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PREFACE

Public Accounts 2004-05

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta released June 29, 2005 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the Measuring Up report.

On November 24, 2004 the Ministry of Finance became responsible for the responsibilities of the former Ministry of Revenue. This annual report contains reporting information for the Ministry of Finance and contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the ministry business plan.

This Ministry annual report also includes:

- the financial statements of entities making up the Ministry including the Department of Finance, regulated funds, provincial agencies and Crown-controlled corporations for which the Minister is responsible,
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report, and
- financial information relating to trust funds.

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2005, 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 at September 22, 2005 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original Signed]

Honourable Shirley McClellan
Minister of Finance
September 22, 2005

MESSAGE FROM THE MINISTER

Looking back at 2004-05, it was truly a remarkable year in Alberta's history. Strong resource revenue allowed the province to pay off its remaining accumulated debt. Albertans deserve much of the credit for such an accomplishment. They told us time and again to get our fiscal house in order and pay down the debt that once amounted to almost \$23 billion.

Albertans also played a key role in shaping the Province's fiscal future by completing the *It's Your Future* survey. After counting and analyzing a record number of responses, it came as no real surprise that health care and education topped the list. Our budget numbers reflected the government's commitment to those areas.

Alberta's strong fiscal position was once again recognized by international bond rating agencies. For the fourth consecutive year, Dominion Bond Rating Service, Moody's Investor Service, and Standard and Poors rated our province as triple A. We are the only Province in Canada with such status.

The government's fiscal framework continued to protect programs from the volatility that comes with non-renewable resource revenue. For 2004-05, the limit on resource revenue spending was increased to \$4 billion. The additional dollars were primarily used in health and education.

The Sustainability Fund, created in 2003-04 to protect spending from volatile revenue and the cost of emergencies and disasters again proved to be a valuable resource for Albertans in need. The Fund provided almost \$1 billion for BSE assistance, flood assistance, wildfire costs, and natural gas rebates in fiscal 2004-05. We also balanced our budget for the eleventh straight year.

Albertans can once again proudly state they pay the lowest overall taxes in Canada. In 2004, the government reduced the business tax rate, continued indexation of the personal income tax system and for the eleventh straight year school property tax rates have been frozen. The combination of low personal and corporate taxes translates into a competitive tax system that is helping to attract workers and investments to Alberta, creating a strong and vibrant economy.

Reforms to auto insurance continued to be a focal point with the implementation of a new system last October. We launched an awareness campaign designed to steer Alberta drivers through the many facets of the reforms that achieve our goal of fair and affordable rates.

With pension plans on the minds of many, changes were made so members of private sector pensions can now keep better tabs on their plans. Increasing transparency and accountability means more access to financial information. Albertans are in a better position to monitor their own pensions long before they need them. The Superintendent of Pensions now has more effective ways of monitoring the funding of pension plans and stronger enforcement powers if problems arise.

It was another strong year for the Heritage Fund which earned \$1.1 billion from its investments, capital projects, health care, education, roads and tax reductions.

Working with the Alberta Hotel and Lodging Association, the hotel room tax was changed to a tourism levy and the rate was reduced from five to four per cent. As a result, the tourism industry will see increased funds to better encourage more travellers to take an Alberta break.

History was made with the signing of a provincial/territorial Memorandum of Understanding regarding securities regulation. This is the first step towards streamlining and simplifying securities laws to create a more efficient and effective system, while providing a high standard of investor protection across the country.

Alberta also continued to be a leader as the first province to review income trusts. Input from public consultations and a discussion paper helped in the development of legislation which passed through the spring session of the legislature.

The hard working and dedicated staff within the Ministry saw a few changes this year. Not only do they have a new Minister, but also the decision was made to bring Alberta Finance and Alberta Revenue together again.

We have so much to be thankful for as we celebrate our province's centennial. As we look back at the successes that have been achieved and challenges overcome to make Alberta what it is today, we are solidly on course to enter our second century.

[Original Signed]

Shirley McClellan
Minister of Finance
September 22, 2005

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The executives of the individual entities within the Ministry have the primary responsibility and accountability for their respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Finance. Under the direction of the Minister, as Deputy Minister, I oversaw the preparation of the Ministry's Annual Report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

In addition to program responsibilities, I establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under Ministry administration,
- provide Executive Council, Treasury Board and the Minister of Finance any information needed to fulfill their responsibilities, and
- facilitate preparation of ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executives of the individual entities within the Ministry.

[Original Signed]

Brian Manning
Deputy Minister of Finance
September 22, 2005

OVERVIEW 2005

- **MINISTRY VISION, MISSION AND CORE BUSINESSES**
- **RELATIONSHIP OF REPORTING ENTITIES TO CORE BUSINESSES**
- **OPERATIONAL OVERVIEW**
- **SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR**

VISION, MISSION AND CORE BUSINESSES

Vision

A province that is innovative and globally competitive with a fiscally sustainable and accountable government.

Mission

Implement the government's fiscal framework and financial policies and provide innovative revenue, investment and risk management.

Core Businesses and Goals

Core Business: Fiscal Planning and Financial Management

- Goal 1 A Financially Strong, Sustainable and Accountable Government
- Goal 2 A Fair and Competitive Provincial Tax System
- Goal 3 Effective Management of Financial Assets, Liabilities and Risks

Core Business: Regulation of Provincial Financial Institutions

- Goal 4 Reliable and Competitive Financial and Insurance Products and Services

Core Business: Pensions Policy, Regulations and Administration

- Goal 5 Pensions that Deliver on Promises

Core Business: Financial Services

- Goal 6 Quality and Competitive Financial Services Accessible to Albertans and Local Authorities

Core Business: Long-Term Revenue and Investment Policy

- Goal 7 A Revenue Structure that Meets Alberta's Needs and is Consistent with Albertans' Values
- Goal 8 Investment Policies that will Provide the Greatest Financial Returns for Current and Future Generations of Albertans

Core Business: Manage Revenue Programs

- Goal 9 Revenues Due to the Province are Collected Fairly, Efficiently and Effectively
- Goal 10 Excellence in Client Service

Core Business: Manage and Invest Financial Assets

Goal 11 Superior Investment Returns Subject to Client-Defined Objectives and Policies

Goal 12 Excellence in Client Service

Goal 13 An Effective Investment Management Organization

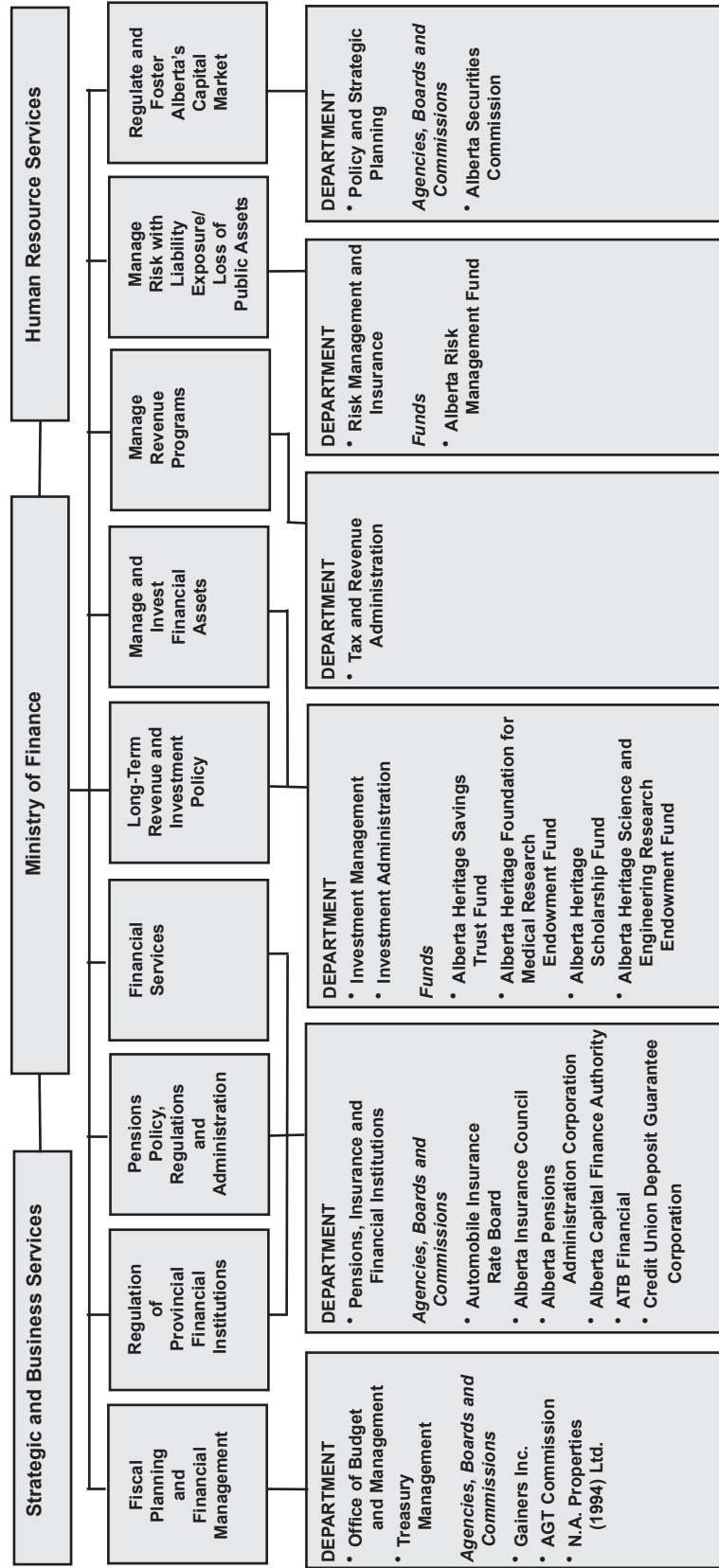
Core Business: Manage Risk Associated with Liability Exposure and Loss of Public Assets

Goal 14 Proactively Managed Risk

Core Business: Regulate and Foster Alberta's Capital Market

Goal 15 An Effective, Efficient and Streamlined Securities Regulatory System

RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES



OPERATIONAL OVERVIEW

MINISTRY OF FINANCE

www.finance.gov.ab.ca

9515 - 107 Street
Edmonton, Alberta
T5K 2C3

9811 - 109 Street
Edmonton, Alberta
T5K 2L5

1100, 715-5th Avenue S.W.
Calgary, Alberta
T2P 2X6

Office of Budget and Management

The Office of Budget and Management (OBM) manages the provincial budget and business plan review and approval process, prepares economic and fiscal forecasts, and provides research, analysis and recommendations on the Province's fiscal, economic and taxation policies. OBM is responsible for intergovernmental fiscal relations and for providing statistical information about the Province. It also proposes and prepares accounting and financial control policies, budget documents, quarterly budget updates, annual financial statements and performance measurement reports.

