to equalization, that Minister Flaherty announced an equalization intention a couple of weeks ago which indicated for example in Manitoba's case that I think they will be flatlined essentially for next fiscal year. That I think speaks to the comment that the Provincial Auditor is making perhaps, that when you don't control all of your revenues and you're relying on others for some of that, that their decisions impact you. And so I think that's the point that the auditor is trying to make in that regard.

**The Chair:** — Mr. Nilson, on this?

**Mr. Nilson:** — Yes. Just on the whole credit rating area, have there been any credit rating upgrades or downgrades in the last year? Because it appears that they've taken a major hit in this latest situation as far as what they actually do. Or has there been a readjustment here? I'd appreciate a comment I guess from both the auditor's office and from . . .

**Mr. Matthies:** — Mr. Chairman, I think specifically to Saskatchewan's situation, there have been two of the three major rating agencies who have issued comment on the province's position. Both Dominion Bond Rating Service and Moody's reviewed the province and changed their outlook to positive. That's not a change in the credit rating per se, but it's sort of an indication that if strong performance continues then the province could potentially be in line for a credit rating upgrade. Those items came out prior to the turmoil this fall. They were over the summer.

Standard & Poor's has reviewed the province's position. They have not yet made their determination in terms of whether we would see adjustments or not. We understand that they will likely be going to their credit rating committee very shortly. I think they had at one time thought that they would be going in October, then earlier this month, but I think as sort of you're indicating, the turmoils have caused them to adjust their workloads perhaps. And so we are expecting some decisions from Standard & Poor's very soon, although if you would have asked me that question in early October, I would have had the same answer, but we do expect some further comment from them shortly.

**Mr. Nilson:** — When was the last change here in Saskatchewan which was an upgrade?

**Mr. Matthies:** — Sorry?

**Mr. Nilson:** — When was the last upgrade?

**Mr. Matthies:** — The last upgrade? The last upgrade we would have received would have been I think . . .

**Ms. Ferguson:** — Actually it's in the report. It's actually on page 45, 46. It's by agency there. So Dominion Bond Rating agency would have been November 2006, and Standard & Poor's would have been August 2006 and Moody's in November 2006.

**Mr. Nilson:** — Okay. So just over two years ago basically. Okay.

**The Chair:** — Can I ask a question? I guess for whoever wants to take this on, reference page 13 and the question of tangible capital assets. What's included in your definition of capital assets part of government? Does that include universities? Would not? What other capital would it exclude?

**Mr. Wendel:** — School boards.

**The Chair:** — School boards.

**Ms. Ferguson:** — Basically what we're doing is we're using the definition that's in the summary financial statements, so it would be the assets that are included within the summary financial statements. So it's the assets that are basically owned by the various parts of the government. So because the school boards aren't part of the government, they're not included in that number. The universities are not part of the government, so again they're not included in that number.

**Mr. Wendel:** — As well, Mr. Chairman, the assets of the Crown corporations, the government business enterprises, are not included in that number.

**The Chair:** — Okay. Mr. Chisholm.

**Mr. Chisholm:** — What about health facilities? Are they included or excluded?

**Ms. Ferguson:** — They are included.

**The Chair:** — This report is in two parts and I had some questions on the second part with respect to summary financial plans. Are there any other questions on the first part? Mr. Nilson.

**Mr. Nilson:** — . . . or the second part, but it's this whole issue of federal transfers. I guess my question is, the amounts included in federal transfers, are they only those amounts that go from the federal government right to the provincial government?

**Mr. Wendel:** — Yes, Mr. Chair, that would be correct.

**Mr. Nilson:** — Okay. So that other kinds of federal transfers that come to Saskatchewan, whether it's a direct producers kind of payment or the Millennium Scholarship Fund which put money directly to students as opposed to going through the provincial government. Unemployment insurance where, you know, I think that would actually be helpful to have in your statement another time is to show how much Saskatchewan workers put into something like the employment insurance program versus how much comes back to Saskatchewan workers because that's also a statement of what kinds of federal program monies come into Saskatchewan.

