

STANDING COMMITTEE ON PUBLIC ACCOUNTS
January 20, 1994

Public Hearing: Department of Health

The Chairperson: — I'd like to draw the attention of the committee to focus on the Department of Health this morning, and there are a couple of things that I need to indicate to the witnesses here today. You are required to answer all of the questions. You are given the same accountability, responsibility as a member, but you also have the same privilege then as a member to no civil action to be held against you or to be taken against you, and so in that fashion then you're required to provide all the answers.

If you don't have them here with you, we ask you to send 15 copies to the Clerk's office and then he will distribute them to the members.

Mr. Adams, would you please introduce your officials

Mr. Adams: — Thank you very much, Mr. Chairman. To my immediate left is Rick Kilarski who is the acting executive director of our finance and administration branch; and to his left is Velma Geddes, our director of administration. To my right is Kathy Langlois whom you've met for a number of years, who is the acting executive director of our management support services in the implementation of our health reform.

The Chairperson: — The first item of business would be then on dealing with the auditor's report. Item no. .07 on page 159. It states there that:

The Department should specify the pay and expenses of Boards of Directors in Orders-in-Council.

We have discussed that to some extent this morning. There were some questions that I think needed to be asked, and one of those was, as a committee we wanted to know whether you had completed this. We received information from Mr. Kraus that you were moving in this direction. But we need to know to what extent you are doing that and also which boards are in transition and which are being completed in what you have presented to cabinet so far.

Mr. Adams: — If I can, the review of remuneration to boards is being undertaken by the government centrally. I don't believe that we have a complete answer on that from the Department of Finance yet; I think it's to be completed very shortly, perhaps within days. The department internally is also having a look at the remuneration to boards across the piece and our review of that will follow the advice we get from the Department of Finance.

Now there was another question that you asked. The last part of it, could you just rephrase the other piece of information you wanted.

The Chairperson: — Mr. Kraus provided us with some information this morning that said that you were moving to establish rates and procedures so that orders in council could be put into place. And we'd like to know if that is proceeding and if there are . . .

those that are going to be deferred because of orders in council not being concluded, that were established earlier and that the time line . . . we'd like to know those matters.

Mr. Adams: — Okay. What's going to happen here is that we plan to prepare an order in council to authorize board member remuneration, once we've received the feedback from the Treasury Board's review of the compensation issue. But that hasn't been done yet.

But we have, of course, included compensation rates for board members in the orders in councils as some of these new appointments and reappointments have been made, up to this point in time. But that is not being consistently applied, and we'll have to go back and make it consistent when we get this additional advice.

Mr. Kraus: — And as I was saying, Mr. Chairman, the issue just went through Treasury Board yesterday and it will be a week or so before it's approved by cabinet and then they will know what the approved rates are for the remaining boards and commissions who don't have the pay remuneration approved by OC (order in council), although they have begun that process.

The Chairperson: — Does the committee have an observation about point no. .07?

Mr. Cline: — I think we should just note that the Department of Finance is in the process of developing a government-wide policy to resolve the issue which is presently, we're told, going before the cabinet.

The Chairperson: — Is that Finance or Health?

Mr. Cline: — I believe Mr. Kraus said Finance had developed . . . had made a suggestion to Treasury Board.

Mr. Kraus: — We have the policies that are being established centrally for the pay and remuneration, but then the responsibility to make sure that the orders in council are passed, then are the individual departments' responsibilities, such as Health.

The Chairperson: — Okay we will do that for no. .07. No. .14, the commission should establish rules and procedures — and this is under the Alcohol and Drug Abuse Commission — the commission should establish rules and procedures to prepare timely and accurate financial statements.

Mr. Adams: — Yes, Mr. Chairman, we obviously agree with that. The commission has subsequently completed its 1991-92 financial statements and tabled its annual report in the legislature on April 14, 1993.

Now what of course you are probably aware of is that in August of 1993 the commission was disestablished, I think is the word, and the program management for the commission was subsumed and transferred to the

Department of Health. As a part of its reorganization, Health is establishing policies and procedures for the management of all third-party agreements, including those previously administered by the commission.

The Chairperson: — I asked the auditor for a copy of those organizations that they were dealing with, and he has a list. But would you be prepared to provide that list to members, with 15 copies, if you haven't got it — well, you won't have 15 copies. But if you wouldn't mind doing that so we could look at that.

Mr. Adams: — Yes, that will be fine.

The Chairperson: — Okay. What's the committee's observation about point no. 14?

Mr. Cline: — I think we should indicate, Mr. Chairman, that the department agreed with the recommendation and ensured compliance subsequently. That the commission has been disestablished but the department will take steps to ensure compliance with the recommendation by the department itself.

The Chairperson: — The question that I have then, is the Department of Health — and it's not the year under review, so I'm taking a few liberties here — is the Department of Health going to determine that they provide to the department those financial statements that are going to be timely, and that they are going to reflect that in the process that you set up in order to give them the money and then they report back to you? Are you going to make sure that that happens? That's the question that I get from the observation Mr. Cline just made.

Mr. Adams: — Yes, but it's a part of a bigger picture. That after August 1993, I mean, the commission doesn't exist.

The Chairperson: — Yes.

Mr. Adams: — So that the allocation of the alcoholism and drug related grants is directly handled by the department and will be subject to all of the auditing that is normally done there and all the timeliness requirements from the third-party agencies; and their accountability to us of course will be consistent with what we're doing for all third-party grants. So the answer is, I'm sure, a yes. But keep in mind that we don't have a commission . . .

The Chairperson: — Right. I understand that. The reason I asked the question is because the year ends and the financial statements coming from those agencies that the commission provided money to were not delivering back their financial statements on an adequate, timely way and that caused the commission the problem in dealing with it. That's why I'm asking you, are you going to deal with that so that they are in a timely fashion and if that's yes, then we can move on.

Mr. Adams: — I understand you better now. Yes. Another experience where it is working correctly is

the third-party grants in the mental health field which we were directly administering and we're applying the same criteria and policy in the field of alcohol and drug grants as we will in the mental health field. Then the answer to that is yes — we will not let them lag behind in their accounting for these resources.

The Chairperson: — Okay. Under the Wascana Rehabilitation Centre, we have point no. 22 on page 160. It says the centre should prepare a written policies and procedures manual. That has been identified as already being accomplished. And we will note that in the report and also on item no. 25:

The Centre should adequately segregate the duties of employees handling cash receipts.

And those have, I believe, been done.

Mr. Adams: — That's correct.

The Chairperson: — Okay. They will be noted in the report then. I have some . . . Ms. Crofford, you can go first then.

Ms. Crofford: — Thank you, Mr. Chair. Two questions. I heard a comment recently, and I'm sure it would have existed during the period under review here, that the rate of inflation and the cost of health care provision is something like 7 to 8 per cent.

Can you give me some reasons and maybe a little bit of specifics about where that takes place and why that is, that inflation is higher in the health area than it is in other areas of the economy?

Mr. Adams: — There are . . . I would be glad to table for the committee in fact a table of increases in health costs in Saskatchewan over a period of a decade or so and compare that in Canada as well. It is true what you say. There are a number of reasons for that.

One of the biggest reasons for higher than average inflation costs is drugs and medical supply costs. The increases in those two fields are always inordinately high. And there aren't terribly effective methods for controlling price increases in those fields in North America.

The second part of the answer has to do with utilization. For most of our history, utilization of our health services has increased year after year regardless of whether the population increased or the demographics changed very much. In the past year, in the past one year, there has been a profound change in utilization in Saskatchewan that we are examining rather carefully at the moment through some in-depth research studies to explain it. But we thought you would find that the utilization of physician services and the utilization of drug services, over and above the changes we've made in the drug plan, is down. The absolute number of prescriptions is down in terms of the rate of increase.

There is a third factor in terms of health costs and that has to do with new technology, that health technology

is very expensive, and when it is brought into the piece it will replace something that existed before but it tends to replace it at a higher cost.

An example of that — you're familiar with some of the equipment and diagnostic tools that are in place now — but when you find a new drug brought on the market for the same condition that we've been treating for years, you'll find that new drug, because it is built in, is brand names and a few other things, tends to be a good deal higher than the drug that was commonly prescribed in the past.

Ms. Crofford: — Okay, thanks very much. So some of this we have a bit of control over; some of it we have very little control over.

Mr. Adams: — That's right. You know, the controls . . . there are a series of controls that can be used and have been tried, and some are more effective than others. Public education of the utilization of services is a very important one and it has not been fully addressed. The governments elsewhere in Canada, and as well as ours, are working now on some public education materials in cooperation with the medical profession and the nursing profession to see if we can get more consumer-friendly and informative information out about utilization of services. That is an important technique.

The other one, you know, the big costs in the health system and the one that is increasing at the fastest rate are drug costs. And that we have this problem of . . . well aside from the new technology is that the patent legislation was changed where the effect of . . . the price-controlling effect of generic drugs is being reduced.

And I think also that in our society that many people believe that treatment of a condition by way of a drug regimen has in the past been the appropriate treatment method. And increasingly even the public is becoming aware that there maybe alternatives to that.

In the field of institutional costs, you're very well aware of the kind of efforts being made in Saskatchewan and elsewhere in Canada to globalize dollars and constrain the growth rate, and that has been effective here and in several other provinces that have gone to global funding arrangements.

And in respect of physician services, there have been I think rather significant achievements made in the past year of physicians learning themselves and accepting to do business in some different ways, using diagnostic tests more effectively. And the work of the utilization commission in pointing some of these matters out to physicians and to the public has been quite helpful.

Ms. Crofford: — Okay. Thank you very much. Now that we have a new federal government, maybe they'll take care of that drug problem.

The other question I wanted to ask you is, in the auditor's report there's one line in the budget called,

grants to the medical education system, and I was just wondering if you could tell me a little bit more about what we provide to the education system in terms of medical grants.

Mr. Adams: — Yes, in the case of medical education, all of the money moving into the College of Medicine does not come from the university and therefore you don't find it all in the education budget. We pay for what we call the service aspects of the physicians who are teachers but also providing direct health care to patients as a part of their work. We'll find the specific details.

We also provide, through that, financial support for certain very specialized physician types that historically cannot have viable practices in their sub-specialties. So this is an additional support for getting a type of physician in place that is also a teacher that's necessary.

We also in that account provide . . . we have a summer internship program for medical students which we pay the college to handle. And there are some supports to students in terms of internships and other things they do in rural Saskatchewan through that particular account.

So that when you're taking a look at the College of Medicine, you put together what you find from the University of Saskatchewan and then we pay into it \$15 million.

Ms. Crofford: — Okay. just a last question on that. So the physicians there are paid somewhat differently than the other physicians who are paid through MCIC (Medical Care Insurance Commission). It's not a . . .

Mr. Adams: — Yes, that's quite right. There are three ways of paying physicians, and the money comes from different parts of our budget. And it's our hope in the upcoming fiscal year to draw that together so that the committee here and the public can see overall what the investment in physician services is.

But let me just try and describe those for you. The MCI account, which is the most commonly known account, is only handling direct fee for service. So wherever there is a fee-for-service payment to any physician, it is paid out of the MCI account.

The second type of payment is to a salaried physician who may be a teacher, or part of his income may be a salaried arrangement, and to physicians who are on an alternate payment system in our health system somewhere. It can be physicians on salary in clinics; it can be stipend arrangements for certain types of medical services elsewhere. And those are found, the payments for those, are found in part for the doctors in the medical school in this account and then the other part is found in our institutional budget.

There is a third type of payment that we make to physicians and that's contract physicians who are psychiatrists. And those payments are absorbed in the mental health budget.

Now when you . . . to go back to the main issue here, physicians who are teachers are paid basically an insured salary. That is — not an insured — they have a salary but it's not totally closed, it's not utterly fixed.

The base is fixed because there are two parts to the base. There is a base dependent on their faculty position, which is paid by the University of Saskatchewan. And then there is a base which they work out for their service work, which is arranged by the college but has to amount in total to no more than they globally would have earned through the fee-for-service system for all of this.

So they reapportion all the fee-for-service type of earnings to be equitable over the entire faculty. So that then they add those two things together. And they have to take into account, in the case of teaching physicians, also a market, the going rate of the market, for certain of the tertiary specials.

