

# Revenue

## **ACCOUNTABILITY STATEMENT**

The Business Plan for the three years commencing April 1, 2002 was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as of February 26, 2002 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

The Ministry's priorities outlined in the Business Plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this Business Plan.

*[original signed]*

Greg Melchin, *Minister of Revenue*  
February 26, 2002

## **INTRODUCTION**

The Ministry of Revenue includes the Department of Revenue and responsibility for the Alberta Securities Commission.

### **DEPARTMENT OF REVENUE**

The Department of Revenue is responsible for managing the investments of the Province of Alberta, developing tax policy within the Province, administering tax programs and minimizing the risk of loss of public assets.

### **ALBERTA SECURITIES COMMISSION**

The Alberta Securities Commission is the regulatory agency responsible for overseeing the capital market in Alberta.

### **KEY INITIATIVES**

Alberta Revenue continues to work on major initiatives related to the Province's revenue sources. The outcome of these initiatives will have a significant impact on its business over the next three years. These initiatives include:

- ◆ considering the recommendations from the Future Summit to ensure that the views of Albertans are heard and acted upon,
- ◆ developing and implementing a comprehensive revenue framework for the Province, and
- ◆ developing and implementing a comprehensive investment framework for the Province.

### **MINISTRY'S VISION**

A province where government revenue policy and administration reflect the values of Albertans, balance present and future needs, and contribute to a stable environment for the generation of wealth for all Albertans.

### **MINISTRY'S MISSION**

To provide prudent and innovative revenue, investment and risk management and to regulate the capital market in Alberta.

---

**Note:** In addition to the Revenue Department, the Ministry of Revenue includes the activities of the Alberta Heritage Savings Trust Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund, Alberta Risk Management Fund, Alberta Heritage Science and Engineering Research Endowment Fund, and the Alberta Securities Commission.

## **ALBERTA REVENUE VALUES**

Alberta Revenue is committed to operating according to the following values. We will:

- ◆ act with integrity and in a fair and impartial manner;
- ◆ foster clear, open and courteous communications with clients and the public;
- ◆ achieve excellence in customer service;
- ◆ nurture a working environment that is characterized by teamwork, collaboration, and open communication; and
- ◆ be an innovative and adaptable organization that focuses on continuous improvement in the quality, effectiveness, and efficiency of our services and business processes.

## **CORE BUSINESSES**

The Ministry of Revenue has the following four core businesses:

1. Manage tax and revenue programs fairly and efficiently.
2. Manage and invest financial assets prudently.
3. Manage risk associated with the loss of public assets.
4. Regulate Alberta's capital market.

## CORE BUSINESSES, GOALS AND KEY STRATEGIES

### CORE BUSINESS #1: MANAGE TAX AND REVENUE PROGRAMS FAIRLY AND EFFICIENTLY

The Revenue Department establishes processes to ensure that Alberta's revenue structure meets the Province's long term needs and contributes to the development of tax and revenue policies and strategies.

The Department also administers tax, revenue and related benefit programs by:

1. registering entities for tax and tax exemption purposes and evaluating and processing tax returns and claims;
2. providing reliable and timely information about tax and revenue programs;
3. monitoring, promoting and, where appropriate, enforcing compliance with tax and revenue legislation and regulations; and
4. collecting revenue and other amounts owing to the Province and making payments of refunds and rebates.

Link to Government Business Plan: Goal 7 Alberta will have a prosperous economy.

Goal 12 Alberta will have a financially stable, open and accountable government.