What triggered my question was looking at the big drop in federal money that wasn't . . . I don't think it was directly related, but it's in sort of the '94-95 time was when Mr. Martin brought in his budget that basically eliminated a lot of the matching programs, but also is a similar time where the Crow rate was eliminated. And that dropped a lot of cash that went into the Saskatchewan economy that probably wouldn't have shown up on that chart.

And I guess my question is, is there some way — I mean I assume there is some way — to actually record what all those things are, maybe as an addendum in the next report so that we could actually see some of these things which Saskatchewan people should know?

**Mr. Wendel:** — Mr. Chair, we'll certainly look at that and see what we can find in the way of information that we can rely on. And I agree with your comment on what happened in the early '90s, and that's the reason for the caution. When you're relying on somebody else for your money like the federal government, if they decide they're going to cut back, it leaves you as a government with the really, really difficult decisions on what services you're going to cut and what taxes you're going to increase. So always the caution, when you're relying on money from somebody else, to be very careful.

**The Chair:** — I'd like to turn, if I may, to the question of, starting on page 19, the importance of summary financial information. It's indicated in the report that at this point Saskatchewan will be — and I guess this presumes adoption by the Manitoba legislature of a Bill there with respect to changing the way in which they will present budget information — Saskatchewan will be the only province in the country that will not be presenting its plan, its budget in a . . . or focus on a summary financial basis.

Should that provide us any cause for concern as we go down the road in terms of how financial institutions look at Saskatchewan? I mean obviously, it's not a problem today given the financial situation we find ourselves in. But is that a potential source of concern as we go down the road, that we would be viewed as being offside in our financial reporting compared to other jurisdictions?

**Mr. Matthies:** — Mr. Chairman, I don't believe so. We've dealt with the credit rating agencies, for example, for several decades in this province. And every time they come to Saskatchewan to do a review, to sort of assess where we're at, we spend a significant amount of time with them going through the financial statements of the province, talking about sort of trends and issues.

They also meet with the Crowns, the major Crowns, and will have a significant discussion with them, as they also will target areas that may be of particular interest to them. So one year I can remember, we actually arranged meetings with Health officials because they were very concerned about, you know, the impact of health spending on the sustainability of the province's financial situation.

And so I think our assessment is that these agencies are already doing significant due diligence in reviewing the situation of the province. And what we've seen is that there is a very solid

understanding on their part in terms of the financial position of the province. And they also, to my sense, view the Crowns as self-sustaining entities. They are impressed, I think, with the fact that the Crowns all operate with the notion of having debt/equity levels that are similar to sort of the normal business practices for the types of business that they're in. And so they review those indicators as well.

And so I think if there were to be some, I'm not sure, I'll say cataclysmic or some sort of event which would suggest that the Crowns at some point might not be self-sustaining, then we would have to address that particular part of the concern. But at this point, that's not the case. It hasn't been the case for a number of years. And so we don't anticipate that there is any obstacle that this would present to the province.

**The Chair:** — As I understand it, the two primary concerns that the government has and has had with respect to the move from the current way in which we present our information with a focus on the General Revenue Fund as opposed to summary financial plan, one is with respect to treatment of pension plans that the provincial government would have to book, i.e., I guess borrow the money to put into a sinking fund to ensure that funds were available in the future for the pension obligations that we have as opposed to where we just pay whatever we need on an annual basis out of the money that we have in the budget. That's one concern.

The other is the concern of how we deal with the question of, to borrow a phrase, gyrating revenues in Saskatchewan and the impact that then has on the government's ability to present the public with a balanced budget if you like, over a period of time.

Is it fair to say that those are the two primary concerns that we would have?

**Mr. Matthies:** — Mr. Chair, I would say that those are two areas where certainly the auditor qualifies his report on the General Revenue Fund. The pension piece certainly is an area that I would describe that we probably look at at least every four years. Typically what we've done is with every new mandate there is a review of the appropriateness of the accounting policies. There was a discussion this spring in terms of whether we were going to be making changes or not, and the decision was that we would hold fast. But I would say that it was a very extensive discussion that occurred, and I think there's an expectation that we will be revisiting that at some point in the future. I'm just not sure exactly when.