Ms. Crofford: — Okay, thank you very much. Thank you, Mr. Chair.

Mr. Serby: — Thank you very much, Mr. Chairman. When you're providing the information — I should have asked it a couple of minutes ago — to the chairman in regards to the number of non-government agencies that SADAC (Saskatchewan Alcohol and Drug Abuse Commission) funds, I wonder if you would also provide, for me anyway, those agencies that hadn't complied in time in terms of having the annual report . . . annual financial statement prepared for the commission, unless you know it now.

Mr. Adams: — Of course we'll give it to you. We don't have it with us but we'll get it right away and get it to you.

Mr. Serby: — Thank you.

The Chairperson: — In the volume 2 of the *Public Accounts* on page 153 you made reference just a little earlier to the Saskatchewan medical care insurance of \$285 million. That's the payment for services rendered by the doctors, is that correct?

Mr. Adams: — It is largely the fee-for-service payments to the doctors, but that account also includes the payment to chiropractors and the payment . . . to optometrists for this particular year is also in there.

But you'll find that in terms of those two things I've clarified that it amounts to a very small proportion of what this total account is. That is we're talking about I think it was something like \$10 million or so for the chiropractors and the optometrists were less than that. So the rest of it's fee-for-service payment.

The Chairperson: — And do you have the volume of dollars for the optometrists in your numbers there?

Mr. Adams: — Not here for the year '91-92 but I can

get them for you.

The Chairperson: — Okay, if you wouldn't mind please. And the rest of the money goes in a fee for service to the doctors?

Mr. Adams: — That's right.

The Chairperson: — Okay. How many doctors do we have in the province? Do you have a . . . In the year under review?

Mr. Adams: — Well off the top of my head, it's about 1,300 and maybe 1,350. And one has to be careful about what that number means. That includes some physicians who are newly entering so it's not a full year of work and it also includes physicians who are part-timers. That's the absolute head count. So when we begin to look at physician human resource in Saskatchewan we're working off of a gross number of about 1,350.

The Chairperson: — Okay. Grants to support medical education system. The parts that it has under it is not only the University of Saskatchewan, as kind of was talked about by you earlier, but it also has the Saskatchewan Health-Care Association of \$60,000. Is that direct payment to the association, or is that for some service provided?

Mr. Adams: — Yes, for that particular grant, under the medical education component, they're the administering agent for the summer internship program of medical students. And so that there's \$60,400, which in this year was administered by SHA (Saskatchewan Health-Care Association).

The Chairperson: — Okay. So that's payments made to intern students. It's funded through the health care association. Is that correct?

Mr. Adams: — No, it's funded by the department and who gives it through this particular account to the College of Medicine. And the College of Medicine uses . . . let me be sure. Are we a direct payment? I'm sorry, I correct myself here. In this area we take the money and directly pay the SHA to administer and pay these summer students.

The Chairperson: — Okay. That 60,000 is not administration. That is the grants to the medical students?

Mr. Adams: — Yes, it's the summer salaries or stipends to the students while they're in the field in the internship program.

The Chairperson: — Okay. How many students were there in that?

Mr. Adams: — I haven't got that detail here. I can find out.

The Chairperson: — I'd like to know that, please. There's a grant here to the Saskatchewan Cancer Foundation of \$25 million. What's that fund used for

in . . . can you outline it for me?

Mr. Adams: — First of all, I don't have any breakdown of the detail here. But what we do is we pay for the entire cancer initiative in Saskatchewan through the foundation. So this pays for the Allan Blair Clinic and the clinics in Saskatoon. It pays for the cancer research part of their program that is supported by the government. And it pays for all the support services having to do with cancer. That was one disease field that was just brought all together historically and the money is paid through this route.

The Chairperson: — The fee for services in doctors under the cancer foundation is not funded to the specialists that provide the service. Is that funded through the MCI or is it funded through this?

Mr. Adams: — There are two types of physicians involved in cancer treatment. There are some physicians on the staff of the cancer foundation, and those are salaried positions and are found in their general grant. Then the other part of it is that for physicians downtown, if you like, who are involved in a cancer case, they will bill in the normal way through MCI. But to keep all the money together, then MCIC bills the cancer foundation for those services which are cancer related. So all the cancer costs are found then in this particular subvote.

I should say that in terms of cancer, you know, we have been explaining this account this way for 15 or 20 or 30 years because that's the way the law was set up. But you know, unless the diagnosis . . . you can't bill it to this account until the diagnosis is cancer. So that there are other costs presumably that somehow relate to the disease of cancer that are in the general system somewhere but are not flagged as cancer costs. Because I would not try to defend that our total expenditure in Saskatchewan or total interest in the disease of cancer is only \$25 million. The total impact is a great deal more than that, but this is what can be identified.

The Chairperson: — I have some interest in this. My nephew has leukemia and he's had it for six years already. And one of the things that concern me in relation to this was the process of investigation and I guess dealing with the lab work required in Swift Current and then the same lab work had to be done in Saskatoon again.

Is there any way that the department can streamline and reduce costs in relation to the diagnostic analysis by laboratories so that you get a basic, general overview that is consistent in relation to what one hospital can prescribe and then transfer to another hospital? Because that . . . in my view, there is a great deal of overlap in all of those functions and I'm not sure whether there's a lack of trust or whether it's a lack of whatever. Is there some way the department can resolve some of those issues?

Mr. Adams: — Well in terms of diagnostic testing, let me divide this into two parts. There is the laboratory kind of testing and then there is diagnostic imaging

which is sort of the X-ray type of diagnostic service.

Now our efforts over the past two years in respect of lab work is an attempt to address the point you're raising. There isn't a common information system yet. So that some work can be done in Swift Current, for example, and the results of that are not known to a physician, say the next day, who might be working with that same patient in Saskatoon, unless somebody carries along a file as the patient travels.

And the efforts of rationalizing the laboratory system and then building a common information system to identify previous lab work performed and when, and the results, and all that type of thing, that is a part of the reform that we're engaged in right now. And that reform is, just on the information side, is worth millions.

And it also, aside from the cost efficiencies when the matter is sorted out, the other side is you're going to get better patient information because there will be very current information on a master patient record which under the proper circumstances, could be released to a second or third diagnosing physician. So that there are efforts in that regard.

Now with diagnostic imaging — that's the X-rays, ultrasound, MRIs (magnetic resonance imaging) and that type of thing — first of all, we can't identify that there is as much duplication in that part of the system, unnecessary duplication, as we knew existed in the lab work. And I can't say that there is no duplication, but what you get in a complicated case is the equipment and the diagnostic capability in a smaller centre is not of course as sophisticated as it would be at the University Hospital.

And what happens when a patient moves from one location to the other, presumably because they're being referred on to a specialist, is either they're using either new tests or new techniques, more sophisticated medical diagnosis, to begin to pin the issue down. So there is some duplication, but I wouldn't say there's all that much on that particular side of it.

The total amount of money spent for diagnostic imaging also is considerably less than for lab testing, so that it's not a . . . whatever problems might exist in that system will not be at the same order at all.

Now there is one other part about this, is when you talk about what would our plans be. Well our plans are to have, as our system reform is . . . and the information system reform progresses, is to have a common patient file so that information on whatever diagnostic work would find its way into this common file which would be available to the patient as well as to diagnosticians and the medical surveyors. But that will take a bit of time to get to that point.

The Chairperson: — A case just came up in the last . . . well since Christmas time that I'm aware of on a heart patient that I know rather well, from diagnosis in Saskatoon and then it was . . . in order to have a bed

they had to go to Regina. And there was not an opportunity to transfer that information as well.

So that deals with the second part of what you were talking about, the more sophisticated research, or diagnosis, I would put it that way, that needs to come and flow back and forth in order to complete that circle.

Mr. Adams: — The information transfer, like that particular case, I don't know about the individual case, but the example you use is a useful one. We have the technological capability to transmit diagnostic images electronically now.

Now in the case of a lab — I mean it is not quite the lab — blood results, that type of thing, are not nearly so difficult because you punch them in, and, really the answers come back in either number form or in script form and that is fairly easy to transmit now, if you've got the system in place.

When you get down to the more sophisticated diagnostic images, we don't have a working model yet in Canada. But the technology is there to be able to actually transmit the image and that that would be able to move around. And there's been some testing going on in this field between the College of Medicine in Calgary and a test site in Drumheller. And we intend, in Saskatchewan and in Canada, to pick up on the technology as soon as it's completely worked through and viable.

The Chairperson: — Okay, thank you. The other area I wanted to talk about was grants for health research. There's three. There's the cancer foundation, there's the Saskatchewan Health Research Board, and the University of Saskatchewan.

Can you provide or can you give me an idea of any projects that have been positive in how they've worked through. I am not aware of any because I'm not directly connected, but in the agriculture field of Veterinary Infectious Diseases Organization, have done something similar and have an international reputation. I was just wondering whether this money was going in to do that kind of research and whether it did have some significant movement in research.

Mr. Adams: — Well the answer to that . . . I'll give you a bit more specifics about how this money breaks out and give you a few examples. And the short answer to your question is that we're getting . . . in some fields, we've had for years international recognition and in fact it is becoming an industry. We're attracting about as much money in the field of neuropsychiatry research, for example . . . we're attracting more externally than we in fact are putting into it.

In the field of cancer research, a lot of the work that's going on in Saskatchewan at the moment, and certainly the money we're paying for, are clinical trials. And that is a high pay-off kind of field. So you get a technique and then you work it out so you're actually testing what works better than something else.

If the committee would like to see examples or a lot more information on all of the kinds of work in the health field that the researchers are doing, I would be glad to table something on that.

But let's take the University of Saskatchewan research. For example, we support three fields there — a neuropsychiatry unit in Saskatoon which is world renowned. And they are the ones who have made the first links, you know, years ago to some of the chemical impacts on mental health, and they are on the leading edge of everything. And more recently the head of this unit was recognized in some world area almost at the level of the Nobel peace prizes. In Saskatoon this was publicly known some months ago.

We also put money into agricultural medicine. And I think that that has a fairly direct impact on farm communities and in safety issues, particularly. And I would be glad to get more detail on that for you but that's considered to be a fairly high pay-back on practical applications.

And then for this particular year under review we also had money put into the epidemiological unit of the College of Medicine for health services research and I can't tell you from memory what they were actually researching in this particular year.

The money we put into the research from the Health Research Board, which is now the utilization commission, is absolutely vital to the existence of the College of Medicine in that their funding through this research grant . . . some of the activities which allow the college to retain some of the specialists in Saskatchewan that are absolutely essential to their credentialing and their accreditation. If we take the money out the college wouldn't retain its accreditation.

The specific fields that they are working in . . . I don't want to mislead you so I don't want to quote fields, but I know they are doing quite a bit in cardiology, a fair bit in . . . I know that field and I won't misspeak further on that.

The other part of this is the investment in the utilization research has now become . . . is accepted in Canada as being leading-edge stuff. There's no place in the country that has, for example, done anything like was done here in the thyroid research. The utilization of hospitals and long-term care operational research that was conducted here has been picked up as baseline material by the federal government and other governments as the foundation to their thinking about reforms in health care in Canada.

So I think that, if anything, in Saskatchewan we pay a much smaller percentage of money, percentage of money into the research community, than most other parts of Canada. And I would say that I would think that we've been done in by the Medical Research Council by receiving a lower share of their available dollars than the richer provinces.

And this has become a national issue. The smaller provinces across Canada are increasingly finding their share is being shrunk. And the ministers of Health have taken this issue up a couple of months ago, and there will be further discussions with the federal government to insist that they allocate national research monies more equitably in Canada.

The Chairperson: — Okay. Do any of the members have questions? Well I want to thank the department for their attention to the committee and thank you for answering the questions and I will read a motion here:

That the hearing with the Department of Health be concluded subject to recall if necessary for further questioning.

And I need someone to move that for me — Ms. Crofford. Thank you very much again for your attendance and we'll probably see you again.

Mr. Adams: — Thank you very much.

The Chairperson: — We're going to take a few minutes for a break and then we'll be back with the next item on the agenda.

The committee recessed for a period of time.