GOAL	KEY STRATEGIES
1.1 Maintain and develop a revenue structure that meets Alberta's needs and is consistent with Albertans' values.	<ul style="list-style-type: none"> <li>◆ Develop and maintain a long term revenue management framework.</li> <li>◆ Work with other ministries to develop and implement long term strategies consistent with the framework and the results of the Future Summit.</li> </ul>
1.2 Maintain a fair and competitive provincial tax system.	<ul style="list-style-type: none"> <li>◆ Develop tax policy within the Province.</li> <li>◆ Work with stakeholders to review tax policy issues.</li> <li>◆ Implement corporate income tax reductions subject to affordability.</li> </ul>
1.3 Administer tax and revenue programs fairly, effectively and efficiently.	<ul style="list-style-type: none"> <li>◆ Reduce the cost of tax compliance for both government and taxpayers by simplifying processes.</li> <li>◆ Encourage self-compliance and address non-compliance.</li> <li>◆ Work with Finance, Canada Customs and Revenue Agency and the other provinces to harmonize tax programs and processes.</li> <li>◆ Improve client service through better communication and electronic service delivery.</li> </ul>

PERFORMANCE MEASURES			
	Target 2002-03	Target 2003-04	Target 2004-05
<b>Provincial tax load for a family of four</b> (shared performance measure with Finance)	Lowest in Canada	Lowest in Canada	Lowest in Canada
<b>Provincial tax load on businesses</b> (shared performance measure with Finance)	Lowest in Canada	Lowest in Canada	Lowest in Canada
Percentage of tax accounts with no monies owing	99%	99%	99%
Client satisfaction with tax administration	85% satisfied or better	85% satisfied or better	85% satisfied or better
Ratio of amounts added to net revenue to costs of administration	Benchmark year	To be developed	To be developed

**Note:** Key performance measures appear in bold throughout the performance measures section.

## CORE BUSINESS #2: MANAGE AND INVEST FINANCIAL ASSETS PRUDENTLY

The Revenue Department manages approximately \$39 billion comprising a number of endowment funds, including the Alberta Heritage Savings Trust Fund, the public sector pension funds and other related funds.

Link to Government Business Plan: Goal 12 Alberta will have a financially stable, open and accountable government.

GOAL	KEY STRATEGIES
2.1 Develop and implement an investment management framework.	<ul style="list-style-type: none"> <li>◆ Analyze and review comparable investment organizations with respect to objectives, philosophy, operations, structure and governance to determine best practices and understand the resources required to be a successful investment organization.</li> <li>◆ Assess the ongoing involvement of the Province in the investment management industry.</li> </ul>
2.2 Develop a renewed savings policy for the Province of Alberta.	<ul style="list-style-type: none"> <li>◆ With Finance, use the results of the Future Summit and consultation with Albertans to answer the following questions:                             <ul style="list-style-type: none"> <li>◆ Should the Province add to, maintain, or reduce its existing savings?</li> <li>◆ How should any savings be used in the future and what should the investment objectives of the savings be?</li> <li>◆ Should the savings be maintained in the Alberta Heritage Savings Trust Fund or in some other vehicle?</li> </ul> </li> </ul>
2.3 Maximize investment returns subject to client-defined objectives and policies.	<ul style="list-style-type: none"> <li>◆ Analyze new products and implement those that contribute to investment objectives.</li> <li>◆ Continue to use a mix of direct internal investment and external investment management firms.</li> <li>◆ Enhance the management of risk by implementing new monitoring and analytical tools.</li> </ul>
2.4 Enhance the efficiency of investment operations.	<ul style="list-style-type: none"> <li>◆ Implement a straight through processing environment so as to be T+1 settlement capable on securities (trade date + 1 day) prior to June 2005.</li> <li>◆ Maintain a continuous improvement process with respect to internal processes, systems, technology, reporting, compliance and governance.</li> <li>◆ Review custodial and technology vendor contracts to ensure cost effectiveness and that service levels are maximized.</li> </ul>

PERFORMANCE MEASURES			
	Target 2002-03	Target 2003-04	Target 2004-05
<b>Annualized market value rates of return (ROR) measured against benchmarks established by clients</b>	ROR for the Heritage Endowment Fund exceeds the policy benchmark	ROR for the Heritage Endowment Fund exceeds the policy benchmark	ROR for the Heritage Endowment Fund exceeds the policy benchmark
Straight Through Processing (STP) system fully functional prior to June 2005	Dates and activities as set out in the T+1 Action Plan	Dates and activities as set out in the T+1 Action Plan	Dates and activities as set out in the T+1 Action Plan
STP of investment transactions	75% of all transactions completed without manual intervention	80% of all transactions completed without manual intervention	85% of all transactions completed without manual intervention