OBM is divided into the following six areas: Budget Planning and Integration; Business Planning; Economics and Public Finance; Financial Accounting and Standards; Performance Measurement; and Tax Policy.

Treasury Management

Treasury Management (TM) is responsible for the Province's on-going cash management including short-term borrowing and investments, management of banking and cash forecasting, and arranging short and long term financing for the government and provincial corporations. TMD is also responsible for managing the investment of the assets of the General Revenue Fund set aside for specific purposes such as debt retirement, sustainability and capital projects and monitoring and managing loans and guarantees. The division provides financial and banking advice to other government departments including active involvement in the Province's P3 projects.

TMD is divided into the following three areas: Capital Markets; Loans and Guarantees; Banking and Cash Forecasting.

Pensions, Insurance and Financial Institutions

Pensions, Insurance and Financial Institutions (PIFI) is responsible for the regulation of credit unions, loan and trust corporations, financial institutions, insurance companies and private sector pension plans. It also provides policy support and analysis to the Minister of Finance in these areas, as well as for Alberta Treasury Branches, public sector pension plans and the Canada Pension Plan. The Division is also the government contact for the following six entities that report to the Minister of Finance: Automobile Insurance Rate Board; Alberta Insurance Council; Credit Union Deposit Guarantee Corporation; Alberta Pensions Administration; Alberta Treasury Branches and Alberta Capital Finance Authority.

PIFI is divided into the following five areas: Pensions; Insurance; Financial Institutions; Public Sector Pension Policy; and Divisional Support.

Alberta Investment Management

Alberta Investment Management (AIM) is comprised of three operating groups: the Investment Management Division (IMD), the Investment Administration Division (IAD), and the Internal Audit and Compliance Office (IACO).

Investment Management Division

Investment Management Division (IMD) is the fifth largest public sector asset manager in Canada with \$47.2 billion in assets under management. IMD was established to act as the investment manager for pools of capital assigned by statute to the Minister of Finance and for the assets of other provincial public sector bodies, where specific agreements have been made.

IMD is organized into nine functional areas: Portfolio Analysis and Research, Active Canadian Equities, Fixed Income Operations, Structured Investments, Fund Management, External Fund Management, Real Estate, Mortgages and Private Placements.

IMD provides a comprehensive set of products including asset coverage such as fixed income, public and private equities, real estate, commercial mortgages and absolute return strategies. In some cases specialized private sector investment managers are used to manage specific investment mandates.

IMD manages the assets of a broad range of client funds including six public sector pension funds, a number of endowment funds and other special purpose funds. Assets under management include:

- Pension Investments (totaling \$20.6 billion) comprising the Local Authorities Pension Plan, the Public Service Pension Plan, the Management Employees Pension Plan, the Universities Academic Pension Plan, the Special Forces Pension Plan, the Special Forces Indexing Plan, the Provincial Judges and Masters in Chambers Pension Fund, the Provincial Judges Supplementary Retirement Pension Plan, and the Supplementary Retirement Plan for Public Service Managers.
- Government Investments (totaling \$23.8 billion) comprising the General Revenue Fund, including the Sustainability Fund, the Debt Retirement Account, the Capital Account, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Ultimate Heir Trust "B" Endowment Fund and other government portfolios.
- Other Investments (totaling \$2.8 billion) comprising the Balancing Pool Corporation, funds managed on behalf of the Workers' Compensation Board, the Long Term Disability Fund Bargaining Unit, the Long Term Disability Fund Management, Opted Out and Excluded Employees, and other funds.

Investment Administration Division

Investment Administration Division (IAD) has three internal groups: Securities Administration, Investment and Debt Information Systems, and Valuation and Fund Accounting.

IAD provides support for investment operations including:

- trade transaction monitoring and processing,
- fund and portfolio valuation and performance measurement,
- custodial bank interface and oversight,
- investment systems oversight, and
- systems support, development and maintenance.

Securities Administration works with the Investment Management Division (IMD) to ensure investment data is captured appropriately in the systems and that the financial transactions are settled with the corresponding brokers and financial institutions. Investment and Debt Information Systems is responsible for all of the software development, systems development and support required within IAD, IMD, and the Treasury Management Division. Valuation and Fund Accounting prepares the weekly valuation of investment portfolios, measures investment performance, and processes pooled fund unit transactions.

Internal Audit and Compliance Office

Internal Audit and Compliance Office (IACO) is responsible for a risk-based compliance and internal audit program for the investment operation. This group is headed by the Lead Internal Audit and Compliance Officer and is independent of any investment unit.

IACO reviews the reliability and integrity of financial, administrative and operational information. This is accomplished by reviewing operations and programs to ascertain whether they are being carried out as planned, and whether the results of operations are consistent with the established goals and objectives.

Tax and Revenue Administration

Tax and Revenue Administration (TRA) is responsible for the collection of revenue; the administration of Alberta Finance's tax, revenue and related benefit programs; and provides input into the design and development of these programs. The focus is a fair, competitive, simple and efficient provincial tax and revenue system.

TRA is divided into the following areas: Revenue Operations; Audit; Tax Services; and Business Technology Management.

Risk Management and Insurance

Risk Management and Insurance Division (RMI) collaborates with ministries and agencies throughout government to assist them with identifying, measuring, controlling, and financing the risk of accidental loss. The program is responsible for all “participants” subject to the *Financial Administration Act*.

RMI is divided into two branches: Risk Management Operations and Claims Management. Risk Management Operations assists participants to identify, minimize and, where appropriate, finance adverse effects of accidental loss. Claims Management administers all claims covered under the province’s Risk Management Fund and makes recommendations aimed at reducing risk.

Policy and Strategic Planning

Policy and Strategic Planning (PSP) is responsible for short and long-term revenue analysis, and for policy development to support the Ministry’s core businesses and goals. Policy and Strategic Planning works closely with Tax and Revenue Administration and the Office of Budget and Management.

PSP provides oversight of securities regulation in Alberta and support to the Endowment Fund Policy Committee, which provides advice on appropriate investment policies for Alberta’s endowment funds.

REGULATORY AGENCIES

Automobile Insurance Rate Board (AIRB)

www.airb.gov.ab.ca

#200, 9515 - 107 Street
Edmonton, Alberta
T5K 2C3

The AIRB is responsible for annually setting premiums for compulsory automobile coverage and monitoring optional coverages.

A copy of the AIRB's annual report can be obtained from its internet site or by contacting the Edmonton office.

Alberta Insurance Council (AIC)

www.abcouncil.gov.ab.ca

#901, TD Tower, 10088 - 102 Avenue
Edmonton, Alberta
T5J 2Z1

The AIC is responsible for examining, licensing, and disciplining insurance agents, brokers and adjusters in Alberta and for investigating consumer complaints against the industry.

The Annual Report for AIC is available on its internet site.

Credit Union Deposit Guarantee Corporation (CUDGC)

www.cudgc.ab.ca

18th Floor, 10130 - 103 Street
Edmonton, Alberta
T5J 3W9

CUDGC regulates business practices of Alberta credit unions and guarantees deposits according to legislation. While CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the Corporation to independently provide the 100% deposit guarantee, the Government of Alberta will ensure that CUDGC can fulfill its guarantee obligation. The Corporation provides advice to Alberta credit union boards and management to help improve their skills and help them avoid unsound business practices or other problems.

The Annual Report for CUDGC is available on its internet site.

Alberta Pensions Administration Corporation (APA)www.apaco.ab.ca

3rd Floor, 10611 - 98 Avenue
Edmonton, Alberta
T5J 2P7

APA provides pension services to boards, employers, members and pensioners of Alberta public sector pension plans. Those pension services consist of the collection of pension contributions, maintenance of member accounts, payments of pension benefits and provision of information.

Services are provided to 478 employers, approximately 174,000 active and deferred members, and 54,000 pensioners.

APA's Annual Report is available on its internet site.

ATB Financial (ATB)www.atb.com

9888 Jasper Avenue
Edmonton, Alberta
T5J 1P1

ATB Financial (ATB) is a \$15.4 billion, full-service financial institution based in Edmonton, Alberta. As a leading financial services provider to individuals, small business and the agri-industry in Alberta, it serves 600,000 Albertans in 242 communities through various branches and agencies, as well as through a Customer Contact Centre and the Internet.

Having the largest financial institution representation in the province, it is a preferred choice for many Albertans in smaller communities, and is an important alternative for a growing number of people in the major cities of Edmonton and Calgary.

ATB's Annual Report is available on its internet site.

Alberta Capital Finance Authority (ACFA)www.acfa.gov.ab.ca

2450 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta
T5J 3N6

ACFA is a non-profit authority established under the authority of the *Alberta Capital Finance Authority Act*. Its mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost while still maintaining viability of the ACFA.

ACFA issues debt obligations that are guaranteed by the Province to deliver the lowest possible funding cost.

ACFA's Annual Report is available on its internet site.