Public Hearing: Investment Corporation of Saskatchewan

The Chairperson: — The next item before us this morning is the Investment Corporation of Saskatchewan. We have Mr. Don Black with us this morning. And I just want to say that the requirement by witnesses to this Assembly are required to answer questions. They have the same area of privilege that a member of the Assembly has, that the answers cannot be held against you in any civil way. And we want to make you aware of that.

If there are some things that you have that you need to provide information to us in written form, we'd like to have 15 copies supplied to the Clerk's office and then he will distribute that to each one of us.

With that, I have . . . we want to welcome you here. And we have one basic item that we have in the auditor's report. And that says, item no. 12, page 208, says that:

The Government should ask its officials who vote ICS shares to advise ICS to allow the Provincial Auditor to audit ICS. Alternatively, the Government should introduce legislation to exempt ICS from being subject to *The Provincial Auditor Act*.

So there's basically two suggestions there that deal with the framework of the discussion that we had earlier this morning in camera, and also we want to provide an opportunity for you to make some observations in relation to that as well.

Mr. Black: — Thank you, Mr. Chairman. Thank you

and the committee for the opportunity to appear here this morning. I enjoy these little outings. I do want to respond to the recommendations of the Provincial Auditor in his report for the March 31, '92 year.

The committee will recall that I was here in February of last year, speaking to essentially the same issue, although different recommendations. So it's not my intention to rehash what I said then, although all those arguments stand. I simply refer the committee to the verbatim of that deliberation and I would like to make a couple of additional points this morning if it's acceptable to you, sir.

The basic point at issue here is whether or not the Investment Corporation is subject to purview by the Provincial Auditor. The auditor has stated in his report that the majority of the ICS (Investment Corporation of Saskatchewan) shares are held by government agencies and therefore ICS is subject to audit under The Provincial Auditor Act. We categorically reject that notion, that government agencies hold the majority of ICS shares.

Today I'd like to take the opportunity to make two principal points with you. The first is that the auditor is labouring under the misconception that ICS is owned by the Crown, and on this point, we believe he is mistaken. The majority of ICS shares are held in trusts on behalf of thousands of individuals in this province.

The second key point is that the representatives of the funds to whom the auditor refers to as the government's officials who vote ICS shares, are obligated at law to act in the best interest of beneficiaries of those trusts that they serve, and it would be most inappropriate for them to be directed or asked to follow any particular course of action.

As the committee knows, ICS is not a creature of legislation; it is a privately owned corporation incorporated under The Saskatchewan Business Corporations Act. The Investment Corporation is not a Crown agency and the majority of shares of ICS are not held by government agencies.

Crown agency, as defined in subsection (2)(d) of The Provincial Auditor Act, includes a corporation that has at least 90 per cent of its issued shares vested in the Crown; Crown in turn is defined to mean Her Majesty the Queen in right of Saskatchewan.

We submit that in the subject legislative framework to constitute a Crown agency within the extended definition of that term, the requisite 90 per cent shareholding must be therefore vested in the Crown itself and not in an agent of the Crown.

There is a statutory principle that the same words should have the same meaning, and conversely, different words should have different meanings. Given that, the Act defines both Crown and Crown agency when reference is made to the Crown in subsection 2(d) of the Act. This should be read as excluding Crown agency because the two distinct terms must be taken to have different meanings.

The phrase in question refers to shares vested in the Crown and not the shares vested in the Crown . . . or an agent of the Crown. To construe the phrase in that way would be to add words that are not there and to give words that are there a meaning that is not ordinary or grammatical.

Further support for our interpretation can be found if one goes further to consider the definition of Crown-controlled corporation in the same Act which is as follows:

"Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

We submit that it would be expanding the advent of review granted to the Provincial Auditor by The Provincial Auditor Act far beyond that intended by the legislature if Crown-controlled corporations were to be interpreted as meaning not only direct 50 per cent owned subsidiaries of the Crown, but also 50 per cent owned subsidiaries of Crown agencies. Because 100 per cent of the shares of ICS are held by various statutory funds and not by the Crown itself, ICS is not a Crown agency within the extended definition of The Provincial Auditor Act.

Even if holdings of Crown agents were to be included in the 90 per cent test of subsection 2(d) of the Act, we would argue that the shares of ICS are not vested in the various statutory boards and agencies representing the shareholder funds as required by the subsection.

Vested is defined in *Black's Law Dictionary* — no relation, Mr. Chairman — as follows: fixed, accrued, settled, absolute. Having the character giving rights of absolute ownership. Not contingent. Not subject to be defeated by a condition precedent.

We submit therefore that the word "vested," as used in subsection 2(d) of the Act, should be given its prima facie meaning of vested in interest, and accordingly for 90 per cent of the shares of ICS to be vested in the Crown or in the various statutory boards and agencies representing the statutory funds, the shares must be beneficially owned by such parties.

The various statutory funds which comprise the shareholders of ICS are monies held in trust for the beneficiaries of the funds. The ICS shares are not beneficially owned by the statutory entities, like the Minister of Finance for the Teachers' Superannuation Commission — to cite one of the examples used in the auditor's report — and hence are not to be vested in the Crown or its agents.

The Teachers' Superannuation Commission administers the teachers' superannuation fund, which in turn was established pursuant to The Teachers' Superannuation Act. The Act expressly provides in section 13(1) that:

The Minister of Finance shall hold all moneys in any fund continued or established by this Act in trust.

We submit that the beneficiaries of the trust so constituted are the persons entitled to payments from the fund in accordance with The Teachers' Superannuation Act. Pursuant to this statute the minister may or may authorize the Teachers' Superannuation Commission to invest the monies of the fund, and such investments would be impressed with the same trust.

Accordingly the shares of ICS held by the teachers' superannuation fund are not vested in an agent of the Crown any more than the shares of Bell Canada or the Royal Bank are. They are held on behalf of thousands of individual teachers.

We respectfully submit, Mr. Chairman, that the recommended alternatives for resolution of this matter made by the Provincial Auditor are ill-advised and inappropriate in the first instance, and in fact redundant in the second instance.

I turn to the second alternative first. There is no need to introduce legislation. It would be a needless waste of Legislative Assembly time; the existing legislation to us is abundantly clear, as I've defined earlier. I remind the committee there was no legislation relative to ICS to amend, nor was there ever intended to be.

The first alternative recommended by the auditor, that the government should ask its officials who vote ICS shares to advise ICS to allow the Provincial Auditor to audit ICS, is most inappropriate and I'm frankly surprised that the auditor would make such a recommendation.

Individuals appointed by government to the boards of these statutory funds have legal status and duties as fiduciaries, i.e., trustees, arising from two sources: pension plan legislation and common law. Under both provincial and federal legislation, pension plan administrators are stated to be trustees and are required to meet the standard of conduct of trustees. The provincial Act simply states that an administrator, quote: stands in a fiduciary relationship to plan members, former members, and any other persons entitled to benefits pursuant to the plan.

The Act further states that administrators, quote: hold in trust for the benefit of plan members any fund arising pursuant to the plan. End quote. Furthermore, administrators shall, quote: act in good faith and in the best interest of plan members.

The common law reiterates the trustee status of plan administrators and emphasizes that such persons must meet the very high legal standard of conducting themselves in all respects of plan administration strictly and exclusively guided by what is in the best interests of the members of the plan, setting aside all other interests arising from their employment or otherwise. This standard of uncompromising . . . is uncompromising and is . . . even a mere potential

conflict of interest will result in a breach of duty imposed on plan administrators.

In addition to the absolute standard of loyalty in acting exclusively in the best interests of plan members, administrators must act prudently in all decisions which they take on behalf of their plans. For these purposes prudence is a test of conduct, not performance, and the emphasis is on the process pursued by plan administrators in arriving at decisions which they make.

Administrators must, for example, eliminate or stand aside from conflicts of interest of any description. They must take counsel from experts on particular matters, but in the end cannot substitute the discretion of the experts for their own discretion.

Plan administrators who also sit as directors of ICS are subject to the additional fiduciary and legal obligations imposed under The Business Corporations Act. In this case such administrators are obligated to act "with a view to the best interests of the corporation" while exercising the care, diligence, and skill that a reasonably prudent person would exercise in comparable circumstances. Accordingly, plan administrators who are also directors must reconcile the fiduciary duties owed both to the plan members and to ICS.

On matters such as the selection of auditors of ICS, it is arguable that the greater duty is owed to ICS itself, since the matter in question is not whether the accounts of ICS will be audited, but by whom. The shareholders and directors of ICS long ago considered this matter, and have exercised their prerogative and appointed the auditing firm of Ernst & Young, a firm other than the Provincial Auditor. This decision has been reconfirmed annually by the shareholders of ICS.

There can be no doubt under the law governing pension plan administrators that in approaching the question of engagement of the Provincial Auditor as auditor of ICS or the general application of The Provincial Auditor Act to ICS, they must analyse and act on the matter as they must treat any other issue coming before them, i.e., they must determine what is in the best interests of the beneficiaries for whom they act, both plan members and itself.

In such circumstances, any direction from the employer to the plan members or the government of the province to the effect that plan administrators should decide the matter as the employer or the government deems appropriate, would be totally inappropriate and would be contrary to the trustee status of administrators.

Thank you for your indulgence, Mr. Chairman. That concludes my formal remarks, and I would be pleased to address committee questions.

Ms. Crofford: — Thank you, Mr. Chair. I'm just trying to get clear in my own mind where this creature came from. And I guess the question I want to ask in that vein

is: this is a for-profit organization where the . . . separate from the particular funds that flow to the people whose funds you manage. The corporation itself makes its own profits from the transactions that it manages.

Mr. Black: — The corporation is a for-profit corporation. It pays tax in Canada and in the province of Saskatchewan as a corporation. It was incorporated under The Saskatchewan Business Corporations Act. It is owned by the various funds. It manages the investment decisions on behalf of these various funds, under contract, and for that charges them a fee for management. That is a source of revenue. We do not earn any brokerage fees or transaction fees because all the transactions are done with the investment community. We are an intermediary between the funds and the investment community.

Ms. Crofford: — In any instance do any of those profits flow back into the Consolidated Fund?

Mr. Black: — No. Our profits do not flow to the Consolidated Fund because the Government of Saskatchewan does not own any shares of ICS. The profits of ICS directly and indirectly flow back to the shareholders of ICS who are these funds.

Ms. Crofford: — Okay. Thank you very much.

The Chairperson: — I had a couple of questions. What's the percentage of dollars that . . . You reference some of the material that you've talked about is a 90 per cent and a 50 per cent. What is in actual fact the volume of dollars that ICS handles on behalf of the government? Is it 100 per cent of your business or is it 60 per cent of your business or 30?

Mr. Black: — The 90 per cent, 50 per cent, that I was referring to are relative to the issued and outstanding shares of ICS. ICS is a company that has approximately 1 million shares outstanding, 100 per cent of which are owned by these various funds. No fund owns more than 17 per cent of ICS and no one owns less than 1 per cent. There are 20 shareholders of ICS; a couple of them are noted in the auditor's report.

The monies under management in aggregate by ICS is, as at December 31st, 1993, approximately \$5.8 billion. Those funds are the aggregate of the various clients of ICS, are all segregated funds. We never actually touch the money. All those monies are held by custodians who are hired by the funds themselves. We are simply authorized to make investment decisions on behalf of the funds.

We manage no money on behalf of the government itself. Of the monies under management by ICS, approximately 95 per cent of the monies under management would be on behalf of the 20 owners of ICS, each of whom have their own contract with us.

The Chairperson: — Right. Okay. The 95 per cent of the . . . would be the 20 shareholders would have 95 per cent? What do the arm's length government organizations — as for example SGI (Saskatchewan

Government Insurance), Workers' Comp, and others — what do they have as a percentage of that total?

Mr. Black: — Well they're in that 95 per cent. They range from . . . The largest individual shareholder client account with us would be approximately \$1 billion, so a high of 20 per cent, to the smallest owner client account would be in the neighbourhood of \$3 million. So there's quite a range in their size, obviously.

The Chairperson: — That isn't exactly . . . I didn't probably phrase it right to have you understand. What is the volume of those agencies that are Crown agencies, and I'm using that in a loose kind of fashion, that deal with your company, and that's kind of the way I was looking at this.