And in terms of the other comment about which is really sort of the use of reserve mechanisms having sort of the savings account, if you will, to provide the cushioning, if you will, in times of economic slowdown or other such events, certainly that's an area where the auditor has provided qualifications.

I think what I would describe is certainly those are differences that the auditor highlights between our summary and the general revenue funds. I think the perspective of the government though is beyond just the accounting side of it, that it's also what is sort of the understandability or what are the interests of the public in terms of understanding the finances of government. And so again that sort of gets us back to the discussion that says the public wants to know where its taxes



are going, what they are, what the royalties are, and they want to know what you're spending the money on.

And so that's where the General Revenue Fund sort of focuses that debate which is, you know, the government can't spend money unless it's been voted by the legislature, and there's a very large and extensive public debate on where those dollars are going. And any time there's a tax increase or reduction, that's also a fairly public event. And so the focus of the government in sort of being able to relate, I think, to the public what we're taking from people, if you will — the tax bite and such — versus where the money's going is the emphasis of the General Revenue Fund. And so I think there's a sense that that's what people are primarily interested in.

[10:15]

Again if the Crowns were not self-sustainable, I think we would be probably having a different discussion. But to the extent that they are sustainable, they don't require a subsidy from the Crown. Then I think that takes us back to, all right then, what are you taking from the public and what are you using it for. So those would be comments I would offer.

**The Chair:** — So that one of the factors that, I suppose, that makes Saskatchewan different than some of the other provinces, what may be the size of the Crown sector here relative to other jurisdictions where because the Crown sector is so large, when we look at, say, debt as an example, I think provincial debt according to this is — what? — \$5.8 billion at the end of March. It might be a little bit different than that now. But Crown debt is — what? — still in the area of three, three and a half million dollars, so that's significant.

Is that a fair comment then, that size of the Crown sector is a factor here?

**Mr. Matthies:** — Mr. Chairman, actually I would say not. The use of Crowns in our province may be more prevalent than in some other provinces. I'm not sure that's, you know, sort of on the face a statement that may or may not necessarily be made. But I think it's not so much the size as much as the basis of how they're operating.

These corporations are . . . They stand on their own two legs, I guess, if I would describe, and I think that's a fundamental consideration, I think, of the government in terms of looking at the Crown sector versus government operations. And so that's kind of the key point I think.

**The Chair:** — Have you had an opportunity to review the legislation that Manitoba is currently considering? I don't know what stage they're at, whether they've actually passed their legislation or whether it's still on the books. Have you had an opportunity to review that?

**Mr. Matthies:** — Mr. Chairman, I remember seeing something early on, but I'm afraid I'm going to be thin on details. We obviously do make a practice of sort of monitoring what's going on in different jurisdictions around these sort of items, but I'm afraid I didn't come prepared to discuss that today.

**The Chair:** — As I understand it, Manitoba treats Manitoba

Hydro not much differently than we would treat our Crown corporations. And they too have a concern about how the events for Manitoba Hydro — which is usually significant and dependent on water flows in some years — might overshadow whatever the government is doing in terms of the taxes they're raising and what they're spending on health and education. But nevertheless they're moving forward with plans to present budgets in a summary form with a focus on that, but they have a number of qualifications attached to that in terms of if there are unprecedented events. And I don't know all the language of the Bill, but if there are unprecedented events — water levels are down — then it need not factor into the government's thinking in terms of balancing the budget that year. I don't know the details.

But is it possible that the committee might be provided, either through your office and/or through the Provincial Auditor, with an assessment of that approach and what implications that might have for Saskatchewan?

**Mr. Matthies:** — Certainly, Mr. Chairman, we can undertake to do some work on that and provide it back to the committee through you.

**The Chair:** — Yes. I just think that, again, I'm a bit concerned that . . . And I understand the reasons, and you've expressed them very well why it is that Saskatchewan has not gone in certain directions. But nevertheless if the financial community or at least those who make comments on our finances are of the opinion that we should be moving in a certain direction, it seems to me that we might want to look at avenues that are available to us. That's my opinion. I don't know if that's necessarily the case for other members. And I'm not saying that we should be moving in a certain direction, but I would find it helpful to have your analysis and your thinking on what is taking place in Manitoba and whether that holds any lessons for us.