Alberta Securities Commission (ASC)www.albertasecurities.com

4th Floor, 300 - 5th Avenue S.W.
Calgary, Alberta
T2P 3C4

The ASC is an industry-funded provincial corporation responsible for maintaining the efficiency and integrity of the capital market in Alberta through the administration of the *Securities Act*, the Securities Regulation and the Alberta Securities Commission Rules. As a member of the Canadian Securities Administrators (CSA), an organization consisting of the 13 provincial and territorial securities regulators, the ASC plays a vital role in developing and operating a national system of harmonized securities regulation, policy and practice.

The ASC is an administrative tribunal with quasi-judicial powers. Panels of members hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of the securities legislation. The ASC also sits as an appeal body to hear appeals from decisions of the Executive Director, TSX Venture Exchange and the Alberta District Council of the Investment Dealers Association of Canada.

SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

- In 2004-05, Alberta's accumulated debt was eliminated by allocating sufficient funds to the Debt Retirement Account to repay the debt as it matures.
- The budget was balanced for the eleventh consecutive year. As reported in the 2004-05 Government of Alberta Annual Report, the province ended the year with net revenue of \$5 billion. This was \$4.8 billion higher than budgeted.
- Despite continuing challenges with BSE, Alberta's economy remained strong in 2004. Employment grew by 40,000, or 2.3%, as Alberta recorded the lowest unemployment rate among the provinces, at 4.6%. High energy prices led to further strengthening of conventional energy sector activity following a dramatic upswing in 2003, and housing construction continued at high levels. Albertans also had the highest disposable income per capita in Canada, 15.9% higher than the national average. Overall, Alberta's economic growth for 2004 is estimated at 3.7%.
- In 2004-05, the Alberta Heritage Savings Trust Fund earned investment income of \$1.1 billion. Investment income generated by the Heritage Fund is transferred to the General Revenue Fund where it is used for Albertans' priorities such as health care and education.
- Alberta maintained the highest credit rating among the provinces. Rating agencies cite Alberta's strong financial position, the government's commitment to debt repayment, and its record of balancing budgets and meeting forecasts as the key reason for the triple A credit rating.
- The *Fiscal Responsibility Act* was amended to increase the amount of non-renewable resource revenue that can be used for budget purposes to \$4 billion from \$3.5 billion. Changes to the *Fiscal Responsibility Act* also allow the cost of settlements with First Nations to be funded from the Sustainability Fund.
- Strong non-renewable resource revenue enabled the government to reach the Sustainability Fund's target of \$2.5 billion. The fund provided almost \$1 billion to pay for the cost of BSE assistance, wildfire costs, flood assistance and natural gas rebates.
- Alberta Finance coordinated the preparation, distribution and analysis of the *It's Your Future* survey, which received over 282,000 responses by mail and the internet. The survey sought guidance from Albertans as to their priorities for a debt-free province.

- Automobile insurance reform remained a priority in 2004-05. The government implemented reforms on October 1, 2004 ensuring the auto insurance system rewards safe drivers, makes bad drivers pay more and ensures fair compensation for all Albertans injured in motor vehicle accidents. Bill 34, the *Insurance Amendment Act, 2005*, was introduced on March 21, 2005, to provide further reforms and clarification on changes to automobile insurance. Public insurers from other provinces are also now able to compete in the Province's insurance market.
- Indexing of Alberta's single-rate personal income tax system continued to benefit Albertans through an income exemption of \$14,523, the highest in Canada. A family of four can earn up to \$36,100 in 2004-05 before paying provincial income taxes, with the Alberta Family Employment Tax Credit offsetting any taxes paid up to that level. Overall, Albertans pay the lowest taxes in Canada, with low taxes on income and fuel, and no retail sales tax.
- Effective April 1, 2004, the general corporate income tax rate was reduced to 11.5% from 12.5%, and the small business rate reduced to 3% from 4%. These reductions ensure Alberta's business taxes remain among the lowest in Canada, and resulted in an overall estimated savings of \$142 million in taxes for Alberta businesses in 2004-05.
- Alberta Finance provided significant policy support for issues related to the goal of fair and competitive provincial tax and revenue systems. The Ministry worked with Innovation and Science, and Economic Development to bring forward a comprehensive *Ministers Report on Accelerating Innovation*. Low personal and corporate tax rates will remain one of the foundations of Alberta's economic policy.
- The collection of revenue was enhanced by increasing auditing of key areas. Increased capacity planned for the coming year is expected to result in greater collection of revenue and decreased tax evasion.
- The hotel room tax was converted into a tourism levy, effective April 1, 2005. The *Hotel Room Tax (Tourism Levy) Amendment Act, 2005*, was introduced on March 14, 2005, changing the name to tourism levy and reducing the rate to 4% from 5%.
- Alberta provides tax exemptions and rebates on fuel used off-road for commercial purposes. The Tax-exempt Fuel Use program currently provides benefits of about \$120 million per year, including about \$45 million in the form of rebates. In response to industry concerns about the complexity surrounding the filing and rebate process, stakeholders were consulted, resulting in the development and implementation of a simplified system.

- On September 30, 2004, Alberta signed the *Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation*. The agreement commits participating jurisdictions to simplify and harmonize securities regulation and to create a "passport system" for securities regulation, resulting in a single window of access to capital markets. The *Securities Amendment Act, 2005*, was introduced on March 14, 2005, to harmonize Alberta's securities regulations with other provinces and territories, provide greater protection for investors, and make it easier for businesses to access capital markets in more than one province or territory.
- The *Income Trusts Liability Act, 2004*, was proclaimed July 1, 2004, to improve investor protection. The Act limits liability for unit-holders of publicly traded income trusts. Other provinces are following Alberta's lead on this issue. The government also led a consultation process on the governance of income trusts, which included the release of a discussion paper in the summer of 2004 and public consultations in Edmonton and Calgary.
- The government continued to manage its financial assets and liabilities effectively. Returns on the Sustainability Fund and assets in the Debt Retirement Account exceeded performance benchmarks. Through seeking alternate markets and negotiating low commission costs, the government saved the Province and its corporations an estimated \$1.3 million on borrowing of \$766 million. Most of the borrowing in recent years has been on behalf of provincial corporations.
- Alberta Investment Management improved processes for strategic planning, including greater interaction with the Investment Operations Committee. The Committee governs investment operations and is chaired by the Deputy Minister of Finance and otherwise comprised of members independent of Alberta Government.
- New information technology systems were developed to allow Alberta Investment Management clients and product managers to identify and manage risks within their portfolios. A risk framework system was also developed to guide development of risk management processes in the future, and a new performance measurement and attribution system was introduced.
- Additional investment capacity through increased staffing and development of new products.
- Consultations were held on enhancing the Alberta Risk Management Fund to include risk financing for a broader range of losses. A list of enhancements was produced and the financial impact is being analyzed.
- Alberta Finance monitors provincially incorporated insurers, credit unions, trust and loan companies, and the Credit Union Central Alberta Ltd. All provincially regulated financial institutions and CUCA met solvency requirements, and no financial failures were recorded in 2004-05.

- The Minister of Finance is responsible for Alberta's public sector pension plans except the Teachers' Pension Plan, which falls under the Ministry of Education. The four major pension plans are: the Local Authorities Pension Plan, the Special Forces Pension Plan, the Public Service Pension Plan, and the Management Employees Pension Plan. Review of public sector pension plan governance is one of the department's strategic priorities. Work continued in 2004-05 to further strengthen governance of these plans. A Memorandum of Understanding was signed in September 2004 between the Alberta Pensions Administration and the Minister of Finance, to outline their roles and responsibilities, and clarify their working relationship.
- Alberta Finance administers the *Employment Pension Plans Act*. The Act safeguards the benefits promised to members of registered pension plans by setting minimum standards for funding, investment and qualifications for benefits. On March 23, 2005, Bill 35, the *Employment Pensions Plans Act* was introduced to give private sector pension plan members better access to information. The amendments also give the Superintendent more effective ways of monitoring the funding of pension plans by requiring more information about the plans' financial status and strengthening his enforcement powers. Of the pension plans registered in Alberta, 99% met the minimum funding requirements set out in the *Employment Pensions Plans Act*.
- ATB's net income for the year was \$187 million. Total assets grew to \$15.4 billion from \$14.3 billion in the previous year. Retained earnings at March 31, 2005 were in excess of \$1.1 billion.
- The Alberta Capital Finance Authority (ACFA) aims to offer the lowest cost of borrowing to the local authorities in Canada. ACFA compared Alberta local authorities' cost of borrowing to the costs of debt issues of the Municipal Finance Authority of British Columbia (MFABC) and the City of Toronto. The target was met for three of the four cases compared. The 20-year rate for MFABC was 3.4 basis points lower than the ACFA rate for that term.



REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO PERFORMANCE MEASURES

TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY

In connection with the Ministry of Finance's performance measures included in the *2004-2005 Annual Report of the Ministry of Finance* for the year ended March 31, 2005, I have:

1. Agreed information from an external organization to reports from the organization.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source documents. In addition, I tested the procedures used to compile the underlying data into the source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the performance measures, as well as targets, agree to and include results for all of the measures presented in Budget 2004.

As a result of applying the above procedures, I found the following exception:

For the measure *Number of accepted Financial Management Commission recommendations implemented as scheduled*, management asserts that 14 of the 22 accepted recommendations have been implemented. Management provided the final budget and business plan documents, but not the underlying data to support their assertion that they have implemented the first component of the following recommendation:

Recommendation No. 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.

Therefore, I was not able to complete the relevant procedures for this measure.

Procedures 1 to 5, however, do not constitute an audit and therefore I express no opinion on the performance measures included in the *2004-2005 Annual Report of the Ministry of Finance*.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 18, 2005

RESULTS ANALYSIS

2005

- **MINISTRY FINANCIAL HIGHLIGHTS**
- **PERFORMANCE MEASURES, TARGETS AND RESULTS**

MINISTRY FINANCIAL HIGHLIGHTS

REVENUE

(thousands of dollars)

	2004-05		2003-04
	Budget	Actual	Actual
Revenues	\$10,071,170	\$10,852,483	\$10,110,306

Revenue for the Ministry was \$742 million, or 7.3% higher.

