

*Response to the
Financial Management Commission
Report*

September 26, 2002

COMMISSION RECOMMENDATION	GOVERNMENT RESPONSE
<p>1. The Alberta Heritage Savings Trust Fund should be retained, strengthened, allowed to grow and renamed the "Alberta Heritage Fund" with four new purposes:</p> <ul style="list-style-type: none"> • To stabilize the impact of volatile resource revenues on the province's budget • To manage the orderly pay down of existing debt as it comes due • To address the backlog of deferred capital projects in the short term • To serve as a transition to the time when resource revenues decline and as an integral part of the province's strategy for achieving a sustainable economic vision for the future. <p>2. To provide stable and predictable funding, the Commission recommends that all non-renewable resource revenues should go into the renewed Alberta Heritage Fund on an annual basis. All year-end surpluses should also go into the Heritage Fund. A fixed and sustainable amount of resource revenues should be drawn out each year to support the government's budget. The fixed amount should be set at the lesser of \$3.5 billion or the average of resource revenues for the previous three years.</p> <p>3. The renewed Alberta Heritage Fund should provide the vehicle for managing the orderly pay down of existing debt as it comes due. That means the bulk of Alberta's accumulated debt will be repaid by 2005-06.</p>	<p>Accepted in principle. A sustainability fund will be established. Further consultation with Albertans on the Heritage Fund will determine the future role of the Heritage Fund.</p> <p>Implement in Budget 2003.</p> <p>Accepted in principle. A sustainability fund will be established. Further consultation with Albertans on the Heritage Fund will determine the future role of the Heritage Fund.</p> <p>The recommendation will be supplemented by:</p> <ul style="list-style-type: none"> • adding any payments required under the Natural Gas Price Protection Act to the \$3.5 billion transfer for budget purposes, • providing an exemption from contingency allowance spending limits for emergencies and disasters, and • allowing in-year increases in resource revenue to be used to offset in-year declines in other revenue. <p>Implement in Budget 2003.</p> <p>Accepted in principle. A sustainability fund will be established. Further consultation with Albertans on the Heritage Fund will determine the future role of the Heritage Fund.</p> <p>Implement in Budget 2003.</p>

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<p>4. A portion of the province's annual budget should be allocated for capital spending. The amount should not be less than 0.9% of the average of the provincial GDP for the previous two years. Accepted in principle subject to the determination of an appropriate benchmark.</p>	<p>Accepted in principle. Government will review the determination of an appropriate benchmark for capital spending.</p> <p>Implement in Budget 2003.</p>
<p>5. Government should prepare a three to five year plan for capital and infrastructure projects and include that plan as part of its annual budget. Changes should be made to existing legislation to allow funding for specific approved capital projects to be carried over from one year to the next.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>6. In the same way that debt must be repaid, so must government commitments of spending be honoured. Funds in the renewed Alberta Heritage Fund should be allocated to address the current backlog of previously committed capital projects in a planned and orderly way. A list of those projects is included in Appendix 3.</p>	<p>Not accepted. The government does not agree that the Heritage Fund should be used to fund deferred capital projects. Funding for deferred capital projects will be addressed in the three to five year capital plan.</p>
<p>7. Government should produce and publish the list of committed but deferred capital projects along with its annual budget and report each year on the status of those projects.</p>	<p>Accepted. Deferred projects will be included in the capital plan that will be published under recommendation 5.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>8. Government and government-funded entities should be allowed to enter into alternative funding arrangements for capital projects under specific conditions and with appropriate guidelines in place.</p>	<p>Accepted. The government will develop appropriate guidelines and conditions for alternative funding arrangements.</p>
<p>9. All capital project proposals should include a business plan that clearly outlines the funding model and cost implications including operating costs, amortization, and debt repayment if applicable. Government should have the option of funding approved projects over a longer term or paying the full cost of the project in a given fiscal year.</p>	<p>Accepted. The government will develop appropriate business case criteria for capital projects.</p>