**Mr. Matthies:** — Mr. Chair, we will undertake to do some research on this and provide some information back to you.

**The Chair:** — Thank you very much. Are there any other questions? Mr. Chisholm.

**Mr. Chisholm:** — I have a question of the auditor's office. When I look at page 5 on the actual performance of the government over the past 16, 17 years, I note a trend that in election years either our deficit is the largest of that period of time or the surplus is significantly reduced in that year. I'm wondering, is that a concern for the government or for the auditor's office?

**Mr. Wendel:** — Mr. Chairman, we're not so concerned here with showing what's going on at election time. What we're trying to show is a trend line of what the surpluses and deficits have been over a long period of time. And what happened there for those deficits was in fact what we're concerned about. During those periods, there where they show a \$483 million deficit, a \$600 million deficit, what was being told to the public was the books were balanced, okay, based on the General Revenue Fund. But what was really happening was we were running large deficits. And that's the important concern that we've got.

In the good times, people aren't much concerned with the summary statements of the General Revenue Fund, but when things go bad, okay, then by using the General Revenue Fund you may not necessarily see these deficits in the future. You should focus on the summary information. That's our comments on that.

**Mr. Chisholm:** — So if I could just summarize that then, sometimes bad times were made to look like good times.

**Mr. Wendel:** — That'd be a way of saying it.

**Mr. Chisholm:** — Okay, thank you.

**Mr. Wendel:** — And that's our concern ongoing. And that's why we're asking for the focus on the summary information. It is not just . . . Now some Crown corporations are included in this summary information, such as Crown Investments Corporation; it's fully consolidated. Those are very important issues. We keep the SaskPower and the SaskEnergy separate because that's what the accounting principles require, but there's a number of other Crown corporations that are included in the summary financial statements that are fully consolidated — SIAST [Saskatchewan Institute of Applied Science and Technology], Investment Saskatchewan, Information Services, Crown Investments Corporation. Very large economic development activity goes on there that isn't shown through the General Revenue Fund.

So that's the important information we're trying to get out. And I think it's useful to see what Manitoba's gone through. They've just made some major changes, and they put out an annual report this year that does that and allows the government to still do, you know, what it wants to do with respect to, if you've got volatility, to have a balanced budget based on that.

**Mr. Michelson:** — Mr. Chair, as I understand it, all the information is still contained, like, you can get it from the reports for a summary financial statement, but the focus is on the General Revenue Fund?

**Mr. Wendel:** — I think what the report is showing is when the government has its news releases, it talks about the surplus or deficit based on the General Revenue Fund.

**Mr. Michelson:** — Because my thinking is that it is important to know what we are taxing, what the income is for taxes, and where we are spending that independent from all the other operations it may be independent from, direct taxation.

**Mr. Wendel:** — I think it's important to have that too. But I don't think that should be the primary focus.

**Mr. Michelson:** — Okay. If we were to change that, would that have an effect on the yearly reporting in a comparison sense from years past?

**Mr. Wendel:** — I don't know how to come at this. I'm not sure I understand the question, but if I haven't answered it, just feel free to ask again. But since 1991, we had tried for many years to get summary financial statements to know what was going on. And in 1991 we were able to get that. So there is a lot of history now showing summary financial information. So that's

very useful information to have.

We had tried in the '70s to get them. We had tried in the '80s to get them. And of course I've been pushing for summary budgets. And I've been just about done with my term, but maybe the next guy will get it. So it takes time, and there's always a point in time when some of the things happen. And the government has to be ready to move and be able to answer what it has to answer for.

But we're going to keep coming from — well I don't know what'll happen when I go — but trying to get people to focus on what it is in total and where do we stand. That's the important . . . Just like if you go to the bank, you know, you want to borrow money. You can't just talk about one fund. You got a bank account with money in it, and you got a bunch of debt over here. And you're going to talk about another bank, and another place, they want to know everything you've got. And I think the public has a right to have that.