(Actual – Actual)

- \$704 million of the increase is attributable to higher income tax revenues for 2005 with the large majority of the increase (\$668 million) coming from higher corporate income taxes. The reason for the increase was higher corporate profits, which were offset by reduced corporate income tax rates. Personal income taxes contributed \$36 million to the increase.
- Other taxes increased \$62 million from 2004, which is made up of higher revenues collected from fuel, tobacco, insurance and hotel room taxes.

Revenue for the Ministry was \$781 million, or 7.8%, over budget.

(Budget – Actual)

- Revenue from other taxes was over budget by \$120 million due to higher-than-expected fuel and tobacco taxes collected caused by increased consumption in both areas. Insurance taxes were also higher due to higher economic activity.
- Investment income was higher than budget by \$582 million due to increased realized investment gains as a result of stronger equity markets in the year.
- Internal government transfers were \$71 million higher than budget due to increased transfers from the Alberta Heritage Savings Trust Fund and the Lottery Fund.
- Net income from commercial operations was \$37.5 million higher than budget primarily due to higher earnings at Alberta Treasury Branches.
- Offsetting these increases was lower revenue from income taxes of \$29.3 million. While corporate income taxes were \$407 million higher than budget due to strong corporate earnings, personal income taxes were lower by \$436 million mainly because of a negative adjustment in 2004-05 due to an over-estimate of personal income tax assessments for the 2003 taxation year.

EXPENSE

(thousands of dollars)

	2004-05		2003-04
	Budget	Actual	Actual
Expenses	\$970,667	\$907,608	\$875,893

Ministry expenses were \$32 million, or 3.6%, higher.

(Actual – Actual)

- The main reason for the increase was that debt servicing costs increased \$31 million due to foreign exchange provisions on 2004 US dollar debt caused by the strengthening Canadian dollar.

Expenses for the Ministry were \$63 million, or 6.5%, under budget.

(Budget – Actual)

- The Investment, Treasury and Risk Management Program was \$14 million under budget primarily due to lower funding requests for research by the Alberta Heritage Foundation for Medical Research and the Alberta Heritage Foundation for Science and Engineering. In addition, reduced pension liability funding was required as a result of a lower pension payroll and cost of living adjustments.
- Debt servicing on the government debt was \$61 million lower than expected due to accelerated debt elimination efforts during the year.
- The Financial Sector and Pensions Program was \$11 million under budget mainly caused by lower than expected interest costs on the debt of Alberta Capital Finance Authority. Actual interest rates in 2005 were lower than budgeted.

EXPENSE BY CORE BUSINESS

MINISTRY EXPENSE BY 2004-05 CORE BUSINESS

(thousands of dollars)

	2004-05 Budget	2004-05 Actual	2003-04 Actual
Fiscal Planning and Financial Management	443,161	377,401	347,744
Regulation of Provincial Financial Institutions	6,296	8,351	7,342
Pensions Policy, Regulations and Administration	26,302	25,228	25,375
Financial Services	313,687	304,789	320,037
Long-term Revenue and Investment Policy	1,982	1,041	796
Manage Revenue Programs	48,019	54,324	39,985
Manage and Invest Financial Assets	113,349	103,631	97,219
Manage Risk Associated with Liability			
Exposure and Loss of Public Assets	9,793	8,426	17,440
Regulate and Foster Alberta's Capital Markets	21,078	17,876	17,510
	983,667	901,067⁴	873,448⁴

MINISTRY EXPENSE BY 2005-06 CORE BUSINESS

(thousands of dollars)

	2004-05 Budget	2004-05 Actual	2003-04 Actual
Fiscal Planning and Financial Management ¹	60,130	64,706	49,650
Investment, Treasury and Risk Management ²	555,511 [*]	480,629 [*]	450,418 [*]
Financial Sector and Pensions ³	368,026	355,732	373,380
	983,667	901,067⁴	873,448⁴

EXPENSE BY FUNCTION

(thousands of dollars)

	2004-05 Budget	2004-05 Actual	2003-04 Actual
Health	55,279	50,185	50,157
Education	21,581	23,104	22,329
Agriculture, Resource Management and Economic Development	17,377	13,854	11,022
Protection of Persons and Property	23,702	20,441	19,911
Regional Planning and Development	313,595	304,692	319,943
General Government	197,113	194,293	186,979
Debt Servicing Costs	355,020	294,498	263,107
	983,667	901,067⁴	873,448⁴

1 Fiscal Planning and Financial Management includes the previous Fiscal Planning and Financial Management and the Manage Revenue Programs core businesses.

2 Investment, Treasury and Risk Management includes the previous Manage and Invest Financial Assets, Long-Term Revenue and Investment Policy, and the Manage Risk Associated with Liability Exposure and Loss of Public Assets core businesses.

3 Financial Sector and Pensions includes the previous Regulate and Foster Alberta's Capital Market; Regulation of Provincial Financial Institutions, and Pensions Policy, Regulations and Administration core businesses.

4 Excludes pension provisions of \$6,541 for 2005 (\$2,445 - 2004).

* Includes debt servicing costs. (Debt servicing costs not included in 2005-06 Finance business plan.)

PERFORMANCE MEASURES, TARGETS AND RESULTS

CORE BUSINESS: FISCAL PLANNING AND FINANCIAL MANAGEMENT

Alberta's strategy for protecting fiscal plans from revenue volatility associated with non-renewable resource revenue and investment income, and from costs of emergencies and disasters, while ensuring balanced budgets, has been to legislate a fiscal framework governing budgeting and financial management. Maintaining this framework – the *Fiscal Responsibility Act* (FRA) – is primarily the responsibility of Alberta Finance. In 2004-05, the framework was amended to increase the amount of non-renewable resource revenue that can be used for budget purposes from \$3.5 billion to \$4 billion, and to permit costs of settlements with First Nations to be funded from the Sustainability Fund.

In 2004-05, Alberta's accumulated debt was eliminated by allocating sufficient funds to the Debt Retirement Account to offset the province's remaining accumulated debt. The funds in the Debt Retirement Account will only be used to repay the accumulated debt as it matures.

Finance also coordinated the preparation, distribution and analysis of the *It's Your Future* survey, which received over 282,000 responses by mail and the internet. The survey sought guidance from Albertans as to their priorities with the new fiscal flexibility allowed by no longer having to allocate funds to debt repayment.

Finance has continued to provide assistance relating to the Capital Plan, advice on evaluation of Public Private Partnerships (P3s) and other alternative financing proposals, and on expanding the government's reporting entity.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business:			
Fiscal Planning and Financial Management	\$443,161	\$377,401	\$65,760

Debt servicing costs were \$60.5 million lower than expected due to lower provincial debt balances. Pension liability funding was \$2.7 million lower due to a lower pension payroll and cost of living adjustments. The remainder of the variance is attributed to higher staff vacancies, lower contract costs and lower write-offs of corporate income tax accounts.

Goal 1 A Financially Strong, Sustainable and Accountable Government

A financially strong, sustainable and accountable provincial government is important, not only to Albertans, but also to potential investors, businesses and people looking to re-locate. This is another benefit of having a legislated fiscal framework, as it gives credibility to Alberta's fiscal commitment to balance budgets. In addition, Alberta continues to be conservative in economic and revenue forecasting. This encourages decisions to err on the side of prudence, which is essential in striving for sustainability in fiscal planning.

The financial results for 2004-05 reflect this prudent and risk-averse strategy. The budget was balanced for the eleventh consecutive year in 2004-05, with net revenue as reported under the *Fiscal Responsibility Act* of \$5.2 billion, \$4.9 billion higher than budgeted. In addition to making the final allocation of \$3.7 billion to accumulated debt repayment, net revenue was employed to keep the Sustainability Fund above its \$2.5 billion target level, and to increase assets in the Capital Account by \$1.1 billion.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Alberta's credit rating	AAA	AAA	AAA

Source: three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's.

A province's credit rating, in part, is an indication of the financial strength of the government. The Province of Alberta provides financial and economic data to three rating agencies: Dominion Bond Rating Service, Moody's Investor Services Limited and Standard and Poor's Rating Services. These firms evaluate this and other relevant information and then publish a credit rating based on their opinion of the credit worthiness of the Province. The AAA rating is the highest rating to receive.

In all cases, Alberta received AAA ratings and is rated highest among all the provinces. The rating agencies cite Alberta's strong financial position, the government's commitment to debt repayment, and its record of balancing budgets and meeting forecasts as the key reason for the top rating. This has resulted in Alberta's borrowing costs being the lowest of any Canadian province.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Accumulated debt less cash set aside for debt repayment	\$3.0 billion	Zero	\$3.7 billion

Source: Government of Alberta, Consolidated Financial Statements for the year ended March 31, 2005.

The level of accumulated debt is an indicator of the financial strength and long-term stability of the province. Debt burdens future generations with debt servicing costs and debt repayment obligations. Alberta's prudent fiscal management is reflected in the government's accelerated repayment of the Province's accumulated debt. As of March 31, 2005, Alberta's accumulated debt less funds locked in the Debt Retirement Account is zero. Accumulated debt includes the outstanding consolidated debt of the General Revenue Fund, the debt of the Alberta Social Housing Corporation (net of borrowings from the General Revenue Fund) and the government's liability for school construction.

The *Fiscal Responsibility Act* sets out the government's minimum required schedule to repay the \$12.5 billion of accumulated debt that was remaining as of March 31, 2000 over a maximum of 25 years. The legislation includes five-year milestones for repayment of the accumulated debt.

Based on the debt repayment schedule set out in the *Fiscal Responsibility Act*, for the \$12.5 billion of accumulated debt outstanding on March 31, 2000, the government is 20 years ahead of schedule in eliminating the need to set aside budget resources for debt repayment.