**CORE BUSINESS #3: MANAGE RISK ASSOCIATED WITH THE LOSS OF PUBLIC ASSETS**

The Risk Management and Insurance Division (RMI) administers a program to protect, secure and preserve public assets against risk of accidental loss. RMI provides services to client ministries and agencies throughout government to help them identify, measure, control and finance the risk. The program serves all entities subject to the *Financial Administration Act*.

Link to Government Business Plan: Goal 12 Alberta will have a financially stable, open and accountable government.

GOAL	KEY STRATEGIES
3.1 Minimize the cost of loss of public assets and the cost of liability claims.	<ul style="list-style-type: none"> <li>◆ Work with ministries to identify:                             <ul style="list-style-type: none"> <li>◆ risks with the potential to cause loss;</li> <li>◆ steps to reduce those risks and associated costs; and</li> <li>◆ ways of financing potential losses.</li> </ul> </li> <li>◆ Review Risk Management Fund financing strategies including the mix of self-insurance and purchased insurance.</li> </ul>
3.2 Identify and prioritize risks and establish contingency plans for Revenue's operations.	<ul style="list-style-type: none"> <li>◆ Develop and implement a Business Continuity Plan for the department.</li> </ul>

PERFORMANCE MEASURES			
	Target 2002-03	Target 2003-04	Target 2004-05
Cost of claims (insurance premiums plus self-insured losses)	\$6,000,000	\$6,000,000	\$6,000,000
Development and implementation of a Business Continuity Plan for critical areas	March 2003		

#### CORE BUSINESS #4: REGULATE ALBERTA'S CAPITAL MARKET

The mission of the Alberta Securities Commission is to foster the development of a fair and efficient capital market in Alberta and confidence in that market.

Link to Government Business Plan: Goal 7 Alberta will have a prosperous economy.

GOAL	KEY STRATEGIES
4.1 Improve the regulatory environment and maintain confidence in the Alberta capital market.	<ul style="list-style-type: none"> <li>◆ Ensure proactive and effective compliance programs.</li> <li>◆ Develop and implement an investor education program.</li> </ul>
4.2 Maintain working relationships with industry, other securities regulatory authorities, regulators of financial institutions and government.	<ul style="list-style-type: none"> <li>◆ Be an effective advocate for issues of importance to the Alberta capital market.</li> <li>◆ Actively promote and assist the development of an efficient and cost effective national system of securities regulation.</li> </ul>
4.3 Be recognized as a professional organization and be an employer of choice.	<ul style="list-style-type: none"> <li>◆ Be acknowledged by all stakeholders as a professional organization.</li> </ul>

PERFORMANCE MEASURES			
	Target 2002-03	Target 2003-04	Target 2004-05
Investor education program	Developed and implemented in 2002-03	Minimum of four educational seminars	Minimum of four educational seminars
Number of annual examinations	40% of registrants subject to annual examination	40% of registrants subject to annual examination	40% of registrants subject to annual examination
Legislation for a uniform Securities Act		June 30, 2004	
Service standards developed and published	December 31, 2002		
Commission survey on service levels provided to stakeholders	80% satisfied or better	80% satisfied or better	80% satisfied or better

