Alberta Finance

2002-03 Annual Report

Alberta
FINANCE

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Ministry of Finance Annual Report 2002-03

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PREFACE

PUBLIC ACCOUNTS 2002-03

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 24, 2003, 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.

This annual report of the Ministry of Finance 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 the *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,**
- **financial information relating to trust funds, and**
- **the report of the auditor of the Office of the Auditor General, which is included in the Annual Report of the Auditor General, is incorporated in the Public Accounts by reference.**

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2003, 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 5, 2003 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original Signed]

Patricia L. Nelson
Minister of Finance

September 5, 2003

MESSAGE FROM THE MINISTER

This past fiscal year saw its fair share of challenges, but we also capitalized on opportunities that will continue to make Alberta the envy of other provinces.

We weathered severe drought conditions and forest fires, and provincial exports and business investment suffered due to a slow and uneven economy in the U.S. In spite of these circumstances, the budget was balanced for the ninth straight year and a payment was made to further reduce the province's accumulated debt. With this year's allocation, the debt sits at $4.7 billion.

We also announced a new era of fiscal management. Albertans told us to get off the roller coaster ride of oil and gas revenue. As a result, we established the Financial Management Commission to look at how the government is managing your money and recommend new ways we can build on Alberta's reputation as a financial leader. In response, we established the Alberta Sustainability Fund that is designed to bring predictability, sustainability and continued discipline to our fiscal planning.

Albertans continue to enjoy the lowest overall tax load in the country. In 2002, Albertans saved $75 million as a result of inflation proofing the personal income tax system two years ago. The government affirmed its commitment to reduce corporate income taxes. Corporations saved $81 million in 2002 as a result of those reductions. These savings will further enhance the Alberta Advantage by building a stronger economy and creating more jobs.

Leading credit rating agencies in North America continued to recognize the strength of Alberta's fiscal plans. For the second straight year, Moody's Investor Service, Standard & Poors and DBRS have rated our province's credit rating as triple A. We are the only province in the country with such a rating. Such an endorsement further proves that Alberta is the right place to live, work and raise a family.

Despite last year's challenges, we managed to take advantage of the opportunities. Many of our successes can be attributed to the dedication and hard work of staff within my department. Alberta Finance continues to demonstrate its commitment to be open, accountable and transparent through the coordination, production and presentation of fiscal plans, quarterly updates, annual reports and business plans.

In the coming year, we will look for new and innovative ways to build on our success and address new challenges.

Patricia L. Nelson
Minister of Finance

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the 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, I oversee 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.

As Deputy Minister, 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*.

The Ministry of Finance includes:

- *Department of Finance*
- *Alberta Automobile Insurance Board*
- *Alberta Capital Finance Authority*
- *Alberta Insurance Council*
- *Alberta Pensions Administration Corporation*
- *ATB Financial and its subsidiaries*
- *Credit Union Deposit Guarantee Corporation*
- *Gainers Inc.*
- *N.A. Properties (1994) Ltd.*
- *S C Financial Ltd.*
- *The Alberta Government Telephones Commission*
- *Provinical Judges and Masters in Chambers Reserve Fund*
- *Supplementary Retirement Plan Reserve Fund*

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

[Original Signed]

Peter Kruselnicki, P. Eng.
Deputy Minister of Finance

September 5, 2003

Overview

ALBERTA FINANCE
2002-03 Annual Report

OVERVIEW

The Ministry of Finance oversees government performance measurement, financial management and reporting. Alberta Finance is responsible for fiscal planning, intergovernmental fiscal arrangements, tax policy, economic analysis, statistics, public pensions, and regulation of government administration, financial institutions, insurance and private pension plans.

ALBERTA FINANCE'S MISSION (CORE BUSINESSES)

1. Establish the fiscal framework and facilitate sound fiscal planning and decision-making.
2. Foster an effective accountability framework.
3. Manage financial assets and liabilities prudently.
4. Foster access to comprehensive and competitive financial products and services and pension plans.
5. Administer the regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policy holders.

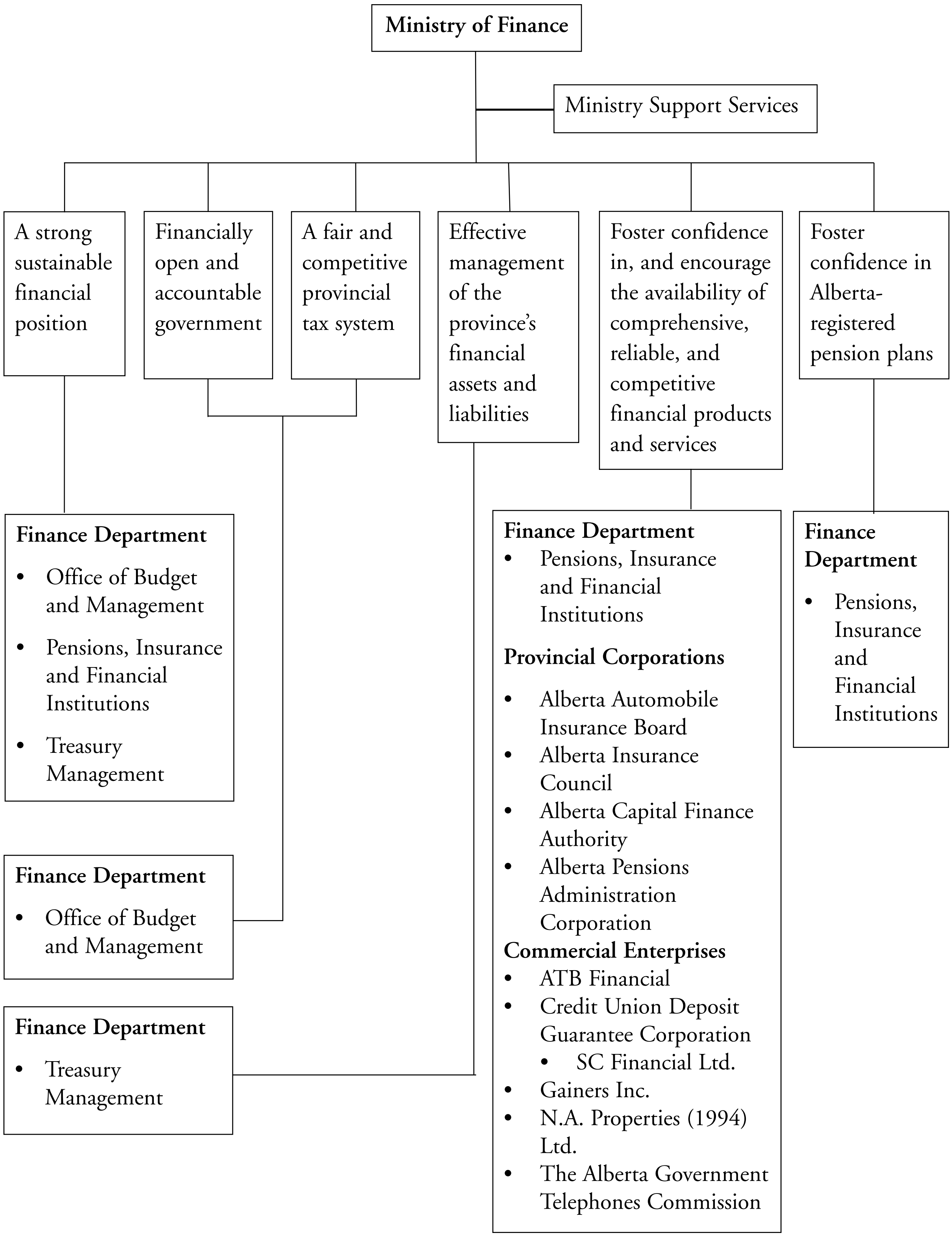
ALBERTA FINANCE'S GOALS FOR 2002-05

1. A strong sustainable financial position.
2. Financially open and accountable government.
3. A fair and competitive provincial tax system.
4. Effective management of the province's financial assets and liabilities.
5. Foster confidence in, and encourage the availability of comprehensive, reliable and competitive financial products and services.
6. Foster confidence in Alberta-registered pension plans.