Fiscal Year End	(\$billions)
1999-00	12.5
2000-01	8.2
2001-02	5.7
2002-03	4.7
2003-04	3.7
2004-05	zero

Source: Government of Alberta, Consolidated Financial Statements for the year ended March 31, 2005

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Number of accepted FMC recommendations implemented as scheduled	15 of 22 (accumulated)	14 of 22 (accumulated)	11 of 22 (accumulated)

Source: Alberta Finance.

In July 2002, the Financial Management Commission (FMC) submitted a report containing 25 recommendations to the Minister of Finance. A formal government response was published in September 2002 accepting 22 of the 25 recommendations. As of March 31, 2005, Alberta Finance has overseen the implementation of 14 of the 22 (63%) FMC recommendations. This is one short of the target for 15 completed recommendations. Recommendation #4 on capital spending was not met due to the government's focus to determine and meet infrastructure priorities rather than setting a benchmark. This measure is not carried forward in the 2005-08 Finance Business Plan. The government is committed to completing the remaining recommendations by the end of fiscal 2006-07.

The FMC recommendations are available at www.finance.gov.ab.ca or the FMC website at www.albertafmc.com.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Percentage of Albertans who think they get enough information on the government's financial performance	70%	55%	57%

Source: Alberta Finance, Survey conducted for Alberta Public Affairs Bureau by Environics West in February 2005.

Alberta is dedicated to being financially open and accountable and has become a leader among Canadian governments in financial reporting. The provincial government reports quarterly to Albertans on progress made in achieving the current year's fiscal plan. The *Government Accountability Act* sets out the reporting requirements that provide government accountability.

Alberta is a leader among the Canadian governments in financial reporting, however, out of the 1,000 adult Albertans surveyed, 55% were satisfied with the information they received from the province on the government's financial performance in 2004-05. This is down from 57% in 2003-04 and below the target of 70%. The results are reliable to within +/- 3.0%, 19 times out of 20. This measure is under review to determine if the survey question properly reflects Albertans' satisfaction with the government's efforts to be open and accountable.

Goal 2 A Fair and Competitive Provincial Tax System

Alberta's tax system is fair and competitive. It incorporates a low-rate, broad-based tax regime, rather than introducing special tax incentives that favour one group over another. In addition, our high basic and spousal amounts allow people to earn more money before paying any personal income tax. Alberta's low personal and corporate taxes translate into a competitive tax system that helps attract workers and investment, creating a strong provincial economy.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Provincial tax load for a family of four	Lowest in Canada	Lowest in Canada	Lowest in Canada

Source: Alberta Finance, Office of Budget and Management, and Tax and Revenue Administration.

Alberta has the lowest provincial tax load for the representative two-income families who have annual incomes of \$60,000 and \$100,000 and the second lowest tax load for the representative single-income family earning \$30,000.

Overall, Albertans pay the lowest taxes in Canada, with low taxes on income and fuel and no retail sales tax. The personal tax load on Alberta for 2004-05 was the lowest in Canada at 50.8% of the national average. This is 2.8 percentage points lower than the 53.6% recorded in 2003-04 and far ahead of Alberta's nearest competitor, British Columbia, which is at 93.0% of the national average. Alberta's competitive tax regime helps attract people to live and work here, further fuelling an already dynamic economy.

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR*

	One-income family with two children earning \$30,000	Two-income family with two children earning \$60,000	Two-income family with two children earning \$100,000
Alberta	406	3,933	7,224
British Columbia	2,896	5,271	8,636
Saskatchewan	2,386	5,334	9,703
Manitoba	2,821	6,188	11,671
Ontario	2,039	4,923	9,507
Quebec	(936)	5,579	14,106
New Brunswick	3,201	6,018	11,092
Nova Scotia	3,319	6,165	11,425
Prince Edward Island	3,813	6,866	12,029
Newfoundland and Labrador	4,278	7,516	13,608

* Includes provincial income, sales, payroll, tobacco and fuel taxes and health care insurance premiums.

Source: Alberta Finance, Interprovincial Tax and Health Care Insurance Premium Comparison, 2005; p. 140 of *Budget 2005* document.

Calculations are based on the following assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- Health care insurance premiums are net of premium subsidies.
- In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% by employers. The same 75/25 split is assumed for the net health care insurance premiums.
- Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- Registered Retirement Savings Plan/Registered Pension Plan (RRSP/RPP) contributions of \$1,000, \$7,800 and \$13,500 are included in the calculation of personal income tax for the \$30,000, \$60,000 and \$100,000 families, respectively.
- For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- The children in each family are assumed to be 6 and 12 years old.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Provincial tax load on businesses	Lowest in Canada	Second lowest in Canada	Third lowest in Canada*
			Lowest in Canada**

* As reported in 2003-04 Finance Annual Report.

** Historical data was revised by Federal Department of Finance resulting in Alberta being the lowest.

Source: Alberta Finance.

In 2004-05, Alberta's tax load on business was the second lowest in Canada following Prince Edward Island. Finance will be reviewing the methodology and target of this measure as the outcomes of this measure as it is currently derived may be ambiguous. For example, a province in which the economy is struggling could appear to have a low tax load because money-losing corporations do not pay income tax. Also, provinces with a greater percentage of small businesses could appear to have a low tax load because the small business rate is lower than the general corporate rate.

In 2004, Alberta's business tax rate was reduced from 12.5% to 11.5%, and the small business rate dropped from 4% to 3%. Alberta does not have capital taxes, payroll taxes or general sales taxes on business purchases. The government continues to affirm its commitment to lower the general corporate income tax rate to 8.0%. Low overall taxes encourage entrepreneurs to start new businesses in Alberta or expand existing operations.

TAX LOAD ON BUSINESS*

	2004-05	2003-04
Prince Edward Island	72.0	93.0
Alberta	77.0	69.0
Ontario	93.7	90.2
New Brunswick	95.1	91.1
British Columbia	101.7	105.1
Quebec	110.3	118.1
Nova Scotia	112.9	98.9
Newfoundland and Labrador	118.3	110.7
Manitoba	130.5	125.7
Saskatchewan	218.3	285.0

Tax load relative to provincial average = 100

Note: Historical data revised by Federal Department of Finance.

* Includes business income, capital tax and insurance corporation tax revenues.

Source: Federal Department of Finance, February 2005 Third Estimate for 2004-05.

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue the province would generate if it taxed at national-average tax rates. Business taxes examined include business income taxes, capital taxes and insurance corporation taxes.

Each year, the provinces report their tax revenues by these categories to the federal government as part of the reporting requirements for the Equalization Program. The steps to calculate provincial tax loads are:

1. National-average tax rates are calculated by dividing total national tax revenues by the national tax base. The tax base for corporate income taxes, for example, is corporate profits.
2. The revenue the Province would generate if it taxed at national rates is equal to the national average tax rate multiplied by the provincial tax base for each of the tax categories.
3. The provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

Goal 3 Effective Management of Financial Assets, Liabilities and Risk

The Government of Alberta's annual cash flow must be managed to optimize returns and to ensure cash is available to meet Alberta's obligations. The Minister of Finance is also responsible for managing several billion dollars in certain assets and the remaining liabilities. Through prudent management of assets and liabilities, the Ministry works at minimizing financing costs and maximizing investment returns.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Return on: Sustainability Fund	To be determined	Return on the Fund exceeded the approved benchmark	Return on the Fund exceeded the approved benchmark*

* Return on fund for 9 months exceeded both the 91 day and 365 day Scotia Capital Treasury Bill Indices.
Source: Alberta Finance, Treasury Management.

The Ministry established the Statement of Investment Policy for the Sustainability Fund that sets a performance measure for earnings in the Fund based on the Scotia Capital Treasury Bill indices for 91 days and 365 days.

The index returns for both indices for the period from April 2004 to March 2005 were 2.20%. The total return of the Sustainability Fund was 2.26%, which was greater than both the 91 day and 365 day Scotia Capital Treasury Bill indices.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Return on: Debt Retirement Account compared to the cost of the debt on the day the investment is made	Greater	10 basis points higher than market return on matching debt	6 basis points higher than market return on matching debt

Source: Alberta Finance, Treasury Management.

Funds have been set aside from annual surpluses to meet the obligations on future debt maturities. The objective is to have cash available as debt matures and to invest the money in securities that return a higher rate of return than the cost of Province of Alberta debt that would have been issued on the day the investment is purchased. If the investment return exceeds the market cost on the debt, then the Province is able to earn that differential. In 2004-05, the funds invested exceeded the market return on the debt by 10.4 basis points.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Return on: Consolidated Cash Investment Trust Fund compared to Scotia Capital 91 Day Treasury Bill Index	Greater by 10 basis points*	Greater by 9 basis points*	Greater by 15 basis points*

* Basis point is 1/100 of a per cent.

Source: Alberta Finance, Treasury Management.

The Consolidated Cash Investment Trust Fund (CCITF) is a money market fund used to manage the cash balances of the Province and other depositors in the fund. A benchmark for the return on the fund has been established at the Scotia Capital 91day Treasury Bill index plus 10 basis points. The benchmark return for 2004-05 was 2.30%. The one-year return on the CCITF was 2.29%, which was 1 basis point lower than the benchmark. The reason for the slight underperformance was low corporate spreads in a historically low interest rate environment.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
All in cost of debt issued compared to an issue of comparable term in the Canadian public debt market	Lower	Cost lower - savings of \$1.3 million	Cost lower - savings of \$1.2 million

Source: Alberta Finance, Treasury Management.

In 2004-05, the ministry arranged the borrowing of \$766 million for provincial crown corporations through public bond issues and private placements. Through seeking alternative markets and negotiating lower commission costs the ministry was able to save the Province and its corporations an estimated \$1.3 million compared to selling the same bonds in the Canadian public market.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Government decision on enterprise risk management program	Government approval of framework	Ongoing	Ongoing

Source: Alberta Finance, Treasury Management.