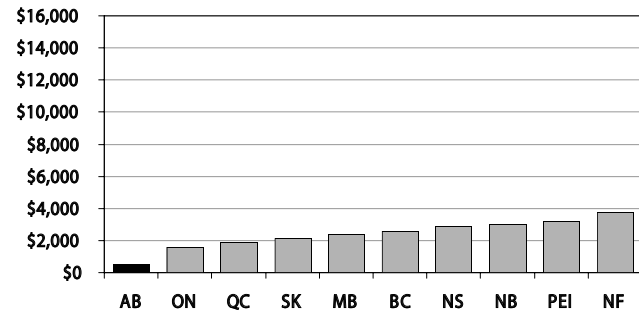
## KEY PERFORMANCE MEASURES

### PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR

This measure compares typical taxes, including provincial income, sales, payroll, fuel and tobacco taxes (excluding federal taxes), and health care insurance premiums payable by a family with two children earning \$30,000, \$60,000 and \$100,000. The target is to have the lowest provincial tax load for a family of four in Canada.

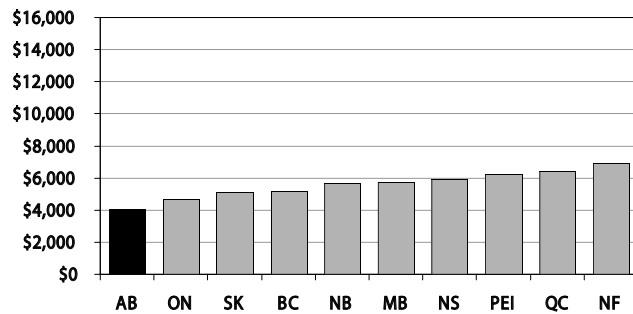
### FAMILY EARNING \$30,000

Taxes and Health Care Insurance Premiums  
(One-income family with two children)



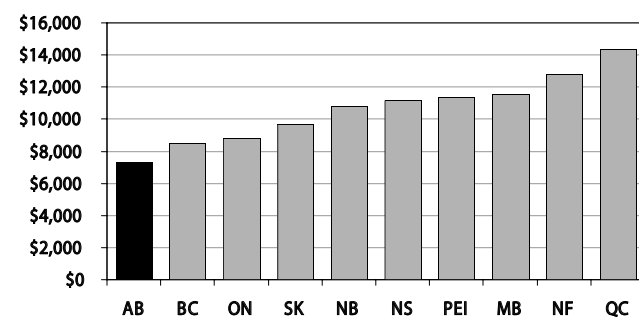
### FAMILY EARNING \$60,000

Taxes and Health Care Insurance Premiums  
(Two-income family with two children)



### FAMILY EARNING \$100,000

Taxes and Health Care Insurance Premiums  
(Two-income family with two children)



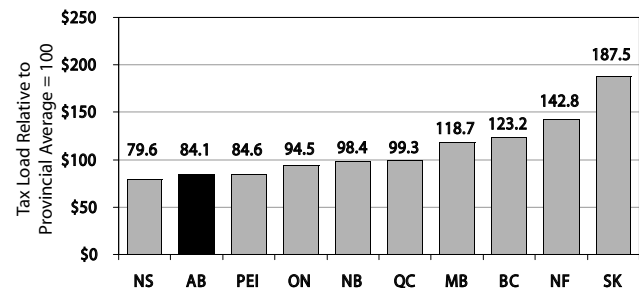
Note: Other provinces' rates known as of February 26, 2002  
Source: Ministry of Finance

### PROVINCIAL TAX LOAD ON BUSINESSES

This measure compares provincial tax load on businesses and includes business income taxes, capital taxes, and insurance corporation taxes. The target is to have the lowest provincial tax load on businesses in Canada.

### PROVINCIAL TAX LOAD ON BUSINESSES\* 2001-02

(% of provincial average)



\* Includes business income taxes, capital taxes and insurance.

Source: Federal Department of Finance, Equalization Estimates, Third Estimate, February 2002



## ALBERTA HERITAGE SAVINGS TRUST FUND

The market value rate of return of the Heritage Endowment Fund, which includes income and realized/unrealized capital gains or losses, is targeted to exceed the rate of return of a passively invested benchmark portfolio.