ALBERTA FINANCE'S VISION

Working together to provide renowned and innovative financial leadership.

RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO GOALS



ALBERTA FINANCE'S OPERATIONAL STRUCTURE

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.

TREASURY MANAGEMENT DIVISION

The Treasury Management Division (TMD) has responsibility 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 investment of the assets of the General Revenue Fund set aside to retire debt, monitoring and managing loans and guarantees and providing financial advice to other government departments.

PENSIONS, INSURANCE AND FINANCIAL INSTITUTIONS

The Pensions, Insurance and Financial Institutions Division (PIFI) is responsible for the regulation of financial institutions, insurance and private sector pension plans. It also provides policy support and analysis to the Minister of Finance for those areas of responsibility, as well as on public sector pension plans and the Canada Pension Plan. The Division is also responsible for five other entities that report to the Minister of Finance:

- The Automobile Insurance Board investigates matters regarding automobile insurance in Alberta and approves rates charged by insurers for compulsory automobile coverage under the *Motor Vehicle Administration Act*. The entity's Annual Report can be obtained by contacting the local Edmonton office.
- The Alberta Insurance Council (AIC) is responsible for examining, licensing, regulating and disciplining insurance agents, brokers and adjusters in Alberta and for investigating consumer complaints against the industry. The Annual Report for AIC is available from their internet site shown at the right.

DEPARTMENT OF FINANCE

9515 - 107 St.
Edmonton, Alberta
T5K 2C3
www.finance.gov.ab.ca

AUTOMOBILE INSURANCE BOARD

#418, 9515 - 107 St.
Edmonton Alberta
T5K 2C3
780-427-5428

ALBERTA INSURANCE COUNCIL

901 TD Tower
10088 - 102 Ave.
Edmonton, Alberta
T5J 2Z1
www.abcouncil.ab.ca

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

18th floor
10130 - 103 St.
Edmonton, Alberta
T5J 3N9
www.cudgc.ab.ca

- The Credit Union Deposit Guarantee Corporation (CUDGC) regulates business practices of Alberta credit unions and guarantees deposits according to legislation. While the Government of Alberta provides the guarantees, CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the corporation to independently provide the 100% deposit guarantee. The corporation provides advice to Alberta credit union boards and management to help improve their skills. CUDGC also works with the credit unions to help them avoid unsound business practices or other problems. The Annual Report for CUDGC is available from their internet site shown on the left.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

3rd Floor
10611 - 98 Ave.
Edmonton, Alberta
T5K 2P7
www.apaco.ab.ca

- The Alberta Pensions Administration Corporation (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 472 employers, approximately 173,000 active and deferred members, and 54,000 pensioners. The combined assets of the pension plans were approximately $16 billion at December 31, 2002. APA's Annual Report is available from their internet site shown on the left.

ATB FINANCIAL

9888 Jasper Ave.
Edmonton, Alberta
T5J 1P1
www.atb.com

- ATB Financial is a $13.2-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 half a million Albertans in 240 communities through various branches, agencies, and a 180-seat Customer Contact Centre. Having the largest financial institution representation in the province, it is a preferred choice for many rural 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 from their internet site shown on the left.

ALBERTA CAPITAL FINANCE AUTHORITY

2450 Canadian
Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta
T5J 3N6
www.finance.gov.ab.ca/amfc

ALBERTA CAPITAL FINANCE AUTHORITY

Alberta Capital Finance Authority (ACFA), formerly Alberta Municipal Financing Corporation, provides financing for 15 cities, 2 specialized municipalities, 220 towns and villages, 43 counties, 21 municipal and improvement districts, 22 irrigation and water services commissions, 28 health authorities, 68 school districts/divisions, 2 airport authorities, 3 universities and 11 colleges. ACFA's Annual Report is available from their internet site shown on the left.

LEGISLATION ADMINISTERED BY ALBERTA FINANCE
AS AT MARCH 31, 2003

The following Acts are the sole responsibility of the Ministry of Finance:

- Alberta Municipal Financing Corporation Act
- Alberta Taxpayer Protection Act
- Alberta Treasury Branches Act
- Appropriation Act, 2002
    - Appropriation (Supplementary Supply) Act, 2002 (No. 2)
    - Appropriation (Supplementary Supply) Act, 2003
    - Appropriation (Interim Supply) Act, 2002
- Civil Service Garnishee Act
- Credit Union Act
- Employment Pension Plans Act
- Farm Credit Stability Act
- Financial Administration Act (except sections 11 and 76, and Part 5)
- Financial Consumers Act
- Fiscal Responsibility Act
- Government Accountability Act
- Insurance Act
- Loan and Trust Corporations Act
- Members of the Legislative Assembly Pension Plan Act
- Municipal Debentures Act
- Pension Fund Act
- Public Sector Pension Plans Act
- Statistics Bureau Act
- Telecommunications Act - Part 1

The following Acts are the combined responsibility of the Ministers of Finance and Revenue:

- Alberta Corporate Tax Act (except section 26.41)
- Alberta Income Tax Act
- Alberta Personal Income Tax Act
- Financial Administration Act - section 11 and Part 5
- Fuel Tax Act (except sections 12(3), (4), (5), 34(c), 37(2), 42 and 51(l) (j) and (aa))
- Hotel Room Tax Act
- Securities Act
- Tobacco Tax Act

The following Acts are the combined responsibility of the Ministers of Finance and Revenue and other Ministers:

- Alberta Corporate Tax Act - section 26.41 jointly with the Minister of Energy
- Fuel Tax Act - sections 12(3), (4), (5), 34(c), 37(2), 42 and 51(j) (l) and (aa) jointly with the Minister of Agriculture, Food and Rural Development

SUMMARY OF KEY ACTIVITIES

- Challenges continued to confront Albertans and their government in 2002-03. Severe drought conditions continued in much of Alberta. The slow and uneven recovery of the U.S economy negatively affected provincial exports and business investment. Energy prices stabilized, while strong growth was exhibited in the housing sector and consumer spending. Overall Alberta's economic growth for 2002 is estimated at 1.7%.
- Despite these challenges, the budget was balanced for the ninth year in a row and a payment was made to reduce the Province's accumulated debt. As reported in the 2002-03 Government of Alberta Annual Report, the province ended the year with an economic cushion of $1,989 million for the year ended March 31, 2003. This was $1,265 million above the budgeted target of $724 million. As a result, at March 31, 2003, accumulated debt less cash set aside for future debt repayment equalled $4.7 billion, which puts the Province approximately 10 years ahead of its legislated 25-year schedule to eliminate accumulated debt.
- Alberta continues to have the highest credit rating of any Canadian province, ensuring that Alberta's borrowing costs will be the lowest of any Canadian province. During 2002-03, Moody's Investor Services, Standard and Poor's, and Dominion Bond Rating Service all confirmed Alberta's triple A credit rating.
- The government maintained the benefits of the personal income tax changes made in 2001, when the single-rate tax was introduced. Alberta's personal income tax system is fully indexed which prevents inflation from eating away at past tax cuts. Taxpayers saved $75 million in 2002 because of indexing. The total tax load on Albertans continues to be the lowest in Canada, at only 54.1% of the national average.
- The government affirmed its commitment to corporate income tax cuts in 2002-03, though the pace of the cuts was slowed in response to a changing fiscal situation. Effective April 1, 2002, the general rate was reduced to 13%, the small business rate was reduced to 4.5%, and the small business threshold was increased to $350,000. These reductions saved taxpayers $81 million. The tax cuts have continued in 2003. Effective April 1, 2003, the general rate was reduced to 12.5%, the small business rate was reduced to 4%, and the small business threshold was increased to $400,000.