Mr. Black: — Well it depends on your definition of Crown agency. I would agree that SGI, for instance, is a Crown agency. I would not agree that the teachers' superannuation fund is a Crown agency. The commission is, but the fund isn't. And it's the fund that owns the share.

It becomes somewhat a game of semantics I guess, Mr. Chairman, to try to figure out how much the Crown agencies would own, but it would be less than 50 per cent. The Crown agencies and the non-Crown agencies or the owners of ICS, their relative ownership of ICS is commensurate with their relative size of funds under management. That's the way the organization was structured.

There were some caveats put in, however. You heard me say that one account represented about 20 per cent of the funds under management, but the largest owner was 17 per cent. Because there was a cap put on ownership, as agreed among the shareholders, that nobody would own more than 17 per cent and nobody would own less than 1 per cent.

So while we have owners whose funds under management would represent less than a quarter of one per cent of the funds we have under management, they own 1 per cent of the company.

The Chairperson: — There's one concern and I'm not sure that you can address it. There was one concern that I had and that is, are the taxpayers liable for any shortfall, within the framework of any of the funds, that would occur?

Mr. Black: — The answer is yes. Of the pension funds.

The Chairperson: — Yes.

Mr. Black: — Some of them are defined benefit pension plans, and some of them are defined contribution pension plans. The government has no continuing obligation legally on the defined contribution pension plans.

The Chairperson: — Right.

Mr. Black: — On the defined benefit plans, at the end

of day, yes, the government has a guarantee on those plans. But that has nothing to do with ICS. That has everything to do with the plans themselves and the governance of those plans. And I believe the auditor will tell you that at issue here is not his access to the plans and auditing the plans themselves and their activities; it's the activities of ICS.

In respect of the investment activities of ICS, they're all transparent because he can see them all in the plans when he audits them. So in terms of there possibly being transactions occurring that aren't subject to the purview of the auditor, it's not possible because he can see them in the plans.

We treat every account separately and they have the transactions conducted in their accounts separately; they have their own custodian who handles the settling of the transaction, i.e., issuing the cheque when a security is purchased or taking delivery of the cheque when a security is sold. We never touch that money; we are not in between in that transaction. It is between the trustee custodian of the plan and the broker with whom we've instructed the transaction to take place.

The Chairperson: — So if this committee wished, it could call any one of the funds to answer questions in relation to any of the issues that we felt were a problem and we could deal with it as a part of accountability and the process of accountability for the taxpayers in relation to, number one, the liability, number two, the additional funds that may or may not be placed in the accounts in the funds that are a part of a government-trustee relationship.

Mr. Black: — I believe that's correct, Mr. Chairman.

It should also be noted that we do not enjoy an exclusive mandate from anybody to manage these funds. Each of these individual funds is completely free to hire any manager they wish, and indeed some of them have managers other than ICS, in addition to us. We aren't even directing the transactions, 100 per cent of the transactions, for some of those accounts.

The Chairperson: — Are they doing better than you?

Mr. Black: — I would hope not, Mr. Chairman. Time will tell.

The Chairperson: — Time will tell.

Mr. Black: — It's a commercial response. The reality is I don't know how they do; I only know how we do. The accountants don't share, because that's information that they have, I don't have.

The Chairperson: — I raise the point about accountability and liability for very specific reasons because I think the public want to have accountability; the public want someone to have responsibility for that and they're not always sure who to attach those two items to and so then they guess at where they should attach it to.

And I guess . . . or my response to that is that at some point in time the Legislative Assembly, if they are responsible for contingent liability and for future indebtedness perhaps, then this body has a role to play in that and that's what we need to identify.

I guess I'd be willing to have the committee provide a response for item .12 in the *Report of the Provincial Auditor*.

Mr. Cline: — Well I would suggest that in the report to the legislature that we note certain facts in response to the recommendation, and in particular, I would suggest that we note that the pension plans themselves are audited by the Provincial Auditor.

I asked the auditor that . . .

Mr. Strelieff: — They either do it directly or indirectly.

Mr. Cline: — Yes. Secondly, that the plans can choose their own management company. They can go to someone other than ICS if they wish.

Thirdly, that ICS is a private company incorporated under The Business Corporations Act.

Fourthly, that ICS shares are held by the shareholders really as trustees for the beneficial owners of the shares who are the plan members.

Fifthly, that each pension plan is accountable to its own members.

Sixthly, that ICS manages private funds as well as public pension plans.

And finally, that this committee could certainly call the pension plans themselves before us for accountability should the Provincial Auditor, through the audit process, identify any problems, or should we wish on our own accord I suppose, to examine them.

And I say those things because I think that those facts are important in terms of understanding how ICS works and how the plans work, and putting the situation in context. And I don't draw any . . . I don't think we should make a legal determination.

Mr. Black has made a legal argument and I don't think we're in a position to rule . . . to decide that one way or the other. But I think that those . . . the facts I've mentioned may be important to note. And I think that's really as far as we have to go.

The Chairperson: — I think that it probably would be in the committee's best interest, at some point in time, to ask some of these plan members to appear before the committee to talk about their investments, if that would be a way of dealing with — not the problem dealing with an issue like this. And I guess that's . . . I'd await the discretion of the committee to put some thought to that and come back with a recommendation at some other point in time. And I think it

would be probably set, not the issue aside, but it would at least identify maybe a consensus to build to a certain point in time in the future, understanding all the points you raised have legitimacy. And is that then in addition to what the recommendation was last year?

Mr. Cline: — Well we could note the recommendation, but I'm not sure that we have to because the recommendation last year was, the committee recommend that the government review the matter of its relationship with ICS and the Provincial Auditor's responsibility for the organization.

And I take it from the letter of October 27, 1993 to you, Mr. Chairman, from the Minister of Finance, and the minister responsible for CIC (Crown Investments Corporation of Saskatchewan), that they have in fact reviewed the situation. And their response seems to be, in the main, that the Provincial Auditor audits all of the shareholder pension plans whose investments are managed by ICS.

And I gathered from that . . . although perhaps if this isn't considered a responsive enough explanation for a review, we might want to ask them for more. But I assume from this that because of the factors that have been mentioned and the fact that was stated here about the Provincial Auditor's role, that the result of the government review is that they consider the present situation to be sufficient.

The Chairperson: — Okay. I have a question for you, Mr. Strelieff. Are those reports — and I didn't take the time to check this out — are the reports of each of these agencies that use ICS, are they identified in a report in your Public Accounts, in that other book? Are they identified in anything? The reason I'm asking that is, does the Assembly have access to the audited statements of the funds? In that thick book there, there's . . .

Mr. Strelieff: — Mr. Chair, members. it is my understanding that they would be in the compendiums. Mr. Kraus, do you publish all the financial statements of all the different government funds that invest their money through ICS?

Mr. Kraus: — Many of the superannuation plans' financial statements are in the compendium. I'm just not clear about a couple of them that are associated with Crowns like SGI or SaskPower.

Mr. Strelieff: — That would be right in the main body of the financial statements of SGI. Part of their assets, part of SGI's assets, are investments managed through ICS.

Mr. Kraus: — Yes, so I guess what I'm getting at is that you . . . the legislature should be getting all of the superannuation plan financial statements. Some will be in here and some will be in the CIC and their Crown financial statements, but you get them.

The Chairperson: — Could I have from you, Mr. Kraus, a list of all of them, all of those agencies that are administered by ICS that are part of the *Public*

Accounts? Could you provide them to us in a list?

Mr. Kraus: — Actually the table of contents, I'm not . . . the only concern I might have is if one of them wasn't audited and not included. But I know that, for example, the table of contents in the compendium has a pension fund section. And this should be the complete list. I can verify whether or not it has them all in, from our perspective.

The Chairperson: — Okay. Would you do that for me, please.

Mr. Kraus: — Yes.

The Chairperson: — Are there any more questions or observations by the committee?

Okay, I want to thank you for your attendance here today, Mr. Black. And as usual, you make these things very black and white. And you have done that again today. And some of us may or may not agree with you, but that's the liberty we take in this discussion. I want to thank you for coming, and appreciate you being here.

Mr. Black: — Thank you, Mr. Chairman. Whatever help we can be in helping you steer your course through this, we will endeavour to be. Our job is creating and building assets, not building liabilities.

The Chairperson: — The discussion this afternoon will deal with Department of Highways, Indian and Metis Affairs Secretariat, and Saskatchewan Water Corporation.

And as a part of the discussion for tomorrow, the committee will have to deal with items that we're not calling witnesses for. In the table of contents in the annual report there are a number of agencies that we are not asking witnesses to attend. I think there's four of them. We will have to deal with them tomorrow morning as well and then we will have probably dealt with the majority of items in the report, probably only with the exception of item no. .03 and .04 of the *Special Report by the Provincial Auditor*.

I think that that concludes the meeting here until 1:30 unless others of you have something to say. I ask for someone to move the meeting be adjourned until 1:30. Mr. Kujawa, thank you.

The committee recessed for a period of time.

Public Hearing: Department of Highways and Transportation

The Chairperson: — What we have to identify for the witnesses to the committee, there are two things, I think, that I need to remind you of. One is that you are required to answer all the questions that are placed before you by the committee, and with that responsibility there is the matter of privilege that each of you have in answering the questions that are similar to the privilege that is given to a member of the Assembly, that those answers cannot be held against

you in a civil court. And so that's . . . I want to identify that.

And the second thing is that you're required to have 20 copies given to the Clerk of the Assembly to pass out to the members of the committee for information that you provide in writing. Those are the two things.

Mr. Kirkland, would you introduce your officials, and then we'll proceed with questions from the committee.

Mr. Kirkland: — I have Lynn Tulloch, director of finance and admin; Don Metz, ADM (assistant deputy minister) of operations; and Bernie Churko, ADM of policy and programs; and George Stamatinos, director of planning.

The Chairperson: — Well first of all the Department of Highways has gone through an extensive . . . under the year under review has went through an extensive audit process and we've been dealing with it — actually we've dealt with that twice — with the Provincial Auditor and explaining to us some of the details that they have worked through together with you. I think there is only really one major recommendation; that is at the conclusion of the report.

But I think that members would probably like to visit with you about some of the things as we go through the report and maybe ask some of the same questions we asked of the audit office. And that would lend me to be fairly flexible in how we go through the process here.

To the members of the committee, do I have an agenda for a speaking list, or are you all spoken out? And if you are, then . . . Mr. Serby, you've got some questions?

Mr. Serby: — I have a couple of questions, Mr. Chairman. The first question as it relates would be to the recommendation on page 189, which would be .124 in the auditor's report. Has it addressed itself to the need for the Department of Highways to obtain Treasury Board approval for recovery rates? Our understanding from the auditor is that the requirement for the approval of these rate changes really comes sometime mid-year.

And I wondered if you might sort of explain to us, first, how that occurs, and how we might look at maybe changing the requirements; or if there is an opportunity for us to do that in another fashion, to assist you in dealing with this particular recommendation.

Ms. Tulloch: — I'd like to respond to that, Mr. Serby. What has happened in the past is that the recovery rates are typically included in the budget of the revolving fund which is approved by Treasury Board annually. So they do receive approval on an annual basis. In addition the department also revises those rates mid-year and that is to allow for changes that have occurred during the year — weather conditions,

changes in equipment repair costs, operating costs, that sort of thing.

So we have been practising making a revision mid-year. And until the auditor brought it to our attention, those mid-year revisions hadn't been approved by Treasury Board, so we had not been taking them forward. And that was an oversight on the part of the department.

What we now intend to do is seek Treasury Board approval for those revisions when they are done mid-year. We have attempted to do that this past fall for the revisions that we did this fall. And we have not been entirely successful yet in that Treasury Board proper doesn't really have a mechanism to approve these types of things. Essentially Treasury Board said that they really probably weren't interested in seeing them mid-year, that they really only wanted to see this sort of thing once a year.

So we're just in the middle of discussing that now with Treasury Board division and probably the Provincial Comptroller's office which sets that policy. And I think it may require some further discussions to see whether that is still appropriate or not.

The department feels that it is necessary to make revisions during the year so that we can have an accurate recovery rate. So we would still prefer to be able to have the flexibility to make those mid-year revisions, if we can put a mechanism in place to have them properly approved.