### ENDOWMENT FUND PERFORMANCE

(Period Ending December 31, 2001)

	Actual Fund Market Return						Benchmark Portfolio Return				
	Weightings at 31-Dec-01	1 Year	2 Year	3 Year	4 Year		Index Weight	1 Year	2 Year	3 Year	4 year
Short-term Fixed Income	3.4%	5.0%	5.3%	5.3%	5.2%	SC 91 Day T-Bill Index	2.0%	4.7%	5.1%	5.0%	4.9%
Long-term Fixed Income	31.4%	8.7%	9.8%	6.1%	6.8%	SC Universe Bond Index	33.0%	8.1%	9.2%	5.6%	6.5%
Canadian Equities	23.7%	-11.1%	-2.0%	6.4%	5.0%	TSE 300 Index	23.0%	-12.6%	-3.1%	7.3%	5.0%
Foreign Equities	35.7%	-11.4%	-10.2%	1.5%	6.9%	Foreign Index*	35.0%	-11.4%	-11.0%	-2.3%	5.8%
U.S.	17.7%	-6.5%	-5.5%	0.7%	7.0%	S&P 500	17.5%	-6.4%	-6.1%	0.3%	8.6%
EAFE	18.0%	-16.2%	-14.5%	1.1%	6.4%	MSCI EAFE	17.5%	-16.5%	-13.9%	-3.8%	3.5%
Real Estate	5.8%	8.0%	7.6%	7.6%	8.8%	Russell Index**	7.0%	10.4%	11.1%	10.9%	12.2%
<b>Total Portfolio</b>	<b>100.0%</b>	<b>-2.6%</b>	<b>0.5%</b>	<b>5.0%</b>	<b>6.2%</b>		<b>100.0%</b>	<b>-2.4%</b>	<b>0.4%</b>	<b>4.3%</b>	<b>5.9%</b>

\* Effective April 1, 2001, the benchmark for foreign equities was changed from the MSCI World ex. Canada to 50% S&P 500 and 50% MSCI EAFE.

\*\* Estimate, final numbers to come from Russell Canada.

Security Class Index	Policy Benchmark % Index Weight
Debt	
Short term - Scotia Capital 91 Day T-Bill Index	2
Long term - Scotia Capital Universe Bond Index	33
<b>Total Debt</b>	<b>35</b>
Equity	
Domestic Equity - TSE 300 Index	23
Foreign Equity - U.S. S&P 500 Index	17.5
Foreign Equity - EAFE - MSCI EAFE Index	17.5
Real Estate - Russell Canadian Property Index	7
<b>Total Equity</b>	<b>65</b>

**Scotia Capital 91 day T-Bills Index:** Reflects the performance of the Canadian money market as measured by investments in 91 day Treasury Bills.

**Scotia Capital Universe Bond Index:** Covers all marketable Canadian bonds with terms to maturity of more than one year. The purpose of this index is to reflect performance of the broad Canadian bond market in a manner similar to the way the TSE 300 represents the Canadian equity market.

**TSE 300 Index:** An index of 300 stocks, in fourteen subgroups, listed on the Toronto Stock Exchange designed to represent the Canadian equity market. It is a capitalization-weighted index calculated on a total return basis.

**S&P 500 Index:** Covers 500 industrial, utility, transportation and financial companies of the US markets, mostly New York Stock Exchange issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

**Morgan Stanley Capital International EAFE Index:** An index of over 900 securities listed on the stock exchanges of countries in Europe, Australia and the Far East. The index is calculated on a total return basis, which includes reinvestment of gross dividends before deduction of withholding taxes.

**Russell Canadian Property Index:** An index comprised of institutionally held real estate investments consisting of over 1,100 properties distributed across Canada.