- Alberta has borrowed at the lowest market spreads of any Canadian province in every year since 1994-95, achieving the target set out in Alberta Finance's 2002-05 business plan. Virtually all of the borrowing in recent years has been on behalf of provincial corporations.
- Alberta Finance monitors provincially incorporated insurers, Credit Union Central of Alberta (CUCA) and trust corporations to enforce solvency legislation. All provincially regulated financial institutions met solvency requirements. No financial failures were recorded for insurance, loan or trust companies, CUCA or credit unions in 2002-03.
- ATB Financial's net income for the year was $199 million. This compares to its net income target of $117.1 million.
- In 2002-03, 86% of pension plans registered in Alberta maintained a solvency ratio of 0.9 or better, meeting Alberta Finance's performance targets. Beginning in the 2003-04 fiscal year, the performance measure regarding the solvency ratio will be amended to better monitor whether private sector pension plans are meeting the minimum funding requirements under the *Employment Pension Plans Act*.

Results Analysis

Alberta Finance
2002-03 Annual Report

RESULTS ANALYSIS

Challenges continued to confront Albertans and their government in 2002-03. Severe drought conditions continued in much of Alberta. The slow and uneven recovery of the U.S economy negatively affected provincial exports and business investment. Energy prices stabilized, while strong growth was exhibited in the housing sector and consumer spending. Overall Alberta's economic growth for 2002 is estimated at 1.7%.

REVENUE HIGHLIGHTS

- Internal government transfers rose by $127 million in 2002-03 over the previous fiscal year. This reflected an increase in lottery funds transferred to Alberta Finance for debt payment.
- Investment income decreased $40 million in the 2002-03 fiscal year. This was primarily due to a decrease in interest earned on funds held for future debt retirement as a result of lower average balances and a lower implied interest rate.
- Net income from commercial operations increased by $59 million. Re-evaluation of the $US tax liability of AGT Commission resulted in an increase in net income of $19 million. ATB reported an increase of $41 million in net income, which included a $45 million recovery of previous year's loan loss provisions.
- Other income and fees increased by $106 million, attributed mainly to the transfer of $100 million of retained earnings from Alberta Capital Finance Authority to the Province.

FINANCIAL RESULTS

Revenues for the Ministry in 2002-03 were $1,185 million. This was up $252 million or 27% from 2001-02.

EXPENSE HIGHLIGHTS

- Overall, debt-servicing costs decreased $308 million as a result of debt retirement, gains on interest rate swaps and an increase in foreign exchange loss provision on unhedged US $ debt.
- Valuation adjustments increased by $124 million.
    - In 2002-03, pension provisions increased by $91 million. Primary reason for the increase was a result of an actuarial valuation at December 31, 2002 of the Public Service Management (Closed Membership) Pension Plan.

Expenses in 2002-03 were $993 million, down $174 million, or 15% from 2001-02.

The net result was that revenues exceeded expenses by $192 million. The net operating results were $114 million more than budgeted.

The valuation used a lower discount rate and a new mortality table. Another contributing factor to the increase in the pension provision was the recording of the government's share of the increased deficiency resulting from investment losses.

- Reflected in the 2001-02 valuation adjustments is the reversal of a previous year's provision of $31 million related to the termination of the 1986 Credit Union deficit financing agreement.
- Provisions for doubtful accounts, employee benefits and other guarantees increased $2 million from the previous year.

- Alberta Pensions Administration Corporation operating expenses increased by approximately $7 million related to information system development, plan costs and other related expenses.
- Operating expenses of Treasury Management, Fiscal Planning and Accountability, Financial Sector Operations and Ministry Support Services increased by $3 million.

MINISTRY EXPENSE BY CORE BUSINESS
(thousands of dollars)

Core Business	2002-03 Comparable Budget	2002-03 Actual	2001-02 Comparable Actual
• Establish the Fiscal Framework and Facilitate Sound Fiscal Planning and Decision Making·	$ 6,025	$ 5,751	$ 5,184
• Foster an Effective Accountability Framework	5,977	5,776	5,238
• Manage Financial Assets and Liabilities Prudently	648,748	540,450	806,113
• Foster Access to Comprehensive and Competitive Financial Products and Services and Pension Plans·	356,937	358,833	359,772
• Administer the Regulatory Framework to Reduce the Risk of Financial Loss to Pension Plan Members, Depositors and Policy Holders.	810	1,171	859
Ministry Expense	**$1,018,497**[1]	**$ 911,981**[1]	**$1,177,166**[1]

[1] excludes pension provisions

GOAL 1

A STRONG SUSTAINABLE FINANCIAL POSITION

FISCAL RESPONSIBILITY - A BALANCED BUDGET AND MORE DEBT RETIRED

The Alberta Government balanced its budget for the ninth consecutive year in 2002-03. As reported in the 2002-03 Government of Alberta Annual Report, the Province ended the year with an economic cushion of $1.989 billion. This was $1.265 million higher than the budgeted target of $724 million.

Actual revenue of $22.7 billion was higher than budgeted primarily due to higher non-renewable resource revenue. Partly offsetting the increase was lower investment income. Program expense excluding pension provisions was $20.5 billion, an increase of $1.5 billion over budget. More than $1 billion of the increase was due to emergency and disaster funding for agriculture, forest fire-fighting costs and flood assistance.

NET RESULTS FOR FISCAL POLICY PURPOSES
ALBERTA'S CONSOLIDATED FINANCIAL STATEMENTS[1]
($millions of dollars)

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Budget	154	165	617	1,213	817	724
Actual	2,639	1,026	2,717	6,388	772	1,989

[1] Excluding pension provisions

As the table below shows, at March 31, 2003, accumulated debt less cash set aside for future debt repayment equalled $4.7 billion. 60% of the March 31, 2000 accumulated debt has been repaid, which puts the Province approximately 10 years ahead of its legislated 25-year schedule to eliminate accumulated debt.

ACCUMULATED DEBT
($millions of dollars)

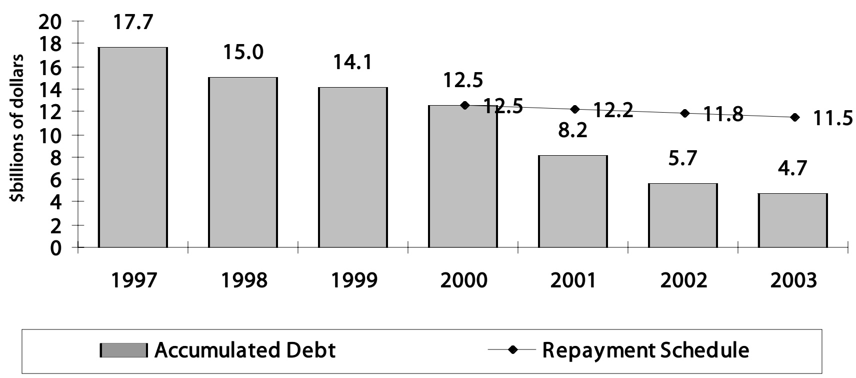
	2001-02	2002-03
Accumulated Debt (start of year)	10,265	8,416
Repayment of debt maturities	1,849	1,670
Accumulated Debt (end of year)	8,416	6,746
Cash set aside for future debt repayment	2,741	2,010[a]
Accumulated debt less cash set aside	**5,675**	**4,736**
Cash committed but not transferred until 2002-03	414	
	5,261	

[a] Includes $414 million in cash committed in 2001-02 but not transferred until 2002-03.