Mr. Serby: — Just as a follow-up, Mr. Chairman, then to the Provincial Auditor or possibly to the Provincial Comptroller's office. I'm wondering if this authorization . . . Currently the recommendation is that that authorization should be provided by Treasury Board. It sounds like it's being done during the initial process of budget. I'm wondering if there's a problem in getting Treasury Board approval mid-year. If we could look at a different process where that could be obtained within a system somewhere else other than Treasury Board.

Mr. Kraus: — What I might suggest is that you might . . . what the committee might consider is making a recommendation that the Department of Highways, and if you wish to appoint the comptroller's office as well, arrange a process for approving these rates that would be satisfactory to Treasury Board.

And I say it that way because I'm not convinced the Treasury Board can't approve these rates semi-annually. Sometimes it's a matter of trying to force your way into their agenda. So I would like to determine myself whether they really don't want to see the rates twice a year, in which case perhaps the policy could be amended to accommodate that, or whether it's just a matter of people don't want to take this issue forward because they don't consider it's that important.

And I'm not talking about Highways; I'm just talking. . . As you can appreciate, Treasury Board has a pretty

heavy agenda. Sometimes there's a feeling, well we don't want to take an issue like this forward. Well perhaps, you know, that has to be sorted out. Is that their feeling or not?

And the current policy may be fine, then again maybe it should be . . . perhaps it has to be amended to allow for this in-year change, which might be approved by perhaps someone at a lower level like the secretary of the Treasury Board rather than going to full board. But I think we should be directed to look at it and make sure we get it resolved to the satisfaction of Treasury Board.

Mr. Serby: — Thank you for that comment. I'm wondering then what the Provincial Auditor's opinion would be if we couldn't meet the expectations that you're suggesting, let's say in the upcoming year, because I hear it was a problem last year as well. And you'll be faced with it again this year. I guess I'd be interested in hearing the Provincial Auditor's opinion, if we weren't able to achieve what the Provincial Comptroller suggests.

Mr. Strelloff: — Mr. Chair, members. One of the alternatives could be that in the initial approval by Treasury Board that they also approve a range of . . . or delegate the authority to maybe the secretary of the Treasury Board to say that if there's a recovery rate increase proposal to a maximum of X per cent, you have the authority to approve that. And if it's over X per cent, then maybe there's a trigger that has to bring it to Treasury Board. Or there may be some formula, similar formula arrangement, that delegates the authority so that if Treasury Board can't get to it, they perhaps get to it when it's in excess of a specific amount. And that would be, it seems like, a reasonable approach to go.

The Chairperson: — How much money are we talking about in the change? Are we talking millions of dollars; are we talking hundreds of thousands of dollars? I mean in cumulative value?

Ms. Tulloch: — I would guess that it's less than a couple hundred thousand dollars, probably significantly less.

The Chairperson: — So if Treasury Board approval was given to begin with and the secretary of the Treasury Board was allowed to do a hundred thousand or \$150,000 review, that would generally accomplish some of that that Mr. Serby was talking about.

Ms. Tulloch: — It would be difficult to say ahead of time though exactly what the effect of the increase, the rate increase, would be in total dollars. Because we would be increasing rates and then depending upon the actual usage, we would then know what the actual revenues turned out to be as a result of the change. So all we would know is what the percentage increase or decrease in the rate was that we would be proposing.

The Chairperson: — But that ends up being somewhat in the range of \$250,000.

Mr. Sonntag: — The question ... (inaudible) ... not specifically to the points here so ...

The Chairperson: — Okay, we'll finish this one off and then we'll deal with how we're going to make a presentation to the Assembly and we'll come to yours again. Are there any other questions?

Mr. Serby: — I have another question and it relates to the conclusion that really was provided ... I mean the general comments that were provided by the department as they relate to the audit that was done in respect to the surface repair maintenance audit.

The Chairperson: — Mr. Serby, if I could interrupt, could we finish this one off and then we'll conclude with that?

I guess I have heard a number of suggestions about how the auditor would perceive a solution; the comptroller has suggested a solution. Is there something that the committee would recommend in this that would blend what we've been told here today to provide direction for the department, the comptroller, and the auditor's office.

Mr. Cline: — I think, Mr. Chairman, we should say that the department is attempting compliance and the committee encourages the Treasury Board to develop an appropriate mechanism to facilitate compliance.

The Chairperson: — I go along with that. I just wonder, Treasury Board meets for a whole lot of reasons, and couldn't it be reasonable to suggest that this would be one of those reasons that they should meet on a regular basis with?

Mr. Cline: — Well that would be one mechanism they could devise to facilitate compliance. But if they don't do that then I guess they should be doing something else, you know. And there have been several suggestions here but I don't know which necessarily is the correct one. But I just think clearly they should do something.

The Chairperson: — Right, I agree. Does that measure of compliance with the suggestion that has been made, does that open the door for other areas to do exactly the same thing and then defer decision-making by the Treasury Board?

Mr. Cline: — To whom is that question addressed?

The Chairperson: — Well just to us. If we make that recommendation, then are we opening the door for in fact more of the same? Whereas if a department doesn't meet the requirements as have been outlined by the Provincial Auditor or someone else — or even the comptroller — then that compliance, we'll just make an adjustment here because it inconveniences some people in their responsibilities.

Mr. Cline: — Well except my guess would be that Treasury Board, if anything, wants to keep control of the financial purse-strings of the government.

The Chairperson: — Right.

Mr. Cline: — And so when you suggest that if we simply say to them, in effect, find some way of fixing this problem, that that means that possibly they could delegate it to somebody else; therefore they're going to start delegating off all their other duties, personally I wouldn't worry about that too much because my guess is that they want to maintain the control that they have unto themselves; they don't want to give it away. So I don't have the same level of concern, I guess, about setting some precedent as you do. Nor do I assume that they're going to handle the situation in that way.

The Chairperson: — Well we can make the point as you have suggested it — and probably as the Clerk has written it down — that we deal with it that way. And if there's no disagreement, we'll move on. Okay. Mr. Serby, then you had the floor.

Mr. Serby: — If we're moving sort of around the chapter, Mr. Chairman, then ...

The Chairperson: — We'll deal with the section that you were referring to and then we'll go backwards to the front.

Mr. Serby: — My question is really in respect to the work that's been done by the Provincial Auditor's office on the surface repair maintenance audit in some detail and then of course the general comments that were provided by the department in view of a response.

And our understanding is that currently in place you have looked at what might be called an assessment management system for measuring effectiveness within the department and there may be other folks that you have included in that process.

And I would be interested, and I'm sure the committee would be as well, in terms of what areas you're looking at, in terms of your strategy today with your management system, and where that's at in terms of process.

Mr. Kirkland: — We are in the midst right now of modernizing our capital asset management and our maintenance program management methods. We appreciated the comments made by the auditor to the effect that this is a challenge for all highway jurisdictions in the world. And in fact in North America we consider that it's the State of Washington, the State of Arizona — these are some of the leading jurisdictions — and we consider that we are keeping up with them.

As a matter of fact we're in the midst of a process where we are adopting methodology that was really developed in Australia. Now let me just say a few words about that. Simplifying this thing considerably, there are really sort of four areas that you need to think about in terms of developing the methodologies that are talked about here.

First of all, one needs to have a good, reliable method for measuring the condition of the asset, for measuring the quality of what exists out there in the field.

And secondly we need to have methods for developing cost-effective approaches to repairing roads. And our department is really quite proud of the innovations in that area over the years.

The third item that you need is, you need to study those conditions — the conditions of the assets over time-and then begin to develop the ability to predict where those assets . . . what condition are those assets going to be at some point in the future.

Because, of course, with your repair and your maintenance methods, there are certain points — as a road deteriorates — there are certain points at which one needs to maintain a road. If you do it too early you're really wasting money. So you want to really be able to do it, theoretically, at the last possible moment. If you overdo that you might have to spend more money than you had planned. So it's very important to be able to understand how the condition of a road deteriorates.

And then the fourth skill one needs to be able to develop is to put all of that together into a budgeting system, and the need for that is truly recognized by the department. So those are the four things that we're working on. Don, would you like to add anything to that?

Mr. Metz: — No, well I think the system we currently have is a system that's common to most jurisdictions on how they budget in their maintenance area. And so we're very similar to, pretty well, all jurisdictions across North America, I think. And it's a very old system and it's based on just . . . on your inventory and your history of costs, basically, is how you budget so it's not a very exacting system really.

Mr. Kirkland: — So our expectation is that we're in the midst of training right now. We've been collecting . . . we have a new method for collecting condition data, so we would expect that by the fall of this year we will be considerably towards implementation of this new methodology.

Mr. Sonntag: — I was just sort of amusing myself when you were talking about measuring yourself against other jurisdictions like Washington, and I suggest you ought not to be looking into L.A. (Los Angeles) right now.

I don't remember the exact term. There is a measurement, I understand, that where an employee . . . There's a certain number of kilometres per employee. Is that in each region?

Mr. Kirkland: — Yes, we have six districts and within the districts there's areas and then within the areas there are actual section crews. You might be talking about distance for section crews, or are you thinking of the allocation of the maintenance budget?

Mr. Sonntag: — Yes, I understand there's distances . . . There's a measurement within the department where each employee has a certain number of kilometres that they're responsible for?

Mr. Metz: — Not particular. We have different sections around the province. We have about 130 or so sections where we have crews, maintenance crews, and each one of those crews is responsible for a certain length of highway system. And currently that varies quite a bit from . . . it can vary say from a little better than 100 kilometres for some crews to some that would look after 250. So there's not at the present time a real uniform number for each person, what they would look after, but desirably that might be the case and we're looking at that type of thing now.

Mr. Sonntag: — What would be the average?

Mr. Metz: — For . . .

Mr. Sonntag: — I guess you're referring to crews as opposed to the individuals, so what would be the average for a crew in the province?

Mr. Metz: — For a crew in the province?

Mr. Sonntag: — Yes.

Mr. Metz: — I don't know what the average is. I'd say about 170 or so, but that's not an exact figure. I don't know what the average is, but it goes from about 100 to about 250. So it's somewhere . . .

Mr. Sonntag: — It's just . . . I only ask it because it was recently brought to my attention by one of the workers who was . . . In their area they're responsible for, I think he said 290 kilometres.

Mr. Metz: — That's possible.

Mr. Sonntag: — So I guess I'm curious then also, how often is this re-evaluated? Or how often would that be re-evaluated to determine, you know, whether a crew is responsible for too much highway, and also who would that re-evaluation be done by if it is done?

Mr. Metz: — If it is done, it's really an organizational thing, so it's a fairly big study to put it together and determine what your different criteria are for your crew, to determine your crew size and the section size. And so what you're faced with is really a reorganization of your section; like we have 130 and if it's desirable a crew could look after say 200, then you would have to reorganize all your sections or a lot of them to bring them to that desirable level. So it's a pretty big task and we're currently involved in that.

Mr. Sonntag: — I see. Would . . . is it . . . would you have the average? Like if this is a complex number to get I'm not that interested, but if you have an average or keep records of that statistic, I'd be interested in knowing what that would be.

Mr. Metz: — I'm sure we could get you an average.

Mr. Sonntag: — Okay, I would like that. Also in your audit that you did, was there consideration given to this at all?

Ms. Ferguson: — Our audit didn't focus on that aspect, so . . .

Mr. Sonntag: — Okay. Then the last question then . . . I asked the auditors this question, now I'll ask you of course — their response was positive — in the value-for-money audit, did you feel that it was worthwhile for the department or to the department? Did the department feel they got something out of the audit?

Mr. Kirkland: — Oh, very much so, I think, yes. I think it raised an issue that had been on the . . .

A Member: — Oh, excuse me. Recognize that nothing can be held against you . . .

Mr. Kirkland: — No, you'll get the same answer. Recognizing that this is an issue that's been on the minds of the management for a considerable period of time, I think none the less this was a very valuable analysis. And it was impetus for us to move that whole question of our methodologies, to move that up the agenda, make it priority, which led to the decision to get some outside help and that's why we're moving the way we are today. It was very helpful. Thank you.

The Chairperson: — We have four other recommendations by the auditor and they deal with no. 20 and with .29, .30, and .31. What we'll do is deal with no. .20. The Department of Highways:

. . . should document the knowledge possessed by its senior staff and address the future need for more formal communications and reporting strategies before these retirements occur.