**The Chair:** — Mr. Nilson.

**Mr. Nilson:** — I'm going to ask a couple of questions — and I'm not sure whether it's from the auditor's office or from the Finance department — that I think follow in this line. Does the government ever report the flexibility of government? I guess speaking from many years of working to try to come up with budgets, there's always a sense that there's actually very little decision-making power because there's so many ongoing expenses. And is that shown anywhere in the auditor's statements or in the budget?

And I guess what I'm thinking about is the fact that employee costs and all of the contracts that you have are directly . . . well they're committed. There's a whole bunch of other commitments that you make to school boards or universities and that the actual amount of decision-making power or flexibility in a budgeting operation, which I assume is taking place right now, is very limited.

**Mr. Wendel:** — I think I'll turn that over to Mr. Matthies.

**Mr. Matthies:** — Mr. Chairman, I think what I would say is, you know, in the context of government's financial planning, there are times when to meet expenditure targets or to meet surplus targets or debt targets, governments have to take more, tougher measures I guess. I have myself, over my career in government, been involved in four or five substantial reductions — downsizing exercises if I can describe it that way — in different portfolios. Those were a result of decisions of the government of the day to repriorize the services that it felt was important to the people of the province and to maintain a credible financial plan to maintain the financial health of the province.

And so I think the message is kind of that governments have the latitude, if they require, to take tough decisions when those circumstances present themselves. And then it's an issue of prioritization and then explaining to the public why they've had to take the measures they had to take.

**Mr. Nilson:** — Well I guess I asked the question because, you know, you talk about the reports and the auditor's reports

basically setting out for the public what the situation is, and much like you say, going to the banker. But it's the same thing you tell when you go to the banker is, well these are all my fixed monthly costs, and that those are the things that will cause a great deal of change and great deal of, I guess, priority setting on a yearly basis or a monthly basis.

So I guess my question maybe to the auditor is, is that something that could be set out that says well these are based on the experience over the years, the relatively fixed costs of running government, and then here's where some of the other flexibility arises?

**Mr. Wendel:** — Mr. Chair, that could be something to be looked at. I'm not sure what will be fixed costs. Well you say even if you went to the bank and you said, I need this money but I've got all these fixed costs, the banker might say to you, I guess you'll have to do something about your fixed costs.

You know, and governments always have the ability to change the law if they've got, you know, cost-sharing agreements with school boards or whatever they've got to reduce what they have to reduce. And those are hard decisions, and that's where I'm glad I don't have your jobs.

[10:30]

**The Chair:** — We do have some fixed costs, and those would be the statutory ones, but everything else is on the table, John.

**Mr. Nilson:** — But I guess, just in the interests of, sort of, public knowing what's going on, I think often the public doesn't understand that to keep the civil service at a flat rate costs this amount of money. And there's no reason why you couldn't say, well you know, that that's there and that there has to be a reduction of 5 per cent in that. Well that's going to make all kinds of change necessary.

My other question is in a . . . I'm not quite sure where this goes, but my understanding is, on an international basis, in the public sector accounting world that there have been some re-examination of costs and how they're reported as to whether or not they engender economic development or not. And you've made a comment just a few minutes ago about certain kinds of costs actually being a benefit to expanding the economy, or something to that effect.

And I guess what . . . My question arises from talking with a friend from Australia who said that in Australia and also I think in Europe, they're looking at which costs in government are actually identified as engendering economic development and which ones aren't. And it just struck me as a very interesting question because traditionally they'll basically say, building highways, you know, doing all those kinds of things, a lot of the infrastructure costs are ones that are justified as expenditures that increase economic development.

In the States one of the things that has happened is that education costs are included that way, but that there is a great debate about health costs because in virtually every community in the United States, the health industry is the number one job provider. You know it's surpassed education. And I guess, is that something that you know about? And I guess the discussion

is going on at an international level trying to set standards. And it just surprised me when I heard somebody say this.

**Ms. Ferguson:** — I know a little bit but not a lot of in-depth on it. It's actually not accounting in the financial statements, but it's rather more akin to what we're talking about for the financial statement discussion and analysis. It's in those types of pieces that they're doing that type of analysis. And the government indicators is sort of the direction that Canada has gone.