Key Performance Measure

DEBT RETIREMENT
TARGET: MILESTONES AS SET OUT IN THE FISCAL RESPONSIBILITY ACT
RESULT: TEN YEARS AHEAD OF SCHEDULE
Accumulated Debt Less Cash Set-Aside for Future Debt Repayment , at March 31

ACCUMULATED DEBT LESS CASH SET ASIDE FOR FUTURE DEBT REPAYMENT, AT MARCH 31



Excludes pension obligations
2002-03 Less $2.0 billion cash set aside for future debt repayment ($3.1 billion in 2001-02).
Source: Alberta Finance
METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

Alberta has moved from a net debt position of $13.4 billion at March 31, 1994 (includes $5.1 billion in pension obligations) to net assets of $6.9 billion at March 31, 2003 (after accounting for $4.9 billion in pension obligations). Alberta remains the only province that owns more financial assets than it owes in financial liabilities. In addition, Alberta has capital assets of $10.3 billion.

Alberta continues to have the highest credit rating of any Canadian province, ensuring that Alberta's borrowing costs will be the lowest of any Canadian province. During 2002-03, Moody's Investor Services, Standard and Poor's, and Dominion Bond Rating Service all confirmed Alberta's triple A credit rating. The rating agencies pointed to the Alberta Government's strong financial position, the commitment to debt repayment, and its record of meeting forecasts and balancing budgets as the key reasons for Alberta's high credit rating.

Supplementary Performance Measure

ALBERTA'S CREDIT RATING
TARGET: BEST AMONG PROVINCES / DOMESTIC DEBT RATED AAA
RESULT: BEST AMONG PROVINCES / DOMESTIC PROVINCIAL DEBT RATED AAA

	Standard & Poor		Moody's		DBRS	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Alberta	AAA	A-1+	Aaa	P-1	AAA	R-1 high
British Columbia	AA-	A-1+	Aa2	P-1	AA low	R-1 middle
Ontario	AA	A-1+	Aa2	P-1	AA	R-1 middle

BUSINESS PLANNING, ECONOMIC AND FISCAL POLICIES, AND FORECASTING

During 2002-03, Alberta Finance worked with Executive Council to lead the government business planning process and co-ordinate the development of the 2003-06 Government Business Plan *Today's Advantage, Tomorrow's Promise: Alberta's Vision for the Future*.

Alberta Finance provides advice and support to the Minister of Finance and Treasury Board and co-ordinates the government's overall budget and business planning and reporting process through:

- developing common economic and financial assumptions for business planning across government,
- developing, with each ministry, program spending options and identifying reallocation opportunities to help ensure that fiscal targets are met,
- reviewing ministries' annual business plan submissions and annual reports,
- co-ordinating the development of key government-wide performance measures,
- assisting ministries to improve their business plan performance measurement systems,
- providing accounting advice and co-ordinating the development of accounting and financial policies for use across government,
- ongoing monitoring of the government's achievement of business plan and financial goals
- co-ordinating the development of standards for ministry and departmental financial statements and annual reports, and assisting ministries in preparing their financial statements, and
- continuing to explore possible refinements to the business planning process.

FINANCIAL MANAGEMENT COMMISSION

The Financial Management Commission was formed in March 2002, to evaluate Alberta's fiscal framework and recommend improvements. The Commission submitted its report, containing 25 recommendations, to the Minister of Finance on July 8, 2002. The recommendations included:

- Using the Heritage Fund as a vehicle to:
  - absorb resource revenue volatility and protect spending plans by ensuring that a set amount of resource revenue is available for budget purposes,
  - pay off remaining accumulated debt,
  - fund announced but deferred capital projects, and
  - transition from a resource-based economy.
- Improving capital planning by:
  - publishing a three or five-year capital plan,
  - establishing a minimum benchmark for capital spending,
  - moving forward with deferred capital projects within five years,
  - developing a standard method of evaluating facility deferred maintenance and utilization,
  - changing the method of budgeting and accounting for capital investment, and
  - considering alternative financing for capital projects;
- Developing and communicating a strategic plan for achieving a longer-term economic vision for Alberta, on which major policy decisions would be based;
- Strengthening:
  - business planning and risk management,
  - the openness of the budget process,
  - the co-ordination of public sector compensation negotiations, and
  - incentives within the public sector rewarding better fiscal management;

A formal government response was published in September 2002, accepting most of the recommendations, several with modifications. The recommendations formed the basis of the new fiscal framework introduced in Budget 2003.

NEW FISCAL FRAMEWORK

The *Financial Statutes Amendment Act, 2003*, passed in March 2003, amended the *Fiscal Responsibility Act*, the *Financial Administration Act* and the *Government Accountability Act*, to implement the new fiscal framework.

The legislative changes and main components of the new framework are:

- Establishing the Alberta Sustainability Fund as an account within the General Revenue Fund. The rules regarding transfers to and from the Sustainability Fund are also defined. The Fund will absorb the volatility in resource revenue to protect spending plans.
- Establishing the Capital Account as an account within the General Revenue Fund. The rules regarding transfers to and from the Capital Account are also defined. The Capital Account will permit pre-funding of future capital spending from prior years' surpluses.
- Amending the "no deficit" requirement to adjust for transfers to/from the Sustainability Fund and Capital Account, spending on emergencies and disasters, and for payments under the *Natural Gas Price Protection Act*.
- Revising the calculation of the required budgetary economic cushion, which will now include a contingency allowance of 1% of revenue for fiscal policy purposes, and net cash requirements for capital and the change in accumulated surpluses of funds and agencies.
- Adding a definition of "natural resource revenue for fiscal policy purposes," that is the lesser of $3.5 billion and the average resource revenue for the previous three years.
- Amending the allowable changes from budgeted spending, to include only the budgeted 1% contingency allowance, and exclude costs of emergencies and disasters, transfers from the Capital Account, payments under the *Natural Gas Price Protection Act*, and changes for net budgeting provisions (dedicated revenue and expense variations).

- Implementing accounting changes to move to an "expense" basis (booking government-owned capital assets on the balance sheet and expensing them over time via amortization, instead of using the "pay-as-go" basis of fully expensing annual capital spending), and to permit the carry-over of unspent capital investment funds to the subsequent fiscal year, instead of lapsing the funds.
- Amending the reporting requirements, including adding a requirement to publish a three-year capital plan annually.

FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

Alberta Finance strives to ensure that the federal government treats Albertans equitably. The Department works with other provinces and develops and presents Alberta's position on federal-provincial fiscal arrangements to the federal government.

For several years, provincial/territorial Premiers and Finance Ministers have called upon the federal government to restore the Canada Health and Social Transfer (CHST) to its 1994-95 level of $18.7 billion and implement an appropriate escalator. In response, the federal government restored the CHST to $19.1 billion in 2002-03. While the federal government has not implemented a formal escalator for the CHST, it has legislated a schedule to increase the CHST to $25 billion by 2005-06. This, in part, reflects the provisions for increased health care funding contained in the recently announced February 2003 First Ministers' Health Accord. In addition, all new CHST funding is on an equal per capita basis for all provinces and territories.