And that's speaking to the senior age of your staff. And I'm not saying how old that is, but it seems as if the measure of quality comes out of the south-west part of the province and I just wanted to say that that's a good standard to have because the former deputy was from there and so is Mr. Metz and many of the others. We train them well down there.

But anyway, is this being done? And I guess we'd like to have a response from your office about that.

Mr. Metz: — Yes, the need for more formal communications in reporting is really . . . we're working on this asset management system and in that we will be developing a much more formal system of reporting for our field staff so we're working on it and hopefully it will be in place over the next year.

The Chairperson: — And that's managing the asset of the highway system and the good pavement, the thin pavement and the gravel.

Mr. Metz: — Yes, and currently most information that's available, and methods, is for pavements as such and not for thin asphalt surfaces of which we

have 8 to 9,000 kilometres. So we are going to be sort of working in new areas in the thin pavement area to develop something.

But we don't currently have a formal method for people to report what they observe on the road or anything at the present time, so it should be fairly easy to develop a formal system for us.

The Chairperson: — Are there are any other questions dealing with item no. .20?

I have one more. Does that deal with municipal roads as well, grid and farm access?

Mr. Metz: — No it doesn't.

The Chairperson: — It doesn't. You have other gravel roads I'm assuming then?

Mr. Metz: — Yes we do. Mostly in the North, the odd one in the South.

The Chairperson: — With Highways and Transportation coming together, is that going to be something that's going to happen?

Mr. Metz: — With our municipal roads?

The Chairperson: — Yes.

Mr. Metz: — No, I don't think so. Not at the present time anyway. We would sure want to get our act totally together before we went to the RMs (rural municipalities) with some proposal for sure. It'll take us some time before we do that.

The Chairperson: — Okay. Item no. .20 says that they should do this sort of thing. I'm waiting for the committee to make the recommendation for the report.

Mr. Cline: — Well I think we should note that the department is in the process of developing compliance with the recommendation.

The Chairperson: — Okay. Then item no. .29:

DHT should assess, over the next few years, the effect of its maintenance activities on maximizing the remaining service lives of highways.

A comment by the department?

Mr. Kirkland: — Refer there and get back to some of my earlier comments on the whole area of the management methodology. That methodology directly addresses the need to optimize the use of money in preserving the assets, that being the very specific objective. Take a look at your strategies in terms of where you're spending money on maintenance activities and optimize the return in terms of preserving those assets. So I think we are directly addressing the need for that.

The Chairperson: — My overall observation is that this becomes a subjective assessment. I'm not saying that you can't measure some of these things, but the summer of '91 — spring of '91 and summer of '91 — we probably had more rain in the south-west going back to some time when the ark floated. But that caused some significant problems in that area and do you measure those things in with it as well? That's fairly significant.

And you could have rain, you could have run-off this spring and those kinds of things that are somewhat unique. And I know that in the other places we'll get rains, heavy rains as well, but the south half, south of the No. 1 Highway, gets unusually heavy rains, drenches, and there have been highways washed out. Do you take that into consideration, the abnormal as well as the normal, in dealing with this?

Mr. Kirkland: — Yes, there would be . . . I talked about the ability to observe conditions and predict where they're going to be so one can plan in advance, and of course the unpredictability of the weather makes that a huge challenge, particularly with our thin pavements, for example — they're very vulnerable to moisture conditions. In the recent summer, the gravel roads are very difficult to maintain when you're in heavy rainfall seasons. So that does get to be very difficult.

And in the case of when it leads to washing out of bridges, which happens from time to time, all of those things, one has to be able to have a capability of responding to those and not simply just following last year's plans.

Mr. Strelloff: — Mr. Deputy, you mentioned the asset management strategy that you're developing. Could you just give a thumbnail sketch on some of the variables that you're hoping to keep track of, related to the assets?

Mr. Metz: — Variables, no, not really. What the asset management system is, it's a collection of a lot of data from . . . What you do is collect data from . . . surface condition data from all your highways around the province. And you collect that each year so you know what different work you've been doing on different parts of your highway system. And so you're able to follow the condition of your highway year from year and be able to determine how it deteriorates and also the effect the different maintenance methods would have on it. So you can determine in the end analysis what the effect is on your total asset, like your total highway system, whether it's deteriorating or whether it's increasing in value due to the different work you have on it.

So part of the answer to this particular question is really doing a lot of research. And so in order to answer that .29, there really has to be quite a bit of research done. And so we are involved or keeping track of the research that's currently going on in the U.S. (United States) and in Canada in the big program, research program that they have that'll go on for a lot of years. And different maintenance methods are

being assessed in that research program.

So the results . . . to really totally answer .29, the results probably are down the road quite a ways, if I might put it in those terms. Like it's quite long-term research to get a fairly definite answer on the effect of some of our methods.

The Chairperson: — Any further questions? No. .29 needs some overview by the committee.

Mr. Cline: — The department is going to attempt to comply with the recommendation.

The Chairperson: — No. .30. The Department of Highways:

. . . should set performance bench marks for maintenance activities and compare those bench marks to actual results.

Mr. Kirkland: — As we indicated earlier in our letter, that we have systems in place for doing some of these; the systems need to be enhanced and those systems will be enhanced partly as a result of the development of this new methodology.

The Chairperson: — Okay. Will this benchmark be set so that you can gauge yourself accordingly and that's going to take the information that Mr. Metz was talking about and compile it and put it together and deliver that as a benchmark and then all these others fit somewhere in between or maybe even above?

Mr. Kirkland: — Yes, that's the goal. We're actually in the midst of developing goals and very specific, measurable objectives across the department and of course one set of those objectives would establish benchmarks for this area. So we would be able to report those on an annual basis.

The Chairperson: — Okay.

Mr. Cline: — Mr. Chairman, the department is complying with the recommendation.

The Chairperson: — Item no. .31. The Department of Highways:

. . . should prepare its maintenance budget based on current highway conditions, technologies used and related highway construction activities.

Mr. Kirkland: — I would repeat that we're developing the new methodologies, we're developing the goals and objectives, we're continuing to support research into the technologies that are used.

Mr. Metz: — I think what we do now, as I said, in budgeting is it's more or less based on the kilometres we have and historical cost. But what we plan on doing is having our people out in the field actually prepare the budget based on the condition of the roads out there. So it will be a much more condition-based budget than we currently have.

The Chairperson: — Okay, what if Treasury Board comes back and says, sorry, 75 per cent?

Mr. Metz: — Cut our budget by 25 per cent or something?

The Chairperson: — No, you set the volume of dollars to maintain this at book value, and then the perception is by the taxpayers they're only prepared to give you 75 per cent of that volume on maintenance.

Mr. Metz: — What we plan on doing is laying out a number of what we would call levels of service. Like, you know, there'd be an A level of service which would be the best condition we could keep the highway in. And then you'd go down to an F or something, which would be a condition that's maybe hardly passable. So if we came where our budget was reduced and we didn't . . . we would just come back and tell Treasury Board that we would have to drop from, say a B level of service to a C, and we would be able to describe to them what that meant in terms that would be readily understandable.

Ms. Tulloch: — The asset management methodology will allow us to impose constraints such as that and still allow us to determine what the optimal budget will be for a given funding level. So given a particular constraint such as that from Treasury Board, we can then go back and use the methodology and come up with what would be the best use of that amount of funding.

Mr. Kirkland: — And implied in that's an important aspect of this, and that is to also be able to advise Treasury Board that . . . what the impact in terms of future asset value is. Here, you know, given a budget cut, here is the way we would respond optimally, as Mr. Metz has indicated, but here's the consequence in terms of deterioration in value in the future. Because a sustained cut would necessarily lead to a decision to let some assets deteriorate to a different standard. And the impact of that in terms of the value of these public assets could be identified.

The Chairperson: — There's one thing that was mentioned in the discussion by the auditor and that is changes to infrastructure in other areas, and I'll use railways as an example. And that's going to impact significantly in every one of the areas that were identified in maintenance, like ride quality deterioration, safety, maintenance, and delivery from the budget, because of those kinds of things.

Do you have plans then that would mix that in there, or is this a fixed set of criteria that you would have over here developing this maintenance asset base; and then if this happens, then that impacts onto the value of that asset or the depreciation of that asset. Then if this happens, then that will impact on it. And railway abandonment is one of those things. How are you going to manage that in this?

Mr. Kirkland: — With these predicted miles we talked about, one of the variables in there is understanding

the traffic levels. So if one's contemplating an abandonment, you can do studies to indicate what the change in traffic would be. And then that would allow you to predict the impact on certain segments of your asset base and that could then be incorporated in terms of its impact on maintenance budgets and on future asset value.

The Chairperson: — There was one significant one that happened last year, and that was that there were a lot of trucks went down into the United States — that was in the wintertime, fortunately, and probably didn't cause that much difficulty on the roads per se. But if that would have happened in the summertime, that would have been a significant adjustment to that.

There may in fact be more things than just railways that will determine what impact these things will have. There could be a change in transportation tunnels, or whatever you want to call them, certain areas that will get more stress. And they may be decisions made outside of the province.

Mr. Kirkland: — The heavy oil industry is an example of where fluctuations in that industry and demand in particularly in the north-west where there's very intensive truck hauls involved. Indeed the need for the department to pay very close attention to, sort of external economic variables that could lead to significant changes, particularly in concentrated areas that could cause harm to the asset base.

The Chairperson: — Okay. Any other questions? I'd like to have . . . We didn't do no. 31 yet.

Mr. Cline: — I think we should note that the department is complying with the recommendation.

The Chairperson: — With all of these, and I don't want to put the word caveat against it, but with all of these I think we need to have the understanding that they're working towards. It's not a matter of accomplishment so far, and I think we've heard that generally through the discussion. And I would like to add that to the part that you've said . . . or the mention that you've made of each of those four.

Mr. Cline: — Sure.

The Chairperson: — Are there any other questions as it relates to the auditor's report? Okay.

I guess one of the questions I had that dealt with a continuation of where we go from the area of development in a maintenance of the highway system is: how do you set the value-for-money audit in relation to some of the other areas within the department? And that deals with your equipment maintenance, the levels of maintenance. Are they deteriorating at a certain level and should they be replaced? Are we getting value for money in our equipment that we have there? — all of those items.

And is the department, after having surveyed what the auditor's office has done in connection with your highway and its building-carrying capacity and

translating that value-for-money audit into the other part of the Department of Highways, are you doing that; and are you learning something from that as well?

Mr. Kirkland: — Yes, we are. As a matter of fact in the whole area of the fleet of the equipment and the optimization of that from a life cycle cost point of view, we have a . . . we're in the midst of completing a business process re-engineering project in that area. And part of the results of that is going to be the collection of more accurate data to be able to analyse and optimize the specification of equipment, how long we should be retaining it, and how much should be spent on repairs, and those kinds of things. We are indeed in the midst of that. And it is in fact applying the same kinds of principles.

The Chairperson: — Okay. This is not a criticism; this is valuation and I want you to take it as that. What I see happening out in the country today is . . . I'll go outside of Highways and then I won't criticize you. I see SaskPower, SaskEnergy, all these agencies driving new vehicles that people in society can't even afford. They'll be driving vehicles that have four-wheel drives, they'll be driving vehicles that have extended cabs, they'll be diesels, or they'll be whatever. And when people see that they say to themselves, I'm not in a position to do that; my taxes are going up. And is there a reason to believe that more maintenance should be delivered to maintain equipment over a longer period of time, so that as they go through this recycling of their equipment, that it doesn't appear to the public as if they're overspending their tax dollars?

And so I didn't make that application to the Department of Highways, but it is something that I've noticed fairly significant. And I don't want them to have bad equipment to drive. Sometimes the age is not necessarily relevant to the condition and vice versa on that. And so that's something I think that you need to keep in mind as it relates to Highways.

Mr. Kirkland: — Every year we buy a certain amount of new equipment, but on average, and a tour of any one of our equipment shops would show this, on average our equipment is quite old. We are quite skilled I think at keeping the equipment going rather than going to the capital expense of replacing it.