An enterprise risk management framework is one of Alberta Finance's strategic priorities. A large and complex organization such as the Government of Alberta faces many potential risks. Identification and management of these risks has become a priority for the government as a whole. Finance was originally given the task of developing an enterprise risk management framework for government consideration. In 2003-04 the leadership for this initiative became the responsibility of a sub-committee of the Deputy Minister's Council. Due to recent restructuring, the enterprise risk management program is currently under review.

CORE BUSINESS: REGULATION OF PROVINCIAL FINANCIAL INSTITUTIONS

Finance sets the legislative and regulatory framework and with its delegated regulatory organizations regulates the credit union, loan and trust, and insurance industries in Alberta. By balancing the interests of stakeholders including depositors, policyholders, investors and the companies themselves, the Department helps to promote an efficient, fair and competitive financial sector in Alberta.

The Department also monitors the Credit Union Central Alberta Ltd. (CUCA) and, through the Credit Union Deposit Guarantee Corporation (CUDGC), guarantees the repayment of all deposits held with credit unions. Alberta Finance's role with respect to deposit insurance is to ensure CUDGC is capable of fulfilling its guarantee of credit union deposits.

Automobile insurance is compulsory to help ensure that Albertans are protected from loss when they are involved in an automobile collision. Alberta Finance regulates the industry and monitors availability, affordability and fairness of insurance to Albertans.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Regulation of Provincial Financial Institutions	\$6,296	\$8,351	(\$2,055)

Overspending in the regulation of provincial financial institutions was due to additional costs incurred with the implementation of auto insurance reforms.

Goal 4 Reliable and Competitive Financial and Insurance Products and Services

Albertans need to know that the financial services and products they receive are secure. Finance minimizes the risks relating to their products by regulating credit unions, insurance, loan and trust industries in Alberta.

In 2004-05, there were 60 credit unions operating in Alberta through 187 branches with assets exceeding \$9 billion, 55 loan and trust corporations registered to conduct business in Alberta and 301 insurance companies licensed to conduct business in Alberta.

All provincially incorporated credit unions, loan and trust companies, insurance companies and the CUCA met minimum capital solvency requirements. No financial failures were recorded in 2004-05.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Automobile Insurance review completed	Recommendations implemented	Recommendations implemented	Review completed Implementation completed in October 2004

Source: Alberta Finance, Pensions, Insurance and Financial Institutions.

Reforming Alberta's automobile insurance system continued to be a major priority for the Department of Finance in 2004-05. With the passing of Bill 53 in December 2003, the Department's focus this year was to implement specific reforms that would help achieve government's stated objective of an automobile system of insurance that would reward safe drivers, ensure bad drivers pay more while ensuring fair compensation for all Albertans injured in motor vehicle accidents.

This objective was fully achieved. With the passing of the *Insurance Amendment Act, 2003 (No. 2)*, the Minor Injury Regulation, the Automobile Accident Insurance Benefits Amendment Regulation and the Diagnostic and Treatment Protocols Regulation, several reforms were implemented on the target date of October 1, 2004 including:

- a premium grid that establishes a maximum premium for compulsory coverage, varied only by territory and level of protection chosen;
- a \$4,000 cap on awards for pain and suffering related to minor injuries;
- diagnostic and treatment protocols to help ensure quick access to effective and efficient treatment;
- introduction of an "all comers" rule that means the insurance company of an applicant's choice must offer a contract of insurance to the applicant;
- introduction of two risk sharing pools enabling insurers to share risks that they do not want to keep on their book;
- the Automobile Insurance Rate Board with the mandate to review and adjust premiums for compulsory coverage annually as required, to monitor optional coverages and to administer a dispute resolution committee to deal with matters of disagreement about the amount of a premium.

PERFORMANCE MEASURE	2004-05 Target	Current Results
Revision of <i>Insurance Act</i> respecting contracts*	Review of <i>Insurance Act</i>	Ongoing

* New measure in 2004-07 Business Plan.

Source: Alberta Finance, Pensions, Insurance and Financial Institutions.

Finance's second objective with respect to insurance is to review and rewrite the statutory provisions of the *Insurance Act* respecting contracts. Work is underway and the review of the Act is scheduled to be completed by 2006-07. A work plan will soon be finalized outlining all work to be completed, scheduled completion dates and details of the consultation process with stakeholders.

PERFORMANCE MEASURE	2004-05 Target	Current Results
ATB Financial supervisory framework implemented*	Implemented	Implemented

* New measure in 2004-07 Business Plan.

Source: Alberta Finance, Pensions, Insurance and Financial Institutions.

The target for implementing a supervisory framework was met. In conjunction with ATB, a framework and reporting standard was developed that will enable Alberta Finance to assess ATB's level of compliance with the *Alberta Treasury Branches Act*, Regulation and Guidelines. ATB plans to provide its first report against this framework and reporting standard in the summer of 2005.

CORE BUSINESS: PENSIONS POLICY, REGULATIONS AND ADMINISTRATION

Finance is responsible for administration of the *Employment Pension Plans Act*. The purpose of the Act is to safeguard benefits promised to members of registered pension plans by setting minimum standards for plan funding, investments, and qualifications for benefits. In addition, Finance is responsible for providing policy advice to government for several Alberta public sector pension plans and the Canada Pension Plan. The Alberta Pensions Administration Corporation (APA) provides administrative services.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Pension Policy, Regulations and Administration	\$26,302	\$25,228	\$1,704

The Alberta Pensions Administration Corporation was \$1.3 million under budget due to the deferral of an information management initiative and lower spending on consulting services.

Goal 5 Pensions that Deliver on Promises

Pension Plan members need to be assured that their benefits are secure. Finance assesses private sector pension plan compliance with legislative standards.

Finance currently monitors 1,311 private pension plans. Of these, 1,172 are active, 50 are in the process of being registered, and 89 are in the process of winding up. These plans have 180,536 active members. Total contributions were approximately \$1.1 billion for the year ended March 31, 2005. The market values of total assets and going concern liabilities were \$16.8 billion and \$12.8 billion respectively, at the same reporting date.

Finance provides advice to the Minister on the funding and governance of the public sector pension plans. These plans include: the Local Authorities Pension Plan; the Special Forces Pension Plan; the Public Service Pension Plan; and the Management Employees Pension Plan.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Percentage of APA client members and employers satisfied or very satisfied with products and services	95% of clients and employers	88%	79%

Source: Alberta Pensions Administration (APA) Corporation.

Alberta Pensions Administration Corporation collects pension contributions, maintains member accounts, pays pension benefits and provides information to pension boards, employers, members and pensioners for seven public sector pension plans and two supplementary retirement plans. The Corporation also provides on-line support to its four main client pension plans.

In 2005, the Corporation surveyed more than 800 members, 2,400 pensioners and 160 employers to determine customer satisfaction with APA products and services. While the current overall satisfaction level of 88% is a significant improvement over last year's 79%, it is still less than the target overall satisfaction level of 95% (see below). The year over year increase is primarily attributable to an increase in employer satisfaction. Further information on the survey and other survey data is available at APA's website www.apaco.ab.ca.

SURVEY RESULTS

	Satisfaction	Response Rate
Members	85%	10%
Pensioners	95%	38%
Employers	83%	23%
Total Average	88%	

Source: APA Corporation.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Improved pension governance frameworks	Developed and implemented	Partially met	In progress

Source: Alberta Finance, Pensions, Insurance and Financial Institutions.

Review of public sector pension plan governance is identified as one of the department's strategic priorities. The objective is to clarify roles, responsibilities and accountabilities of Alberta Finance, the Pension Boards, Alberta Pensions Administration and Alberta Investment Management in relation to operational aspects of public sector pension plan governance.

The target to develop and implement a pension governance framework in 2004-05 was partially met. Work continued and several initiatives took place toward developing the governance framework. A Memorandum of Understanding (MOU) was signed in September 2004 that outlined the roles and responsibilities of both parties. In addition, consultation took place with pension boards and other stakeholders on how to strengthen governance over public sector pension plans.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Percentage of private sector plans that meet minimum funding requirements	98%	99%	99%

Source: Alberta Finance, Pension Benefits Information System.

Private sector pension plan sponsors must demonstrate they have adequate funding to pay promised benefits by filing annual information returns and having triennial actuarial valuations completed for defined benefit plans. Over the last few years, investment returns including those for registered private sector pension plans, have experienced significant declines that have reduced the market value of assets and increased the funding requirements of plan sponsors.

The *Employment Pension Plans Act* requires pension plan sponsors to meet minimum funding requirements by making current service contributions, to eliminate any unfunded liabilities by making special payments over a fifteen-year period and to eliminate any solvency deficits by making special payments over a five-year period. The Department's performance benchmark is that at least 98% of pension plans registered in Alberta meet these minimum-funding requirements.

This result was achieved as 99% of pension plans registered in Alberta met the minimum funding requirements outlined above.

CORE BUSINESS: FINANCIAL SERVICES

Alberta Finance's goal is to ensure reliable and competitive financial products and services are accessible to Albertans and local authorities. ATB and the Alberta Capital Finance Authority (ACFA) are key components of the financial services sector in Alberta.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Financial Services	\$313,687	\$304,789	\$8,898

ACFA expenses were under budget by \$9 million, which is attributable to lower interest costs on long-term debt resulting from lower interest rates.

Goal 6 Quality and Competitive Financial Services Accessible to Albertans and Local Authorities

The mandate for ATB is to provide financial services predominantly to Alberta residents and corporations headquartered in all areas of the province. In doing so, ATB must operate using sound financial institution and business principles with the objective of earning a fair return and in a manner that is operationally independent from government. In addition to the *Alberta Treasury Branches Act* and regulations, ATB must comply with statutory provisions that apply to Alberta Crown agents in general, with government policies specified by the Minister, and with management principles adopted by government.