As part of this accord, the federal government also announced plans to permanently remove the equalization ceiling, effective 2002-03.

The 2003 First Ministers' Health Accord includes a number of new funding areas. A five-year, $16 billion Health Reform Fund ($1 billion in 2003-04) will target primary health care reform, home care and catastrophic drug coverage. The federal government will create a new CHST supplement with funding of $2.5 billion to be drawn down by the provinces through 2005-06. There will be a $1.5 billion Diagnostic/Medical Equipment Fund to provide support for specialized staff training and equipment. All funding will be allocated among provinces on an equal per capita basis and will be booked over several years, starting in 2003-04. The total increase in CHST transfers will be $20 billion over five years.

The enrichment of the CHST transfer and other policy changes has moved Alberta closer to a per capita cash transfer that is equal to all other provinces. In 1998-99, Alberta's per capita cash transfer was 75% of the national average. This increased to 82% in 2002-03 and is expected to continue to increase in coming years.

These are significant moves toward achieving Alberta Finance's targets for federal-provincial fiscal relations.

Supplementary Performance Measure

AMOUNT OF THE CANADA HEALTH AND SOCIAL TRANSFER PAYMENTS

TARGET: RESTORATION OF FEDERAL FUNDING THROUGH THE CHST TO AT LEAST 18% OF PROVINCIAL EXPENDITURES ON HEALTH AND SOCIAL PROGRAMS AND INTRODUCTION OF AN APPROPRIATE ESCALATOR
RESULT: CHST RESTORED TO ITS 1994-95 LEVEL OF $18.7 BILLION BUT, AT 14% OF PROVINCIAL SPENDING ON HEALTH AND SOCIAL PROGRAMS, IT REMAINS WELL BELOW THE 18% TARGET. FUTURE INCREASES IN THE CHST ARE SCHEDULED THAT ARE EQUIVALENT TO A POPULATION PLUS INFLATION ESCALATOR.

TARGET: ALL NEW CHST FUNDING TO BE EQUAL TO THOSE OF ALL OTHER PROVINCES ON A PER CAPITA BASIS
RESULT: ALL NEW CHST FUNDING ON AN EQUAL PER CAPITA BASIS

TARGET: THE EXISTING CHST CASH TRANSFER MADE EQUAL TO THOSE OF ALL OTHER PROVINCES ON A PER CAPITA BASIS
RESULT: ALBERTA'S PER CAPITA CASH TRANSFER 82% OF THE NATIONAL AVERAGE, UP FROM 75% IN 1998-99

PUBLIC SECTOR PENSIONS

It has been a challenging period for Alberta public sector pension plans, given the multi-year decline in world capital markets and associated returns for invested pension fund assets.

Contribution rate increases have been put in place under the Local Authorities Pension Plan, the Special Forces Pension Plan and the Management Employees Pension Plan to enable the plans to maintain a sound financial position and appropriate funding levels. Further increases may be needed in the future if there is not a significant recovery in the financial markets. A contribution rate increase will likely be needed for the Public Service Pension Plan once an actuarial valuation of the plan is completed by December 2003. With appropriate contribution increases in place, the plans can be brought back into fully funded status.

In response to the recommendations of the pension boards, Alberta Finance examined the issue of solvency funding. As the likelihood of a public sector plan terminating is viewed as remote, public sector pension plans will no longer be required to fund on a solvency (or "plan termination") basis. This initiative should assist in keeping contribution rates as stable as possible. The plans will still be required to meet going-concern funding requirements.

Alberta Finance continues to work toward the retirement of the pre-1992 unfunded liabilities of the Special Forces and Universities Academic Pension Plans in accordance with the legislative framework currently in place.

Ensuring the sound governance, management and administration of the public sector pension plans has become an even greater focus. Alberta Finance continues to work with stakeholders of the Local Authorities Pension Plan to determine if, subject to meeting established principles and guidelines, the plan should become independent of government. Alberta Finance has also committed to work with pension boards and plan stakeholders to facilitate improved pension governance frameworks within the current statutory governance structure. The Alberta Government's principles for facilitating improved governance arrangements continue to include ensuring there are mechanisms for transparent accountability and that parties exposed to financial risk are directly involved.

Supplementary Performance Measure

IMPROVED PENSION GOVERNANCE FRAMEWORKS
TARGET: (1) SEPARATION OF SPONSOR/TRUSTEE FUNCTIONS (2) MECHANISM FOR TRANSPARENT ACCOUNTABILITY (3) PARTIES EXPOSED TO RISK ARE DIRECTLY INVOLVED
RESULT: IN PROGRESS

Alberta Finance has developed a work plan for a broad review of public sector pension plan governance arrangements, to be initiated in 2002-03 and continuing over the next 18 months, and has had initial discussions with some pension boards. Alberta Finance has continued to work on establishing appropriate terms and conditions for independence of the Local Authorities Pension Plan.

CANADA PENSION PLAN

Albertans need to feel confident that their Canada Pension Plan benefits will be there for them at retirement. Alberta Finance continues to work with the federal government and the other provinces to ensure the sustainability of the Canada Pension Plan, taking a leadership role in pressing for reforms when necessary. The 2002-03 triennial review of the CPP concluded that the CPP continues to be financially sound and that joint federal-provincial actions taken to ensure the long-term viability of the CPP are working.

Supplementary Performance Measure

LEGISLATIVE AMENDMENTS TO THE CANADA PENSION PLAN
TARGET: AGREEMENT BY FINANCE MINISTERS ON LEGISLATIVE AMENDMENTS AT THE END OF THE NEXT RENEWAL PERIOD (DECEMBER 2002)
RESULT: THIS OBJECTIVE WAS MET

No legislative amendments are required at this time as the 2002-03 review concluded that no changes to CPP benefits or contribution rates are needed.

GOAL 2

FINANCIALLY OPEN AND ACCOUNTABLE GOVERNMENT

Alberta continues to be the leader among Canadian governments in financial reporting. Alberta Finance provides Albertans with regular reports on performance measures and financial results.

The *Government Accountability Act* requires the government to publish annual three-year budget and business plans that identify goals, objectives and financial plans of the government and individual ministries. The Act also requires that the government provide quarterly financial and activity updates, which give Albertans details on where the money goes. Each quarter there is a list of some of the most important and interesting achievements that are published, initiated or completed by the government during the quarter. The Act also requires an annual report on both financial and performance results. Alberta Finance co-ordinates the preparation of these publications.

Other laws require balanced budgets, elimination of Alberta's accumulated debt, prudent economic cushions, controls on in-year spending increases, improved accountability for results, taxpayer protection and an end to special government loans and loan guarantees to businesses.

CONSOLIDATED BUDGETS AND BUSINESS PLANS

Alberta publishes consolidated budgets and business plans for all government entities. Budget 2002 included the 2002-05 Fiscal Plan and Business Plan, an Economic Outlook, and descriptions of both the Alberta Advantage and Alberta Tax Advantage. It established goals and measures for each of the government's core businesses: People, Prosperity and Preservation. A comprehensive set of strategies and actions to achieve these goals was outlined in the business plans of individual ministries.

The Government of Alberta Business Planning Working Group developed guidelines that were used in the 2003-06 business planning process. The group continues working towards implementing business planning standards that will promote the consistency and quality of the Government of Alberta ministry business plans.