Mr. Metz: — And we are looking at extending, as you say, like for our trucks, extending the hours that we actually keep them for, by doing a much higher level of preventive maintenance on them, that type of thing.

Mr. Kirkland: — Our graders, for example, the average age of our graders would be significantly older than the assets employed by the rural municipalities.

The Chairperson: — Right. Well if there are no further questions, I want to thank the department for being here. Oh, I'm sorry.

Mr. Serby: — Just before you close the area, I guess I'd just like to make a closing comment, and it's more to

do with the work that's been done by the Provincial Auditor in putting together the value for audit, and we've been talking about this in this committee for about a year and a half now. And I guess I personally, and certainly I think on behalf of the members of government, want to extend appreciation for the work that they've done in putting this together.

Because I think from that, I hear today being said by our department folks that from that has come this assessment management methodology. And they've highlighted a number of areas that I think they're going to be addressing, which is sort of measuring the quality of roadways that I hear that exist across the province, sort of measuring the costs in the improvement of some of these roadways, studying the conditions and assets over time of these roadways, and putting that into some type of a budget system I think that's appropriate for us down the way. And I think most importantly a new method of sort of controlling the data and evaluating that data which will allow the department to implement it.

And I like this comment, and somebody made it to the department today — the best use of funding levels in the future. And certainly I think that's what this exercise was intended to do. It provides, I think, a good benchmark and sort of framework for where the department can be and will be proceeding in the future.

And I want to recognize the work that the auditor and his people have done and the work that the department is doing in meeting those expectations; and might be an area that I think we could look at in the future to having the auditor participate in either other departments or possibly Crowns. So that's my closing comment.

The Chairperson: — Okay. Thank you again for your attention, and we'll see you in spring.

I have a matter of business here that we have to deal with:

That the hearing with the Department of Highways be concluded, subject to recall if necessary for further questioning.

Do I have a mover?

Mr. Serby: — So moved.

The Chairperson: — Okay. We can recess now till 3:30 p.m. and then we will have, I believe it's Indian and Metis Affairs.

The committee recessed for a period of time.

Public Hearing: Indian and Metis Affairs Secretariat

The Chairperson: — . . . Mr. Hendrickson, I want to remind you of. The first one deals with requirement to answer all the questions. With that requirement comes the matter of privilege that is a part of members of the Legislative Assembly's role in speaking to the

issues, and those issues in this context cannot be held against you in a civil court.

The second item is that if there are questions that you don't have the information for here, you can table them with the Clerk's office, 15 copies, and then they will be distributed by the Clerk's office.

And with those two items, would you introduce your official, Mr. Hendrickson?

Mr. Hendrickson: — This is John Reid, who is executive director of corporate planning and policy; that's his correct title. In his past years, John Reid was the director of the Indian economic development program, grants program.

The Chairperson: — In the auditor's report, there are two issues outstanding, I believe. The first one deals with the point number .08 on page 204:

The Secretariat should establish rules and procedures to ensure staff document how they:

verify eligibility for grants, and

verify that grant recipients use their money for approved purposes.

Mr. Hendrickson: — A wee bit of history on this. In over the course of the fiscal years '90-91 and '91-92, I think that's some . . . the background material identifies, there were a number of items and issues that were raised and came to the knowledge of a number of parties, obviously the Secretariat, the Department of Finance, and the Provincial Auditor. Justice as well, in fact.

The result of those observations in that process was the identification of some shortcomings in operations as well as in the criteria covering the two grants programs, the Indian economic development grants program and the Metis business development grants program.

So in late '91, the secretariat, in conjunction with the Provincial Auditor and the Department of Finance, generated a new set of guidelines. And those guidelines were subsequently approved at Treasury Board and endorsed and implemented effective, if I recall correctly, April '92 and it was intended that those guidelines would provide for closer scrutiny and verification.

The Chairperson: — Okay. Do we have some observations by committee members? Questions?

Ms. Crofford: — Thank you, Mr. Chairman. I guess when I looked through the range of responsibilities that your secretariat has, you have a very broad variety of tasks that you are responsible for, which of course then being an old management sort myself, led me to wonder how you would have the range of specialization and field staff to be able to cover off the wide range of responsibilities that you have, because you probably have these loans spread out all over the

province and what not.

And I guess what I wonder is, do you have support from some other departmental areas to do sort of on-site verification and what not, or is your department trying to handle this whole bailiwick yourselves?

Mr. Hendrickson: — Well a bit of an overview. The two grants programs this fiscal year are administered and managed by the Department of Economic Development.

Ms. Crofford: — Okay.

Mr. Hendrickson: — So this fiscal year they have not been within the purview of the secretariat. Your observation is correct, in our view, and does apply to previous years. The secretariat, in my view — and I look back at a history in which I was not present — but my observation is that there were insufficient staff and this was part of the dialogue that existed between the auditor and the secretariat.

The auditor, you know we make no bones and we have no argument with their observations; that it would be preferable to have the on-site visitations and the detailed follow-up in each and every case. The issue was one of the presence of adequate staff resources; the other issue was one of cost benefit.

In some cases when you are dealing with a small grant to a remote or northern area, it may well have cost as much to send a staff person up as the grant occupied. So there were judgements made by management and . . .

However, in recognition of that, there were three avenues that the secretariat used and we used them more so after the new criteria were advanced. However, one was verification with other federal or provincial agencies. For example, the Canadian aboriginal economic development strategy, the Saskatchewan Indian Equity Foundation, the Metis Economic Development Foundation — it's not a provincial organization or structure — would reference those agencies with respect to verification, with respect to follow-up. So that was one.

The other avenue related to the Indian or Metis advisory boards. And in both cases the advisory boards consisted of Indian or Metis people who were nominated and representative of the Indian or Metis community. They knew their people. They also served as a form of verification and follow-up.

The third related to our personal undertakings, the secretariat's undertakings, and some did involve personal visitation. On some occasions — I'm not sure if I'm using the right word — but a consultant was contracted to do some of the follow-up at a reasonable cost. And the third routine was telephone follow-up, and not necessarily just with the particular client or recipient of the grant, but with others in the neighbourhood. So we could verify, for example, if the sewing machine in fact was bought and still

present.

But generally speaking, your observation is correct. There was an ongoing issue of inadequate staff resources to do the minutiae, follow-up, required or suggested in the guidelines, and there was also the management or subjective consideration as to what was reasonable with respect to cost.

Ms. Crofford: — Yes, I'm glad to hear those changes have been made because it would seem reasonable to have those kinds of specialists within the mainstream departments when it's got to do with something that has to account for quite a range of funds like this. Thanks very much.

The Chairperson: — Any other questions on point no. .08? I'd entertain from the committee a response to point no. .08.

Mr. Cline: — I think we should note, Mr. Chairman, that the secretariat is complying with the recommendation.

The Chairperson: — Item no. .12 deals with the secretariat to:

... establish rules and procedures requiring staff to document what they do to comply with policy guidelines. Also, the guidelines should state who approves grants over the maximum set in the guidelines.

Please.

Mr. Hendrickson: — Those were I believe attended to in detail particularly with ... by way of the new criterion; and I'll give you an example. In prior years before 1992, it was not completely clear as to the signing authority and ministerial discretion. This was not a question of regulations; it was a question of guidelines and there was some confusion about that. So in the development of the new criterion that was specifically referenced and specifically identified, not only in terms of the amount, but the discretion of the minister.

Primarily what had existed before was an assumption and an operating practice that if there was need for a grant that was of general merit or value for Metis or Indian people, the minister would proceed with that grant. That is recognized and spelled out very clearly in the new criteria, as well as the amount level.

In terms of the operating practice of the secretariat, in terms of verification, in addition to the criterion, the operating practice of the secretariat was to, on a consistent basis, do the follow-up and do the annotations to file. But once again, some of the similar issues that the member raised existed. There were discretion calls about whether or not on-site visitations were cost effective and whether or not we could verify this through other sources and then notations were made to file.

We also I think ... It's not directly bearing on the

question, but it's important overall — that the Metis development program, business development grants program, I believe initiated in '88-89, and it functioned in its formative years without an advisory board. And by comparison, the Indian economic development program, which was started in '83-84, had an advisory board for some years.

The role and supervisory role of the advisory board was a critical tool and this was something that was recognized in the review by ourselves, by the secretariat, by Justice, and other authorities following some of the trouble related to the fraud case. It was recognized that a Metis advisory board would provide significant more follow-up in security and verification. And that certainly became the practice.

It was a question of evolution of maturity of those advisory boards. The Indian advisory board had had quite a few years of experience and functioned very well. I think if you were to ask someone from the Department of Economic Development this past year, they would have perhaps a similar observation that the Indian Advisory Board — more mature — function better than the Metis Advisory Board and I'm not saying this is really a consequence of growing pains, but it is a question of maturity.

The Chairperson: — Any other questions? Does the committee have an observation about point no. .12?

Mr. Cline: — I think we should note that the secretariat is complying with the recommendation, Mr. Chairman.

The Chairperson: — Okay. I guess this is a question that could be asked, is: as it's being transferred to the Department of Economic Development, are those same criteria that you set in place in this year being used there?

Mr. Hendrickson: — Yes, and something the Department of Economic Development was able to do was to use their existing ... I won't get the term right so I will call them officers, to assist in the preparation of the grant applications and the follow-up and ...

The Chairperson: — The business resource officers?

Mr. Hendrickson: — Yes, and as the member noted, there were people with a degree of expertise. And I'm not trying to suggest that John Reid or others did not have that, but in terms of numbers and in terms of experience the Department of Economic Development has provided those resources this past year.

The Chairperson: — Okay, so noted. Any further ... Ms. Crofford.

Ms. Crofford: — Just on point .18, this 87,000 for purposes not approved. What was the final decision on whether to attempt to recover any monies or not?

Mr. Hendrickson: — Well following the notification

or . . . if you'll excuse me I won't get these terms right either, but I'll say notification of fraud. The secretariat worked closely with the police, with Justice.

The individual officer who was involved, who was a staff member of the secretariat, was suspended immediately upon notification. Actions were taken, certainly first of all, to allow the RCMP (Royal Canadian Mounted Police) and Justice to do their work without interference. And so they had full access not only to the files, they had access to the full computer memory that was involved.

Following that, there was cooperation with respect to the . . . and I'm talking about following the settlement of the charges — there was clear follow-up on securing compensation where possible. Of the \$33,000 involved, \$20,000 was recouped.

There is some suggestion that there were eight, if you will, files or eight applicants who were involved in this 87,000 and its important to note that of those eight, only three were found by the police, by Saskatchewan Property Management Corporation in their audit, to have been involved in some form of misrepresentation or fraud.

And that, if you take and put that in perspective — and I say this without being defensive — there were approximately about 250 grants that year. And so what we're talking about was fraud for three clients out of about 250. And those three were perpetrated by an officer of the secretariat who was subsequently dealt with by Justice.

Ms. Crofford: — Thanks very much.

The Chairperson: — Okay. That concludes the office of the secretariat. I will entertain a motion that says:

That the hearing under the secretariat be concluded subject to recall if necessary for further questioning.

Ms. Crofford.

I want to thank you for your attendance here and your willingness to participate in this form of democracy and appreciate you coming and thank you very much.

Public Hearing: Saskatchewan Water Corporation

The Chairperson: — If I could get the committee to direct our attention to the Sask Water Corporation, that would be appreciated. Mr. President, would you introduce yourself and the vice-president to the committee.

Mr. Kaukinen: — Thank you, Mr. Chairman. My name is Brian Kaukinen. I'm the president of the Potash Corporation and . . . oh, Water, I'm sorry. I have potash on my mind. President of the Water Corporation, and to my left here is Wayne Phillips, our vice-president of finance and administration.

The Chairperson: — Okay. We are going to deal with

a number of items. There are two items in the auditor's report that we'll deal with first. They are item no. .16 and .17 on page 233 of the report.

The first one is Saskatchewan Water Corporation "should disclose fully related party transactions." Would you give us an explanation of your perspective of the statement made by the Provincial Auditor?

Mr. Kaukinen: — I'll ask our vice-president, Mr. Phillips, to answer that in detail.