And what they're trying to do is do the linkage between what's in the financial statements to what the government's doing, you know, the linkage between its goals and objectives. So it's that middle ground between performance management and the financial accounting and trying to marry the two together. So it's actually not the financial statements themselves. I don't know if Chris or Terry has anything to add on that.

**Mr. Nilson:** — Yes, well I guess the reason I ask it is that the ultimate question for government legislature talking and voting about a budget is whether those kinds of things are just sort of end services to the public or whether they actually increase the economic activity in the province. And so how they're characterized ultimately ends up affecting what decisions you make at the front end.

And the big debate that's happening, I think, in Australia and the United States is if you have an economy where the amount of money available is dropping quite dramatically, those things which have that economic argument attached to them — in other words highways, infrastructure, education, as opposed to social services or the health — you know, then there's a sense, well we're going to put all our money there, and we're not going to worry about some of those other things. And clearly what's showing up is that, sort of, the health industry side is a bigger one than anybody thought. So anyway I guess I just raise it here as something that we should be all watching for because it does affect how decisions are made.

**The Chair:** — Can I just . . . On that, wouldn't we have some level of analysis anyway from budget time where you project what the economy is going to do? And an important variable in that is the amount of money that is going to be spent in the economy including funds that are available to us to do that.

**Mr. Matthies:** — Yes, I think, Mr. Chairman, what I would add to the discussion is again, I think, a lot of this is tied to the messaging of where you're sort of directing your dollars. And I would make the observation that, for example, in the financial statements of the province on page 58, we have schedule 12, which is sort of, I'll say, a grouping — for lack of a better word — perhaps of a number of costs by what we call sort of operating themes, and so we identify things like agriculture, economic development, transportation.

And so it's a different way to sort of take a cut at where the spending dollars are going, and my observation would be, you know, this is a fairly subjective approach because you know, my experience from both sides of being a line ministry deputy and being a finance deputy is, you know, when you're in those tough competitive battles for budget dollars, you make sure that you align your spending items to fit the government's direction.

And if economic development is the way they're going, then you message your things accordingly.

So they're very subjective in terms of how you might categorize them. The description of items that we've got on schedule 12 is one that's been sort of a, I'll say, a long-standing . . . What we thought when we put them together was kind of, what does the common person view these things. And so in our province where we've got so many roads, for example, we thought it was important to highlight, you know, transportation separate because Saskatchewan's got more roads per capita than anybody else. Most of that, you could very well argue, might be an economic development piece. Some of it you might argue is more important than others because of the traffic volumes or are they on, you know, primary export routes or secondary type thing, but so we do have some breakdown in that regard. And it's again it's sort of, what do you think provides the most useful, understandable information to your readers. But it's a fairly subjective exercise.

**The Chair:** — You're not worried about all the other deputies taking notes?

**Mr. Matthies:** — They're all very smart individuals.

**The Chair:** — I don't have any further questions. Anyone else have any further questions? Is it okay with the committee if we defer consideration of the recommendations from the Provincial Auditor on this? I would like to both . . . Mr. Matthies has undertaken to provide us with analysis of Manitoba's legislation. I wouldn't mind taking a look at that before I want to put a vote on this or I want to vote on it. Mr. Chisholm.

**Mr. Chisholm:** — Yes. I don't agree with that. We will get the information when it's available. We already know that a number of the other provinces have chosen to go a different route. We're prepared to vote on this, this morning.

**The Chair:** — This morning?

**Mr. Chisholm:** — Yes.

**The Chair:** — Okay. Well if that's your wish, then so be it, but that doesn't preclude the committee receiving the information that was requested.

**Mr. Matthies:** — No, Mr. Chair, we'll still provide you the information as information.

**The Chair:** — So the recommendations are then on page 22. And the first recommendation, what is the committee's wish?

**Mr. Michelson:** — Would not concur with the recommendation.

**The Chair:** — The Vice-Chair has moved that we not concur with the recommendation. Is that agreed? Mr. Nilson doesn't agree, so say the majority agrees with not concurring with the recommendation. Okay.

And then recommendation no. 2?

**Mr. Michelson:** — We would not concur with that

recommendation at this time.