As required by the *Government Accountability Act,* the 2002-03 Annual Report of the Government of Alberta, *The Right Decisions for Challenging Times*, which was published June 2003, provided an accounting of government-wide financial results and performance measures in comparison to the plans set out in Budget 2002. Ministry measures are provided in the annual report of each ministry, which also must include ministry consolidated financial statements and financial statements of each of the funds and provincial agencies comprising the ministry.

MEASURING AND REPORTING THE GOVERNMENT'S PERFORMANCE

The 2002-03 Annual Report of the Alberta government also included *Measuring Up*, the ninth annual report of the performance of the Government of Alberta. The report provides the public and the Legislative Assembly with an accountability document that compares results achieved to targets set out in the Government Business Plan, tabled with the Budget in the previous spring. The Measuring Up document also details the strategies the government is pursuing to achieve its goals.

Measuring Up contains core measures that relate to 19 specific government goals in areas such as health, education, the economy and the environment. The report also contains an update on progress being made on four particular cross-ministry initiatives, which the government singles out each year as requiring a corporate focus to be addressed effectively.

Tracking and reporting results makes it possible for policy makers to improve the quality of programs and services for Albertans and assists in making choices about whether to revise, retain or abandon existing programs.

ALBERTA FINANCE'S INTERACTION WITH MINISTRIES

Alberta Finance provides leadership in accountability for financial management. Ministries have the responsibility for internal controls and for reporting financial results and business outcomes at the ministry level. Alberta Finance monitors and advises on the maintenance of financial controls. Alberta Finance also prepares the Province's consolidated financial statements, based upon the ministries financial statements.

Alberta Finance has overall responsibility for developing government accounting policies and standards in consultation with ministries. Ministries are responsible for managing their financial affairs in accordance with these policies.

MEASURING ALBERTA FINANCE'S PERFORMANCE

Challenges continued to confront Albertans and their government in 2002-03. Severe drought conditions continued in much of Alberta. The slow and uneven recovery of the U.S economy negatively affected provincial exports and business investment. Energy prices stabilized. Overall Alberta's economic growth for 2002 is estimated at 1.7%.

Throughout the fiscal year, Alberta Finance kept the public informed of the Province's financial picture.

The awareness survey that was taken in January and early February 2003 shows that the public's understanding of our actual financial performance has increased from 53% in 2001-02 to 63% in 2002-03, a substantial improvement over the previous year. Finance is committed to reaching the target of 80%.

Key Performance Measure

ALBERTANS AWARE OF THE GOVERNMENT'S FINANCIAL PERFORMANCE
TARGET: 80% AWARE
RESULT: 63% AWARE
SOURCE: ENVIRONICS WEST
METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

This performance measure is being changed in Finance's 2003-06 business plan. In the future, Albertans will be surveyed to see how satisfied they are with the information they receive on the government's financial performance, either directly from the government or through other sources. In 2002-03, 67% of Albertans were satisfied.

Alberta Finance also undertakes client satisfaction surveys annually. One survey measures the satisfaction of deputy ministers with the government's accountability system. 95% of the responding deputies were very satisfied or satisfied, 5% below Alberta Finance's target of 100%.

Supplementary Performance Measure

SATISFACTION OF DEPUTY HEADS WITH THE GOVERNMENT'S ACCOUNTABILITY SYSTEM
TARGET: 100% SATISFIED OR VERY SATISFIED
RESULT: 95% SATISFIED OR VERY SATISFIED

CONSULTING WITH ALBERTANS

The Alberta Future Summit 2002 was a province-wide public consultation that gave Albertans a voice in planning the province's future. More than 4,000 Albertans took part in the public consultations that began in September and concluded with the Future Summit in Red Deer, held on February 4-5, 2002. A report to Government was presented in May 2002.

Many of the ideas Albertans proposed have been incorporated into government's plans and priorities. Several government priorities address many of the key strategies Albertans identified, including:

- Establishing a sustainability fund to manage volatile revenues and protect core programs.
- Making major infrastructure investments in hospitals, schools and roads.
- Promoting healthy living choices and encouraging personal responsibility for health care to sustain the health system and improve quality of life.
- Ensuring children are safe, healthy and ready to learn through the Alberta Children and Youth Initiative and through "Alberta's Promise".
- Working to improve socio-economic opportunities for Aboriginal peoples and communities.
- Enhancing the province's economic development strategy and ensuring Alberta's fiscal framework remains strong.

All ministries will continue to use the Summit findings as they make decisions and adjust priorities in the future.

GOAL 3

A FAIR AND COMPETITIVE PROVINCIAL TAX SYSTEM

A tax system must be competitive to enable a strong economy, yet it must also raise revenue to fund the services that Albertans desire. In 2002-03, Albertans continued to pay the lowest taxes in Canada, while still receiving the benefits of excellent public services.

LOW TAXES ON FAMILIES

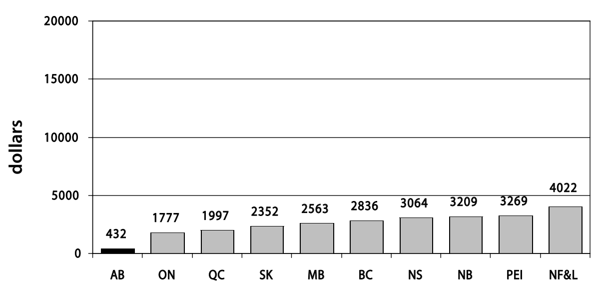
The government maintained the benefits of the changes made in 2001, when the single-rate tax was introduced. Albertan's fully indexed tax system prevents inflation from eating away at past tax cuts. Taxpayers saved $75 million in 2002 because of indexing.

Albertans paid the lowest personal taxes in Canada, through a system that is fair and promotes economic growth. Alberta also remained the only province without a provincial sales tax.

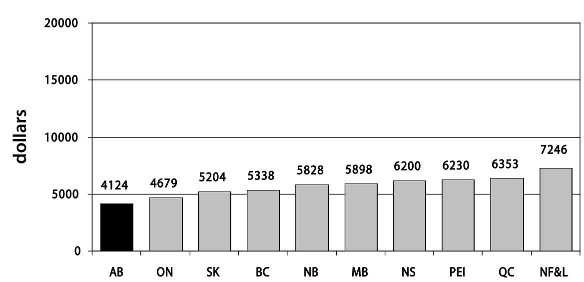
Key Performance Measure

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR
TARGET: LOWEST IN CANADA
RESULT: LOWEST IN CANADA
SOURCE: ALBERTA FINANCE
METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

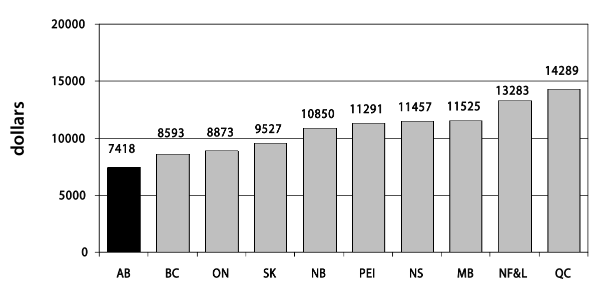
ONE INCOME FAMILY EARNING $30,000



TWO INCOME FAMILY EARNING $60,000



TWO INCOME FAMILY EARNING $100,000



Source: Alberta Finance

The personal tax load on Albertans was 54.1% of the national average. At 36.4 percentage points below second place British Columbia, this was the lowest in Canada. This competitive tax regime fueled a strong economy, creating jobs and attracting people from across Canada.

In 2002, the Alberta economy created 41,700 new jobs, for a total of 1.67 million jobs. Job gains were greatest in health care and social assistance, retail trade, and manufacturing of non-durables. Alberta had the highest employment participation rate in Canada, at 73.0% for 2002. In addition, 26,740 inter-provincial migrants moved to Alberta in 2002, mainly from British Columbia, Ontario and Saskatchewan.