Mr. Phillips: — The reference is to, I believe, disclosure of the revenue that we get from SaskPower for charges under The Water Power Act. And I guess we don't disagree with the recommendation at all and in fact in 1992 on our annual report we did include that. We thought that this was probably an issue that perhaps didn't belong in the auditor's report as a presentation issue. I think in other parts of our annual report and in our statement, there's reference to The Water Power Act.

Going back to 1984 when we were created, in the first few years we were audited by the Provincial Auditor. We in fact at one point had a note that talked about The Water Power Act, and in that note we didn't disclose the actual revenue and that seemed to be okay with them for a few years.

So as I said, it's one of those things that we had dealt with it as we'd historically dealt with it in our notes. We recognize that it is a good suggestion and we've implemented it.

The Chairperson: — Is there an observation by the committee?

Mr. Cline: — I think we should note, Mr. Chairman, that the corporation is complying with the recommendations.

The Chairperson: — I think it probably would also be a good idea to note that I think I was the one that started to collect that, or it was initiated during that period of time. So I just throw that in so that you could acknowledge that as well.

Mr. Phillips: — I think we've got it before, but you were there when we started to get the big dollars.

The Chairperson: — Okay. So I think that's . . . it was a positive thing and it gives the corporation an asset that they can use as a liquid asset, and it's a good thing to do. As a matter of fact, that may be some of the impetus that generated some of the other thinking that we did in the Sask Water Corporation as well.

It talks a little bit in other parts of the auditor's report about the way the Sask Water Corporation wrote off the . . . or the government wrote off the value of the assets of two projects. One was the Luck Lake irrigation project and the other one was Rafferty and Alameda.

And I guess I have a difficulty in understanding why

they would be written off. Personally I'm not going to make a big issue of it, but I believe that at some point in time there needs to be recognition that they are a value and an asset to the corporation, just like the \$9.3 million is a benefit for infrastructure developed through various agencies earlier became an asset to the Crown. And I don't know whether they're at zero but they definitely contribute a valuable portion to the economic infrastructure of the province of Saskatchewan.

So if you have an observation regarding that, I'd appreciate if you would give that to us.

Mr. Phillips: — Mr. Chairman, I think we can perhaps deal with this on two different levels.

The recommendation of the Provincial Auditor again is I think . . . we view it as a positive one. It essentially says we should continue to do something that we were doing so I think that's a positive recommendation.

The problem is the accounting aspect of implementing the recommendation and we certainly had discussions with Mr. Kraus and with officials at CIC. It actually was our position that that should, in fact, be expanded to include not just the assets that were built since the corporation was created, such as Rafferty-Alameda project and the irrigation projects and some other smaller water control projects, but that we should perhaps also advise the readers of our annual report that we're responsible for management, control, maintenance, etc., of many other water projects through the province.

In doing that, there's great difficulty in accumulating accurate historical costs of those projects, and there's also a lot of cost if you wanted to go back and get appraisals, I suppose, of those projects or engineering estimates or replacement costs or whatever.

What we've talked about again in consultation with the Provincial Auditor, our corporate auditor, CIC, and Provincial Comptroller, is different ways that we could achieve that objective of disclosing to the reader of our reports the, in fact, many ways the biggest amount of our corporate responsibility because the assets are probably in the order of one and a half, perhaps even two billion dollars. Whereas the assets that we show in our books are \$40 million.

And certainly the responsibility that we have for operating Gardiner dam and Lake Diefenbaker is, just by the importance of that project to the province, greater than the irrigation projects there at Rafferty-Alameda that were mentioned in the report.

I think that what we've concluded is that the most effective way to achieve that objective is to indicate that responsibility perhaps a little more thoroughly when we talk about the corporate mandate in the notes to our financial statements and actually provide some kind of a schedule of those assets outside of the statement.

That will avoid the problems that the auditors, respective auditors, will have with trying to audit the cost estimates that we have for those projects where it's difficult to get historical costs and at the same time meet the objective of disclosure.

The Chairperson: — Do you have a list of those in the province that you would be addressing in that fashion?

Mr. Phillips: — That again is a bit of a problem because there's some 14,000 structures that we're responsible for. So I think what we're proposing to do is provide some generic listing and indicate the major projects on a project-specific basis, but perhaps have more of a generic comment for the other structures.

I think another item that we felt that we should perhaps talk about a bit more fully is the responsibility of the corporation for interjurisdictional water management, again a fairly major part of our mandate but one that doesn't have a very high profile in accounting terms. So I think at the same time we would probably talk about that responsibility and perhaps talk about it in terms of volume of water and percentages.

There's still some, certainly some, crafting and drafting required to get a description I think that will be, you know, adequate and it's probably a thing that will hopefully evolve and improve over time. But I think we're all agreed to start that process.

Mr. Cline: — Some would say you could have a heading "boondoggle".

The Chairperson: — On the office in Watrous and the infrastructure in relation to the water that you supply to various areas, would that be included like around Saskatoon? And the water supply, is that going to be a part of that as well?

Mr. Phillips: — Those assets are already reflected in our statements. The distinction between the commercial assets are the assets that have a revenue stream, customer sales to justify capitalizing the assets. This is getting back to the Gass Commission report and the public policy assets which are the ones that aren't accounted for, but as you correctly pointed out, are obviously very real, concrete assets. And the reason they aren't shown in our financial statements is because there is no revenue stream outside of government to amortize this.

The Chairperson: — Do you include in that the dams up at Nipawin and in the north-east?

Mr. Phillips: — Those are still owned by SaskPower.

The Chairperson: — Do you use their information on how they assess their values in determining how you are going to assess the values of the infrastructure that you have?

Mr. Phillips: — If we were going to try to develop a replacement cost or historical costs, that would

obviously be important information. But as I said, I'm not sure that it's critical to the reader of the report to have an actual historical cost that can be subject to audit.

We've looked at perhaps estimating the historical cost or perhaps estimating replacement costs — that's one of the issues that we have to really resolve through consultation.

I guess at the point we're at right now we're suggesting that we wouldn't put any cost on those assets that were there before the corporation was created and before we were able to actually accumulate the costs. We would include the costs of the things that were built by SaskWater, but the items before that we wouldn't include a cost at all.

The Chairperson: — Okay. Is there any more discussion from the members of the committee?

Mr. Cline: — No, other than to say I'm a bit confused about the discussion in the sense that if we're talking about disclosing assets, and there's been some mention of trying to value them, that's different I think from a description of assets that is referred to in the Provincial Auditor's report. And I think we have to be mindful of what the Provincial Comptroller was saying the other day about the difference between financial assets and fixed assets.

And I'm wondering, if we go down this road trying to figure out how you value fixed assets, then where does that lead us in terms of departments like the Department of Highways that have control of the highways infrastructure and so on? So I wouldn't mind having a comment from the comptroller and perhaps the Provincial Auditor's office with respect to that issue.

Mr. Kraus: — In paragraph .12 it's nicely laid out where it says the Public Sector Accounting and Auditing Board recommends governments disclose information describing acquired physical assets on hand and available for use.

And they are talking about these public policy or public service assets that are described in that article I provided. And although the Water Board or Water Corporation does have fixed assets it can capitalize, because it is going to get revenue from the users to pay for those assets, it also has some of these public policy type assets that they simply will not get revenues for.

When the Public Sector Accounting and Auditing Board made this recommendation, they left it to the governments and perhaps with advice from auditors and others as to how to figure out the best way of doing this. I don't think they necessarily talked about what value you should use or they aren't that specific. They've left it up to us to figure out how to do it, which at this point hasn't led very far across the country.

What they have done as well now, and I guess they've had a task force in place for perhaps at least a year, they are now looking at this specific issue to

determine how government should account for these public policy or public service assets like highways, like dams, that may or may not provide any direct revenue.

And as I said before, way back in '56 or '57 under the name . . . I guess the minister then was C.M. Fines, they had determined that they should adopt the policy here in Saskatchewan that they'd used in the federal government for a good long time, and that is that they shouldn't be accounting for these public policy assets as fixed assets. They felt it distorted the financial position of the government. And this is where they decided, let's just put our financial assets on the books, you subtract that from the liabilities, and you have a good measure of the accumulated deficit that future taxpayers are going to have to fund. It gets muddy when you start throwing these highways, government buildings on the balance sheet, as they've done I guess in New Zealand.

However, this task force is looking at this and I would expect, you know, there would be some recommendations in draft form. It takes some time for them to develop final recommendations but there'll be an exposure draft, I would expect, within a year on this and we'd start to get some better idea of what the CICA (Canadian Institute of Chartered Accountants) is going to be recommending. And I would think this is going to evolve over a period of years.

Mr. Cline: — Thank you. Did you have any comments?

Mr. Wendel: — I guess our comment is consistent with the recommendations at the present time by the public sector accounting board, which is to have a description of your acquired physical assets and put that in your notes of financial statements, as I understand the vice-president saying they're planning to do that.

Mr. Cline: — But you're talking about a description, not a value, either a positive amount or a negative amount.

Mr. Wendel: — I think, Mr. Cline, what we're saying is it's not necessary to record them as an asset on the balance sheet. But if you do have the costs, I think you should continue to disclose that cost in your notes to the financial statements as useful information, so it isn't lost.

Mr. Cline: — But the cost is different than value.

Mr. Wendel: — Agreed.

Mr. Cline: — Thank you.

The Chairperson: — Like how do you estimate what the cost of the Diefenbaker dam is and its value? Those are two different things. You wouldn't be able to afford to build it today because of the cost, and that's the significance of it. You wouldn't be able to afford to build all of the things that have been built under taxpayers' dollars either today if you had to start from

zero. And that's, I guess, the struggle you have.

Mr. Cline: — Right.

The Chairperson: — But the question still remains, is it a benefit to live here because of the tax dollars that have been put into the infrastructure in the province and does that have a value? My observation is that it has an extremely important value, and that way is just as subjective to be considered as value-for-money audit in relation to the Department of Highways.

Mr. Cline: — Okay. But I would make a point, Mr. Chairman, that I think your point is valid in a general way, that of course the infrastructure that we have and the various assets we have, have a value. But if you look at any particular part of the infrastructure, some will have a positive value and some will have a negative value, and some will be relatively more valuable than others.

And the difficulty, I would think, that the institute would have to grapple with, is how you make that kind of assessment. And also I think there probably isn't any one way. But that's going to be a very controversial subject. And it will be extremely interesting to see if they actually are able to come to some kind of resolution.

The Chairperson: — We want to thank the Sask Water Corporation for their attendance at the meeting, for dealing with the issues that were in the report.

Did I hear the committee give a response to items no. .16 and .17? Oh, then .17 as well — that Sask Water should disclose a description of its acquired physical assets in the notes to future financial statements. They said that they were going to be doing that, so we will note that they are going to be doing that.

Mr. Cline: — Right.

The Chairperson: — Thank you for supplying us with this information, and thank you for your attendance here, and coming from Moose Jaw to do that for us.

Mr. Hendrickson: — It's been a pleasure.

The Chairperson: — The committee needs to move:

That the hearing under the Sask Water Corporation be concluded, subject to recall if necessary for further questioning.

Tomorrow there are a number of items that need to be addressed, and they relate to concluding items under legislation, the Saskatchewan auto fund, Saskatchewan Forest Products, and the Department of Social Services. Those four items need to be addressed tomorrow morning.

The decision or conclusion reached earlier, that witnesses were not going to be required for those four areas — if there are any members that want to change that, then we need to

know that now. They have not been notified to be here, but we will have the auditors in, dealing with each of those items, and then we will go through it as we have other items of business at that point in time.

Mr. Cline: — We don't need to have any of them called, Mr. Chairman.

The Chairperson: — Pardon me?

Mr. Cline: — We don't need to have anyone called from those.

The Chairperson: — Okay. The other item is the consideration of a draft report to the Legislative Assembly. We have been working . . . Mr. Vaive has been working on the preparation as we've been going along, to keep things in context and as much as is available we will go through that. I'm not sure the time line, but we can discuss that tomorrow for when we want to conclude our discussions here.

Mr. Cline: — Okay, what time do you want to start tomorrow, Mr. Chairman?

The Chairperson: — I was assuming 9 o'clock. Is that good?

Mr. Cline: — Thank you. Sure.

The Chairperson: — Thank you, and we're adjourned.

The committee adjourned at 4:40 p.m.