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<p>10. Standardized methods for estimating and reporting on deferred maintenance and utilization, functional obsolescence, and efficiency of facilities should be established and communicated. Government and its funded agencies should use these tools in their planning and reporting.</p>	<p>Accepted. The government will develop standardized methods.</p>
<p>11. The province should develop a plan for addressing deferred maintenance over the next five years. Funding for deferred maintenance should be identified as a component of the province's annual budget.</p>	<p>Accepted in principle. It is expected that it will take more than five years to address all deferred maintenance.</p> <p>Begin implementation in Budget 2004 with full implementation in Budget 2005.</p>
<p>12. Government should clearly articulate a strategic plan for achieving a sustainable economic vision for the province. The government's business plan should be refocused as a strategic plan to achieve the vision and to provide criteria for setting priorities and making budget decisions.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>13. The current business planning process should be strengthened by requiring all government ministries, organizations and agencies to focus on measuring their decisions against strategic goals linked to the government's strategic plan. Activities and operational matters should be left for internal operational plans.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>14. Standing Policy Committees should be given increased responsibility for gathering information from various stakeholder organizations and providing this input to the budgeting process.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>15. There should be regular reviews, including benefit-cost assessments, of all major government programs, policies and delivery mechanisms. The number of government departments and agencies should be reviewed.</p>	<p>Accepted.</p> <p>The government will continue with regular reviews.</p>

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<p>16. The government should explore various incentives to encourage ministries and government-funded agencies to manage their budgets and assets more efficiently.</p>	<p>Accepted.</p> <p>The government will continue to explore incentives.</p>
<p>17. The government should undertake a review and risk analysis of all the major components of its expenses and revenues, including its dependent boards and agencies, with a view to developing a comprehensive, cost effective risk mitigation strategy.</p>	<p>Accepted.</p> <p>The government has already begun work to develop a framework to assess an enterprise risk model for government.</p>
<p>18. The government should not be involved in public sector salary negotiations where it is not a signatory to the collective agreement.</p>	<p>Not accepted.</p> <p>As a general rule, the government is not involved in public sector salary negotiations. However, the government has an obligation to take appropriate action to ensure public safety.</p>
<p>19. Government should play a more direct role in establishing a framework for public sector salary negotiations through a mechanism for sharing information with various employer groups including health authorities and school boards. This would include providing guidance on the province's ability to meet new fixed costs on a sustainable basis and on competitive salaries and benefit levels on other provinces and jurisdictions.</p>	<p>Not accepted.</p> <p>The government provides general fiscal direction and information to publicly funded organizations through its business planning and budget processes.</p>
<p>20. To supplement the government's reporting regime, the government should consider adding the publication of a quarterly and an annual financial summary of the highlights limited to a few pages of material and presented in a simplified, easily readable, plain language format.</p>	<p>Accepted.</p> <p>Implement in 2003-04.</p>

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<p>21. The Government should continue to work with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants in the development of the government entity reporting proposal. Government-funded entities should be consolidated into the government's accounts and financial statements unless there is a compelling case why a specific entity should be excluded.</p>	<p>Accepted in principle pending PSAB recommendations.</p> <p>Implement by Budget 2006.</p>
<p>22. The government should continue working with PSAB in the development of the standard regarding the capitalization and amortization of assets and it should adopt the standard when it is developed.</p>	<p>Accepted in principle pending PSAB recommendations.</p> <p>Implement in Budget 2003.</p>
<p>23. The government should work closely with the Office of the Auditor General with the objective of having an audit opinion without reservations based on generally accepted accounting principles (GAAP) and not on a "disclosed basis" of accounting.</p>	<p>Accepted.</p> <p>Implement by Budget 2006, pending PSAB recommendations discussed in Recommendations 21 and 22.</p>
<p>24. The Government should signal its intent to move forward with a new fiscal framework and use the balance of the current fiscal year to prepare for the transition.</p>	<p>Accepted.</p>
<p>25. In five years or less, the government should establish a new Commission to provide an external review of government's fiscal situation and its fiscal framework.</p>	<p>Accepted.</p>