Supplementary Performance Measure

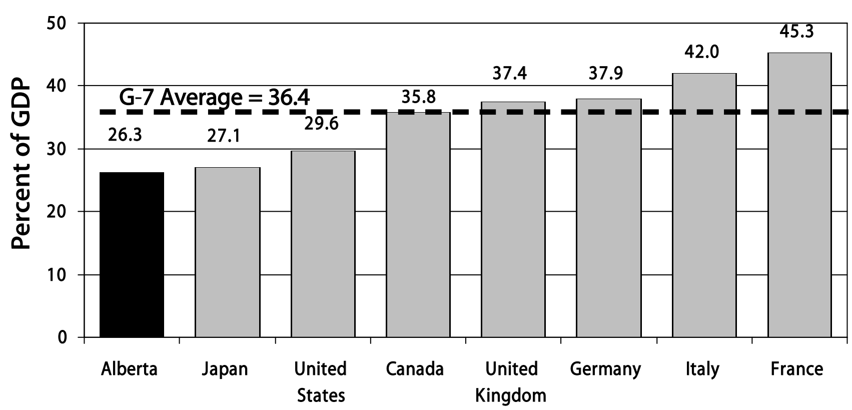
EMPLOYMENT PARTICIPATION RATE
TARGET: HIGHEST IN CANADA
RESULT: HIGHEST IN CANADA

The following graph compares Alberta's total tax load as a percentage of GDP to the tax loads of the G-7 countries. The tax load in each jurisdiction includes all applicable municipal, provincial/state, federal and supranational taxes, and social security levies. At 26.3% of GDP, Alberta's tax load was below that of all G-7 nations, 10.1 percentage points lower than the G-7 average. Canada's tax load improved to third lowest among G-7 nations, from fifth lowest.

Supplementary Performance Measure

TOTAL TAX LOAD IN ALBERTA AS A PERCENTAGE OF GDP COMPARED WITH G-7 COUNTRIES
TARGET: 29.0% OF ALBERTA GDP
RESULT: 26.3% OF ALBERTA GDP IN 2000

G7 TOTAL TAX LOAD
(2000)



SOURCE: THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT REVENUE STATISTICS; STATISTICS CANADA; ALBERTA FINANCE

LOW TAXES ON BUSINESS

In 2002-03, Alberta's provincial tax load on business was the third lowest in Canada, the same ranking as 2001-02 (revised based on latest available information). Alberta did not meet its target of having the lowest business tax load in Canada as it lagged behind Prince Edward Island and British Columbia. British Columbia improved its ranking from ninth overall in 2001-02 to second in 2002-03 because it cut its general corporate income tax rate to 13.5% from 16.5% and eliminated its general capital tax as of September 1, 2002.

Alberta's general corporate tax rate and small business rate, at 13.0% and 4.5% respectively, are the second lowest among all the provinces. Alberta does not have any capital taxes. Low overall taxes in Alberta encourage entrepreneurs to start new businesses in Alberta, or move them here from other provinces.

Key Performance Measure

PROVINCIAL TAX LOAD ON BUSINESS*
TARGET: LOWEST TAX LOAD IN CANADA
RESULT: THIRD LOWEST IN CANADA

	2002-03	2001-02 (revised)
Prince Edward Island	60.5	72.0
British Columbia	83.6	135.1
Alberta	85.0	76.6
Manitoba	91.6	116.1
Nova Scotia	93.7	72.0
Ontario	96.1	94.9
New Brunswick	96.8	104.8
Quebec	114.8	106.7
Newfoundland and Labrador	120.0	122.2
Saskatchewan	212.4	150.7

* Includes business income taxes, capital taxes, and insurance corporation taxes
Tax load relative to provincial average=100

Source: Federal Department of Finance, July 2003 Interim Estimate for 2002-03, February 2003 Fifth Estimate for 2001-02; Alberta Finance

METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

The government affirmed its commitment to corporate income tax cuts in 2002-03, though the pace of the cuts was slowed in response to a changing fiscal situation. Effective April 1, 2002, the general rate was reduced to 13%, the small business rate was reduced to 4.5%, and the small business threshold was increased to $350,000. These reductions saved taxpayers $81 million.

The tax cuts continued in 2003. Effective April 1, 2003, the general rate was reduced to 12.5%, the small business rate was reduced to 4%, and the small business threshold was increased to $400,000.

IMPLEMENTATION SCHEDULE FOR THE BUSINESS TAX PLAN
(Effective April 1st each year)

	2000-01	2001-02	2002-03	2003-04	2004-05
General rate[a] (%)	15.5	13.5	13.0	12.5	11.5
Small business rate (%)	6.0	5.0	4.5	4.0	3.0
Small business threshold ($)	200,000	300,000	350,000	400,000	400,000
Railway fuel tax (c/litre)	3.0	1.5[b]	1.5	1.5	1.5
Capital tax (%)	0.7/1.0	Eliminated	–	–	–

[a] Manufacturing and processing (M&P) income was taxed as 14.5% in 2000, but in 2001 the M&P rate was reduced to the same level as the general rate. The tax system no longer distinguishes between M&P and other income.
[b] Effective May 1, 2001

Alberta's competitive tax system helps to stimulate the growing economy. After showing virtually no change in 2001-02, business registrations were up 4.5% in 2002-03. This exceeded the target of a 3.0% increase, and suggests renewed confidence in the strength of the global economy.

Supplementary Performance Measure

PERCENTAGE ANNUAL GROWTH IN BUSINESS REGISTRATIONS
TARGET: 3.0% GROWTH
RESULT: 4.5% GROWTH

OTHER TAX INITIATIVES

The Alberta government raised tobacco taxes in its 2002 Budget, in recognition of the significant health costs caused by tobacco use. The tax rate on a carton of cigarettes increased from $14 per carton to $32 per carton. Tax rates for other tobacco products were also increased to ensure that a cheaper form of tobacco was not available. Higher tax rates on tobacco products have encouraged Albertans, particularly young Albertans, to quit smoking, or discouraged them from starting to smoke at all.

To assist the continued viability of NHL hockey in the province, the Alberta government imposed a tax of 12.5% on NHL players who play hockey games in Alberta. This tax came into effect for the 2002-03 season and will be in place until December 31, 2005. All revenue raised, minus administration costs, goes to the two teams.

School property tax mill rates were cut 1%, marking the ninth straight year that the government has either cut or frozen provincial uniform school property tax rates.

Alberta Finance continues to work with the federal Department of Finance and other provinces to address inter-provincial tax issues. One major priority over the past year has been resource taxation. Alberta Finance has consistently advocated that the non-renewable resource sector share in the federal corporate tax cuts announced in 2000. Alberta Finance was pleased to see that, as stated in its most recent budget, the federal government will equalize the sector's tax rate with that of other sectors. We will work with the federal government to ensure this plan proceeds as quickly as possible.

The tax collection agreements authorize the federal government to collect personal income taxes on behalf of the provinces. Alberta Finance continues to work on re-negotiating the personal income tax collection agreements with the federal government to better reflect the move to the tax on income system and to provide increased policy flexibility. Unfortunately, progress has been slower than anticipated.