ATB is a full service financial institution serving more than 600,000 Albertans through 148 branches and 131 agencies in Alberta. Approximately one half of its assets are in residential mortgages and consumer loans, with the balance about equally divided between commercial, agricultural and independent business loans. ATB is the largest lender to primary producers and independent business in Alberta with about \$3 billion in loans outstanding to these sectors at March 31, 2005.

ATB had a successful year with net income for the year ended March 31, 2005 of \$187 million (compared to \$172 million the previous year) and total assets growing to \$15.4 billion at March 31, 2005 (up 8% from \$14.3 billion in the previous year). Retained earnings at March 31, 2005 were in excess of \$1.1 billion.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
ATB			
Loan loss provisions as a percentage of average total loans	0.30%	-.12%	.13%
Expenses to operating revenue	66.15%	67.90%	63.42%
Return on average assets (before tax)	0.97%	1.27%	1.24%

Source: ATB Financial (for further information, refer to ATB Financial Annual Report dated March 31, 2005).

ATB exceeded two of the three performance measures although the “expenses to operating revenue” target was not achieved due to modest overspending on non-interest expenses and less than planned net interest income. Overall, the financial results for ATB compare favourably to that of the major Canadian banks.

ACFA’s mission is to provide local authorities within the province with flexible funding for capital projects at the lowest possible cost while maintaining the viability of the ACFA.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Local authorities’ costs of borrowing from ACFA relative to borrowing costs of other Canadian municipalities within the viability of the Corporation	Lowest	Met for 3 of 4 cases compared *	**

* MFABC 20-year rate was 3.4 basis points below ACFA 20-year rate(2004).

** Previous results are not comparable to the current results due to a change in methodology.

Source: ACFA Annual Report 2004.

ACFA aims to offer the lowest cost of borrowing to local authorities in Canada. ACFA compares Alberta local authorities’ indicative loan rates to the cost of borrowing of actual debt issues of the Municipal Finance Authority of British Columbia (MFABC) and the City of Toronto. The target was met for three of the four cases compared. The 20-year rate for MFABC was 3.4 basis points lower than the ACFA rate for that term.

The results reported for 2004 are based on a new methodology. The new methodology is believed to be a more accurate reflection of relative borrowing costs as it uses actual transactional data, rather than estimates to calculate the cost of funds for MFABC and the City of Toronto.

Using the new methodology, ACFA compares Alberta local authorities' indicative loan rates to the cost of borrowing on actual debt issues of MFABC and Toronto. It is assumed that MFABC will use these debt issues to fund new loans directly and will base their loan rates on actual borrowing costs. ACFA's indicative loan rates are estimates of what the Authority would achieve under similar terms and circumstances to the actual debt issues of other municipal issuers. MFADC and Toronto were selected for comparison because they reflect the size and credit rating of ACFA.

CORE BUSINESS: LONG-TERM REVENUE AND INVESTMENT POLICY

Investment policies need to be tailored to specific goals. A long-term investment strategy is a balanced plan based on two important concepts: diversification to manage risk, and a long-term planning horizon to earn greater returns.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Long-Term Revenue and Investment Policy	\$1,982	\$1,041	\$941

Lower than expected spending on contract services contributed to the Revenue and Investment Policy business to come in under budget.

Goal 7 A Revenue Structure that Meets Alberta's Needs and is Consistent with Albertans' Values

Through the revenue management framework, revenue and investment policies are designed to maximize productivity and wealth generation while preserving and enhancing the quality of life for Albertans.

Alberta's approach to taxes is part of the solid foundation for a dynamic and vibrant provincial economy, and means more opportunities, greater rewards for work and investment, and more wealth to support public service and quality of life.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Provincial tax load for a family of four		See measure in Goal 2	
Provincial tax load on businesses		See measure in Goal 2	

Goal 8 Investment Policies that Will Provide the Greatest Financial Returns for Current and Future Generations of Albertans

The mission of the Alberta Heritage Savings Trust Fund (the Heritage Fund) is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.¹

The Heritage Fund was created in 1976 to save a portion of non-renewable resource revenue. In 1997, the Alberta government adopted a new investment strategy for the Heritage Fund. This new strategy focuses on earning the greatest long-term returns for Albertans, within an acceptable level of risk. During the fiscal year, the Heritage Fund (along with Alberta's other endowment funds) continued implementation of the new asset mix that was designed to meet this objective. This new asset mix was included in the Heritage Fund's new Statement of Investment Policy and Goals that provides for prudent investment management and increased governance and oversight.

PERFORMANCE MEASURE	2004-05 Target	Current Results
Five-year market value rate of return of the Heritage Fund investment policy benchmark compared against Consumer Price Index (CPI)*	Equal to or better than CPI plus 4.5% (new target for the Heritage Fund) (target return was 6.61%)*	6.43%**, which is 0.18% below the target

* As this is a new performance measure, one-year market value rate of return of the Heritage Fund investment policy benchmark is compared to one-year CPI plus 4.5% in the fiscal year 2004-05. In the future, the performance measure and target will be changed based on how many years the new measure is in use until it builds up over time to five years. After five years the performance measure and target stays fixed and will be calculated as an annualized five-year market value rate of return of the Heritage Fund investment policy benchmark compared against annualized five-year CPI plus 4.5%.

** One-year market value rate of return of the Heritage Fund is 7.75% as of March 31, 2005. Refer to the *2004-05 Alberta Heritage Saving Trust Fund Annual Report* for further details.

Source: Alberta Investment Management, Finance.

Assets and income of the Heritage Fund are fully consolidated with the assets and revenue of the Province. Income earned during a fiscal year is transferred to the General Revenue Fund, except for any portion retained for inflation proofing.

¹ Preamble to the *Alberta Heritage Savings Trust Fund Act*.

CORE BUSINESS: MANAGE REVENUE PROGRAMS

Alberta continues to stand out from the provincial crowd as a leader in low taxes for residents and businesses. Alberta's low rate, broad-based approach to taxes is fairer and simpler for all taxpayers. It contributes to a dynamic and vibrant provincial economy, and means more opportunities, greater rewards for work and investment, and more wealth to support public services and quality of life. Alberta Finance reviews policies and processes to ensure a fair and competitive tax environment in Alberta and maintain Alberta's tax advantage.

Albertans enjoy the advantages of an innovative and low personal tax system, low property and fuel taxes, and no general sales taxes. Low corporate income tax rates, no general sales tax on business inputs, no general payroll taxes and no capital taxes put Alberta businesses in an enviable position.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Manage Revenue Programs	\$48,019	\$54,324	(\$6,305)

Interest payments on corporate tax refunds were higher by approximately \$7.3 million resulting from a few large objection settlements reached by Canada Revenue Agency that triggered similar reassessments in Alberta. This was partially offset by lower than anticipated manpower costs of approximately \$1.3 million due to more position vacancies than budgeted.

Goal 9 Revenues Due to the Province are Collected Fairly, Efficiently and Effectively

Collecting taxes fairly, efficiently and effectively means that all taxpayers and claimants are treated with respect, receive excellent value for money spent on tax programs, and tax-evasion-related revenue losses are minimized.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Percentage of tax accounts with no monies owing	96%	96%	96%

Source: Alberta Finance, Tax and Revenue Administration.

As at March 31, 2005, the actual percentage of accounts with no overdue amounts owing was 96%. This result of consistently high performance demonstrates that Alberta's tax enforcement efforts are successful.

"Tax accounts with no monies owing" is defined as the number of tax accounts reporting no receivables as of March 31, 2005. The total number of tax accounts is overstated due to corporations not reporting their inactive status. This measurement uncertainty would result in a higher percentage of the accounts with no monies owing.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Ratio of amounts added to net revenue to costs of administration	12:1	9.6:1	14:1

Source: Alberta Finance, Tax and Revenue Administration.

Through the revision of returns and claims, Finance collects overdue accounts to recover revenues that otherwise may be lost. The calculation is based on the total additional revenue obtained, shown as a ratio of the total costs of Tax and Revenue Administration's expense budget.

The total amount added to net revenue for 2004-05 was \$216.6 million, and the associated costs were \$22.6 million, resulting in a value added ratio of 9.6 to 1; that is, recoveries of \$9.60 for every \$1 spent. A number of factors have contributed to the lower ratio, including audits being underway where assessments had not yet been completed, and a higher than normal staff vacancy level combined with existing resources having to be channelled into training new staff.

Plans are in place to expand audit coverage, which should result in progress toward better self-compliance.

Goal 10 Excellence in Client Service

Finance conducts an annual survey to determine client satisfaction of services provided by TRA for its tax and rebate programs, and the clients' cost to comply with the relevant legislation. In 2004-05 the survey instrument was redesigned to address both TRA and client needs. Surveys were sent to clients in each tax or rebate program with a population of 100 or less. A random selection tool was used to send surveys to a portion of clients in each tax or rebate program with a client population of 100. The sample size was set to obtain results that are at a 95% confidence level, 19 times out of 20.

Client comments are considered and, where appropriate and feasible, changes are implemented. For example, TRA responded to concerns expressed by industry about the complexity of reporting for Tax-exempt Fuel Use (TEFU) with the Prescribed Rebate Off-road Percentages (PROP) program. A Special Notice clarifying requirements was issued when questions arose around the Alberta Indian Tax Exempt sale of fuel and tobacco to Indian bands.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Client satisfaction with tax administration	85%	87%	89%

Source: Alberta Finance, www.finance.gov.ab.ca/publications/tax_rebates/rates_surveys_tnotes/clientsurvey04.html.

In 2004-05, overall client satisfaction with tax administration was 87% and exceeded the minimum 85% performance target. This was down slightly from 89% when compared with 2003-04 results. Results exceed the target in the areas of courtesy (91% satisfaction expressed), effort (going the extra mile) with slightly below 90%, knowledge (90%), and accessibility (89%). Timeliness measured at just below the target at 84% satisfaction.