**The Chair:** — Okay. The motion then to not concur with the recommendation, and Mr. Nilson again disagrees. So the record can show that the majority of members agree with the motion to not concur with the recommendation.

Are there any other items on this chapter or on this volume of the Provincial Auditor's report? If not, thank you very much, Mr. Matthies and all your officials for being with us today.

**Mr. Matthies:** — Thank you, Mr. Chairman.

**The Chair:** — Too bad time is so short, but we've got to move on.

### Regional Economic and Co-operative Development

**The Chair:** — The next item of consideration for the committee is the Provincial Auditor's report from 2007, volume 3. And again for those people that are watching that want to have access to the Provincial Auditor's reports, we'd refer them to [www.auditor.sk.ca](http://www.auditor.sk.ca), and undoubtedly there'd be a list of reports that the public can access. Am I correct?

**Mr. Wendel:** — That's correct.

**The Chair:** — That the public can access, so if people want to at some point follow along, today we're dealing with chapter 21 of the 2007, volume 3 report, and that chapter has to do what was then called regional economic and co-operative development.

We have with us today the deputy minister responsible, Mr. Dale Botting. And Mr. Botting, I wonder if you could introduce your officials, then we'll go to Mr. Martens and Mr. Wendel for their comments, back to you for any comments and hopefully any questions and answers. So Mr. Botting.

**Mr. Botting:** — Thank you, Mr. Chairman. It's my pleasure to introduce to you, accompanying me as officials from now Enterprise Saskatchewan, which has inherited the legacy programming formerly of regional economic and co-operative development, two officials. To my immediate right is our chief financial officer, now from Enterprise Saskatchewan, Denise Haas. And to my left is our chief operating officer in Enterprise Saskatchewan, Mr. Gerry Offet.

**The Chair:** — Mr. Martens.

**Mr. Martens:** — Thank you, Mr. Chair. For the year ended March 31, 2007, we found the ministry had adequate controls to safeguard public resources, and it complied with authorities governing its activities, except for the following two matters.

We found that the department did not have adequate controls to ensure employees' pay was being reviewed and approved. This weakness increases the risk that employees may be paid incorrect amounts. During our audit for the year ended March 31, 2008, we observed that this matter had been satisfactorily resolved. This is the same matter that the committee has dealt with in chapters on other ministries, you may recall.

Also the department complied with its governing authorities, except it did not obtain order in council approval for payments it made to the Saskatchewan snowmobile fund, totalling \$705,000. The ministry subsequently obtained the required OC [order in council] approval for the agreement under which these payments are being made. Therefore this matter has been resolved as well. That concludes my remarks.

**The Chair:** — Mr. Botting, any comments?

**Mr. Botting:** — No, Mr. Chairman. The first matter, as I know you've discussed, is rather generic across a number of ministries at the time due to the transition to the MIDAS [multi-informational database application system] payroll system and some of the hiccups during that IT [information technology] transition. And I believe you've discussed this, as we just discussed, through your previous deliberations.

On the second matter, there was clearly an oversight made by previous administrative officials. It has been rectified. I think there is the one instance where that took place due to a past oversight. And it has not happened again and will not happen again. And it was appropriately rectified through the appropriate order in council. And we've moved forward since. I believe that was to a particular payment to the snowmobile trail management group, and it has since been rectified.

**The Chair:** — Any questions? Mr. Chisholm, you've got a question? No?

**Mr. Chisholm:** — Just if it doesn't snow, or is this academic for this year?

**The Chair:** — I don't think it's a question of snow. It's a question of OCs. No further questions? Okay. I would then ask, what is the committee's wish with respect to recommendation 2, the matter of orders in council? Can we note that we concur with the recommendation and note compliance? Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — That's agreed. Thank you very much, Mr. Botting. Thank you.

That concludes the item that we have on our agenda. I want to thank all the officials and the committee members for their participation, and we look forward to future meetings. Thank you very much. We need a motion to adjourn. And Mr. Michelson has moved that. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Mr. Bradshaw, you're agreed? Okay. We're agreed. We are adjourned.

[The committee adjourned at 10:47.]