## Expense by Core Business

(thousands of dollars)

	Comparable 2000-01 Actual	Comparable 2001-02 Budget	Comparable 2001-02 Forecast	2002-03 Estimates	2003-04 Target	2004-05 Target
<b>EXPENSE</b>						
<b>Core Business</b>						
Manage and Invest Financial Assets Prudently	78,895	102,649	88,508	117,483	131,313	136,506
Manage Tax and Revenue Programs Fairly and Efficiently	37,160	38,940	67,255	41,430	41,050	40,905
Manage Risk Associated with the Loss of Public Assets	5,779	7,750	7,727	7,945	7,930	7,925
Regulate Alberta's Capital Market	13,525	15,460	15,310	17,682	18,477	19,174
<b>MINISTRY EXPENSE</b>	<b>135,359</b>	<b>164,799</b>	<b>178,800</b>	<b>184,540</b>	<b>198,770</b>	<b>204,510</b>

## Ministry Statement of Operations

(thousands of dollars)

	Comparable 2000-01 Actual	Comparable 2001-02 Budget	Comparable 2001-02 Forecast	2002-03 Estimates	2003-04 Target	2004-05 Target
<b>REVENUE</b>						
Internal Government Transfers	200	200	1,500	200	200	200
Personal and Corporate Income Taxes	5,965,914	6,050,556	6,143,568	6,258,397	6,597,429	6,863,224
Other Taxes	1,129,373	1,105,933	1,132,725	1,416,486	1,412,692	1,443,409
Investment Income	807,094	670,124	169,985	654,505	887,674	1,056,070
Premiums, Fees and Licences	13,572	14,237	14,237	15,372	15,827	16,527
Other Revenue	16,358	15,170	15,729	16,827	17,012	18,050
<b>MINISTRY REVENUE</b>	<b>7,932,511</b>	<b>7,856,220</b>	<b>7,477,744</b>	<b>8,361,787</b>	<b>8,930,834</b>	<b>9,397,480</b>
<b>EXPENSE</b>						
<b>Program</b>						
Tax and Revenue Collection	36,184	38,013	65,789	40,463	40,164	40,049
Investment	76,822	100,204	86,579	114,739	128,479	133,648
Government Risk Management and Insurance	5,627	7,565	7,559	7,759	7,759	7,759
Regulation of Capital Markets	13,525	15,460	15,310	17,682	18,477	19,174
Ministry Support Services	3,201	3,557	3,563	3,897	3,891	3,880
<b>MINISTRY EXPENSE</b>	<b>135,359</b>	<b>164,799</b>	<b>178,800</b>	<b>184,540</b>	<b>198,770</b>	<b>204,510</b>
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-
<b>NET OPERATING RESULT</b>	<b>7,797,152</b>	<b>7,691,421</b>	<b>7,298,944</b>	<b>8,177,247</b>	<b>8,732,064</b>	<b>9,192,970</b>

## Consolidated Net Operating Result

(thousands of dollars)

	Comparable 2000-01 Actual	Comparable 2001-02 Budget	Comparable 2001-02 Forecast	2002-03 Estimates	2003-04 Target	2004-05 Target
Ministry Revenue	7,932,511	7,856,220	7,477,744	8,361,787	8,930,834	9,397,480
Inter-ministry consolidation adjustments	(61,182)	(37,512)	(39,818)	(24,679)	(23,807)	(22,846)
<b>Consolidated Revenue</b>	<b>7,871,329</b>	<b>7,818,708</b>	<b>7,437,926</b>	<b>8,337,108</b>	<b>8,907,027</b>	<b>9,374,634</b>
Ministry Expense	135,359	164,799	178,800	184,540	198,770	204,510
Inter-ministry consolidation adjustments	(25,629)	(25,574)	(26,190)	(26,325)	(26,812)	(26,858)
<b>Consolidated Expense</b>	<b>109,730</b>	<b>139,225</b>	<b>152,610</b>	<b>158,215</b>	<b>171,958</b>	<b>177,652</b>
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-
<b>CONSOLIDATED NET OPERATING RESULT</b>	<b>7,761,599</b>	<b>7,679,483</b>	<b>7,285,316</b>	<b>8,178,893</b>	<b>8,735,069</b>	<b>9,196,982</b>