CORE BUSINESS: MANAGE AND INVEST FINANCIAL ASSETS

An important objective of Alberta Investment Management (AIM), Alberta Finance is to create portfolios that match the risk profiles and financial goals of clients' funds. Emphasis is placed on diversification and long-term investment horizon while considering the current financial needs of clients' funds. To meet these objectives, AIM has developed a wide range of investment products that can be combined to meet specific financial goals and risk tolerances. This multi-product approach is implemented on a pooled basis. Clients buy into the pools by purchasing units based on the current market value of the pools' investments. This approach is important to managing the funds efficiently and to ensuring that each client is treated fairly.

Considering the volatility of the financial markets, it is expected that the majority of the funds' returns will come from the long-term asset allocation decision. Incremental return is added through tactical asset allocation and security selection decisions. These decisions reflect the shorter-term market expectations with consideration of both the risk and return. Both AIM and third party external manager expertise are used, ensuring the necessary specialized investment knowledge and skills are utilized in the most cost effective manner. External managers are used primarily for investing in foreign equity markets, certain domestic equity markets and absolute return strategies. Managers are chosen through a rigorous selection process and their performance is reviewed on a quarterly basis.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Manage and Invest Financial Assets	\$113,349	\$103,631	\$9,718

The Investment Management Division (IMD) experienced lower staffing levels and reduced contract service costs to come in under budget by \$2.6 million. Transfers from the Alberta Heritage Foundation for Medical Research Endowment Fund and the Alberta Heritage Science and Engineering Research Endowment Fund were \$8.8 million lower than anticipated. This was partially offset by higher transfers from the Alberta Heritage Scholarship Fund of \$1.5 million.

Goal 11 Superior Investment Returns Subject to Client-defined Objectives and Policies

The primary objective of AIM is to maximize long-term financial returns while controlling risk at prudent levels. Meeting this objective underscores the important balance between risk and return. The strategies outlined in the Ministry's Business Plan support this objective by applying a prudent mix of internal investment resources and external investment management firms, and by developing and implementing new products and strategies to meet client needs.

PERFORMANCE MEASURE	2004-05 Target	Current Results
Five-year weighted average market value rate of return for endowment funds compared against the weighted average policy asset mix rate of return (benchmark) for endowment funds.*	Benchmark plus 0.5% (new target for all endowment funds)	All funds exceeded target* benchmark
ENDOWMENT FUND	2004-05 Target*	Current Results*
Alberta Heritage Savings Trust Fund	6.93%	7.75%
Alberta Heritage Foundation for Medical Research Endowment Fund	6.67%	7.49%
Alberta Heritage Scholarship Fund	7.27%	8.09%
Alberta Heritage Science and Engineering Research Endowment Fund	6.00%	6.71%
Ultimate Heir Trust "B" Endowment	7.05%	7.52%

* As this is a new performance measure, one-year market value rate of return of each endowment fund is compared against the one-year policy asset mix rate of return for that endowment fund in the fiscal year 2004-05. In the future, the performance measure and target will be changed based on how many years the new measure is in use until it builds up over time to five years. After five years the performance measure stays fixed and will be calculated as an annualized five-year weighted average market value rate of return for each endowment fund compared against the annualized five-year weighted average policy asset mix rate of return plus 0.5% for that fund.
Source: Alberta Finance, Alberta Investment Management.

Goal 12 Excellence in Client Service

In January of each year Alberta Finance tabulates the results of a client satisfaction survey sent out to various clients of AIM. Respondents include board members representing client funds as well as other service recipients of AIM.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Client satisfaction with services provided	80%	67%	69%

Source: Alberta Finance, Alberta Investment Management.

Clients are asked to answer, on a five-point scale, a series of questions to determine their level of satisfaction with service received by AIM. Alberta Finance Office of Budget and Management translated the scale into a percentage satisfaction and aggregated with other clients into a composite client satisfaction level. The satisfaction level for the client question on overall quality of service from AIM, was used to produce the results for client satisfaction. Out of 20 clients surveyed, 18 responded resulting in a 90% response rate.

In the fiscal year 2004-05, client satisfaction with services provided reached 67%, which is a 2% decline over the fiscal year 2003-04, and below the 80% target. The decreased rating results mainly from decreased satisfaction with the overall quality of AIM's investment strategies, the value added performance of individual products, the value added by AIM relative to the fund benchmark and the overall quality of AIM's communications. An increase in client ratings was recorded in the following areas: AIM's understanding of client's investment objectives, the clarity of AIM's information on client's performance, client's overall understanding of AIM, AIM's understanding of client, risk tolerance and the investment products AIM provides to clients.

Goal 13 An Effective Investment Management Organization

AIM completed several investment information technology initiatives during the 2004-05 fiscal year. The implementation of a new computer system was completed in April 2004. The new computer system will facilitate the consolidation of internally and externally managed holdings for timely client and portfolio management reporting. In addition, the implementation of a new performance measurement system and a risk measurement system were completed. The performance measurement system replaces a legacy system and allows for multi-currency performance and attribution at the portfolio level from a consolidated database. The risk measurement system provides system support for investment risk management and risk monitoring. These systems position the organization on par with comparable investment management organizations.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Straight Through Processing (STP) of investment transactions as measured by per cent of investment transactions with external parties transmitted electronically to custodian on trade date	80%	81%	87%

Source: Alberta Finance, Alberta Investment Management.

The majority of investment transactions with external parties are transmitted electronically. The goal is to ensure the trade transmission occurs on trade date. In 2004-05 the internal STP rate of 81% exceeded its target rate of 80%. This was down from 87% in 2003-04 because of a higher volume of trading activity in 2004-05 of instruments where trade transmission has not yet been fully automated.

CORE BUSINESS: MANAGE RISK ASSOCIATED WITH LIABILITY EXPOSURE AND LOSS OF PUBLIC ASSETS

Finance supports the Government of Alberta by providing advice and education about risk, by minimizing loss and managing claims and by administering the Risk Management Fund. Through the Fund, risk financing is provided to ministries and, where appropriate, insurance is purchased to offset some of the Fund's potential costs.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Manage Risk Associated with Liability Exposure and Loss of Public Assets	\$9,793	\$8,426	\$1,367

Insurance premiums paid to reinsurers and claim expenses were both lower than expected in the Alberta Risk Management Fund resulting in \$1.4 million of reduced expense.

Goal 14 Proactively Managed Risk

Finance administers a program to protect, secure and preserve public assets against risk of significant accidental loss. Through the development of a strong risk management team, Finance reviewed external and internal challenges and identified the need to proactively manage risk. Finance developed and implemented a strategy to improve the awareness of risk management within government. Core activities such as loss control, risk identification, claims management and risk financing were also assessed. In addition, a review was made on the need to enhance fund coverage. The sustainability of the funding was improved through modifications to the cost allocation system and is now responsive to the loss control efforts of participants.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Cost of claims (insurance premiums plus self-insured losses)	\$8,150	\$6,610	\$15,800

Source: Alberta Finance, Risk Management financial statements.

The hard insurance market over the past few years has resulted in a significant erosion of commercial insurance coverage and a widening of exposure to the Alberta Risk Management Fund. In addition, the cost of the limited available commercial insurance has escalated considerably during the same period.

Notwithstanding the above, this year claims and the cost of premiums were less than budgeted. As such the actual cost of claims will be \$6.61 million compared to a budgeted \$8.15 million. This measure will be reviewed in the 2006-09 business planning cycle.

CORE BUSINESS: REGULATE AND FOSTER ALBERTA'S CAPITAL MARKET

The Ministry identified the securities regulation as a strategic priority for 2004-05 and recognizes an effective securities regulation is vitally important to investor protection and efficient, vibrant and competitive local and national capital markets.

The Alberta Securities Commission (ASC) is responsible for maintaining the efficiency and integrity of the capital market in Alberta through the administration of the *Securities Act*.

FINANCIAL INFORMATION (thousands of dollars)	2004-05 Budget	2004-05 Actual	Variance
Expenses for Core Business: Regulate and Foster Alberta's Capital Markets	\$21,078	\$17,876	\$3,202

The ASC came in \$3.2 million under budget due to a higher staff vacancy rate than forecast, continued strong cost control and deferral of certain policy projects and investor education costs.

Goal 15 An Effective, Efficient and Streamlined Securities Regulatory System

An effective, efficient and streamlined securities regulatory framework is key to a strong and vibrant economy. It assists in the development of strong national and local capital markets and promotes the interests of both issuers seeking capital and investors providing that capital through their investment dollars.

PERFORMANCE MEASURE	2004-05 Target	Current Results	Previous Results
Harmonized securities legislation	Proposal developed	Provincial/Territorial Memorandum of Understanding (MOU) signed	Canadian Securities Administration*

* Legislation proposal for uniform securities legislation released December 2003.
Source: Alberta Finance, Policy and Strategic Planning.

In 2004-05, legislation was introduced to make Alberta's securities legislation more harmonized with the other Canadian jurisdictions. On September 30, 2004, a provincial/territorial Memorandum of Understanding (MOU) was signed by Alberta. The MOU includes a commitment to develop highly harmonized securities laws. The Alberta Government will continue to work with other provinces and territories on the commitment to develop, more broadly, highly harmonized securities legislation. For more information, visit the website at www.securitiescanada.org.

PERFORMANCE MEASURE	2004-05 Target	Current Results
Interprovincial system of securities regulation*	Established	Provincial/Territorial Memorandum of Understanding (MOU) signed

* New measure in 2004-07 business plan.
Source: Alberta Finance, Policy and Strategic Planning.

This is a new measure as a result of the amendments introduced to the *Securities Act* to facilitate the implementation of the passport system. The system is designed to make it easier and less costly for firms wishing to access capital markets in more than one province or territory. The MOU signed on September 30, 2004 also included the development and implementation of a passport system. For more information, visit the website at www.securitiescanada.org.