Supplementary Performance Measure

A NEW TAX COLLECTION AGREEMENT (TCA) WITH THE GOVERNMENT OF CANADA
TARGET: MARCH 2003
RESULT: TARGET NOT MET

GOAL 4

EFFECTIVE MANAGEMENT OF THE PROVINCE'S FINANCIAL ASSETS AND LIABILITIES

TREASURY MANAGEMENT DIVISION

Treasury Management Division (TMD) has responsibility for the province's ongoing cash management including short-term borrowing and investing, management of banking arrangements and cash forecasting, and arranging short and long term financing for the government and provincial corporations. TMD is also responsible for managing funds set aside to retire debt, monitoring and managing loans and guarantees and providing financial advice to other government departments.

MANAGEMENT OF ENTERPRISE RISK

Alberta Finance has assumed a leadership role in researching and ultimately developing an enterprise-wide risk management framework so that Alberta can effectively manage the financial challenges it deals with day to day. Within this framework, individual ministries will be responsible for quantifying and assessing their own risk. Based on the assessments, action plans will be developed to manage risk. The first steps in developing the framework are underway. Further development is planned for in 2003-04 with a goal of preparing final recommendations for government consideration by the end of the year. If accepted, the recommendations would be implemented in the 2004-05 fiscal year.

An element of enterprise risk management is the development of a business resumption plan. Organizations must be prepared if they are to resume critical services quickly after a catastrophic event. All ministries are required to prepare a business resumption plan for their respective ministries and must report on the progress made in each fiscal year. Alberta Finance implemented a business resumption plan for the Department during the fiscal year.

Supplementary Performance Measure

RISK MANAGEMENT FRAMEWORK DEVELOPED
TARGET: MARCH 2003
RESULTS: TARGET NOT MET. RESEARCH PHASE COMPLETE.

COST OF BORROWING

During the fiscal year, the Ministry borrowed $740 million for provincial corporations through public bond issues and private placements. By utilizing private placements, the Ministry was able to lower commission costs and, in some cases, to construct specialized financing for the provincial corporations that would have been difficult to arrange through the public debt market. The use of these vehicles saved the Province and its corporations an estimated $596,500 compared to selling the same bonds in the public markets.

Supplementary Performance Measures

ALL-IN COST OF DEBT ISSUE
TARGET: COST LOWER THAN AN ISSUE OF COMPARABLE TERM IN THE CANADIAN PUBLIC DEBT MARKET
RESULTS: COST LOWER BY $596,500

MARKET SPREADS (ALBERTA'S COST OF BORROWING COMPARED TO THE FEDERAL GOVERNMENT'S COST)
TARGET: LOWEST SPREAD OF ANY PROVINCE
RESULTS: ALBERTA CONTINUES TO HAVE THE LOWEST SPREAD OF ANY PROVINCE

Alberta's cost of borrowing is determined relative to the federal government's interest rate for the same term. For example, an Alberta five-year bond is priced in the market relative to a Government of Canada five-year bond. The federal government enjoys a lower borrowing cost than any province, including Alberta, owing to its greater taxing power and its sovereign status.

The difference in the interest rate Alberta would pay on a particular term debt compared to what the federal government would pay is known as the market spread. The relative market spreads presented in the following table are a reflection of the Province's sound fiscal and debt management.

Alberta has borrowed at the lowest market spreads of any Canadian province in every year since 1994-1995, achieving the target set out in Alberta Finance's 2002-05 business plan.

	5-year Bonds				10-year Bonds			
	Canada	Alberta	B.C.	Ontario	Canada	Alberta	B.C.	Ontario
	(%)	(basis point spread)*			(%)	(basis point spread)*		
March 31, 1999	5.03	+13	+24	+19	5.09	+19	+33	+27
March 31, 2000	6.08	+15	+21	+19	5.91	+32	+43	+39
March 30, 2001	5.08	+14	+22	+21	5.39	+23	+43	+41
March 29, 2002	5.35	+17	+23	+20	5.78	+17	+35	+28
March 31, 2003	4.44	+23	+27.5	+26.5	5.11	+25	+35.5	+34.5

* A basis point is one one-hundredth of a percentage point.

Sources: CIBC World Markets
RBC Capital Markets
Scotia Capital

CASH MANAGEMENT

TMD manages annual cash flows in excess of $300 billion. On a daily basis the division must forecast revenues and expenditures and invest or borrow to meet cash position targets. Operations in fiscal 2002-03 were successful in meeting the daily consolidated cash position targets approximately 86% of the time.

Supplementary Performance Measure

DAILY CONSOLIDATED CASH POSITION
TARGET: DAILY CASH POSITION IS WITHIN 2% OF AVERAGE DAILY FLOW (UNDER REVIEW)
RESULTS: ON AN ANNUAL BASIS THE DAILY CASH, POSITION MET THE TARGET APPROXIMATELY 86% OF THE TIME

TMD is also responsible for the banking arrangements required to support such a large volume of transactions and meeting the banking needs of all the government departments and agencies. Results of a survey of all banking clients circulated throughout the government show that in excess of 98% of clients are satisfied or very satisfied with the service provided by the division.

Supplementary Performance Measures

SATISFACTION SURVEY OF ALL CLIENTS
TARGET: 90% SATISFIED OR VERY SATISFIED
RESULTS: 98% SATISFIED

DEPARTMENTS AND AGENCIES REQUESTING ASSISTANCE DURING THE YEAR ARE SATISFIED WITH SERVICES
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULTS: 77% SATISFIED
SOURCE: ALBERTA FINANCE CLIENT SURVEY, JUNE 2002

The time weighted rate of return on the Consolidated Cash Investment Trust Fund (CCITF) was 2.77% and the return on its benchmark (the Scotia McLeod 91 day T-Bill Index plus ten basis points) was 2.81% for the fiscal year ended March 31, 2003. The difference between the two was 4 basis points. The CCITF is a relatively liquid cash management fund as the money in the Fund must be easily accessible to the various depositors. For 2003-04, the target return remains the Scotia MacLeod 91 T-Bill index plus ten basis points.

Supplementary Performance Measure

RATE OF RETURN ON THE CONSOLIDATED CASH INVESTMENT TRUST FUND
TARGET: SCOTIA MCLEOD 91 DAY T-BILL INDEX PLUS TEN BASIS POINTS
RESULT: UNDERPERFORMED BY FOUR BASIS POINTS

NON-CORE FINANCIAL ASSETS AND LOAN GUARANTEES

The Ministry of Finance is responsible for the divestiture of non-core financial assets and the elimination of contingent liabilities under administration. The Ministry is also overseeing the windup of certain provincial corporations under administration. These include the Alberta Government Telephones Commission, Gainers Inc., and N.A.

Properties (1994) Ltd. These entities do not carry on any active business. Total non-core financial assets dropped to $3 million from $6 million the previous year, primarily due to the repayment of loans.

The Ministry continues to work on outstanding contingent liabilities. Liabilities arising from outstanding guarantees administered by the Ministry fell from $77 million to $60 million as guarantees matured.

BUSINESS CONTINUITY PLAN

After a thorough review of the businesses in the Finance and Revenue departments a Business Continuity Plan was developed and implemented. Critical operations, systems and employees were identified and plans put in place to ensure that any disruption in normal activity would be minimal. All critical computer systems have been duplicated at an offsite location and have been thoroughly tested.

The Finance / Revenue Business Continuity Plan has been a major accomplishment for the two departments. The team that worked on the Business Continuity Plan has been invited to give presentations to other government departments. They were also awarded an Employee Excellence Award by their peers in Finance / Revenue.

Supplementary Performance Measure

CRITICAL AREAS ARE IDENTIFIED AND A BUSINESS CONTINUITY PLAN IS IN PLACE FOR THOSE AREAS
TARGET: MARCH 2003
RESULTS: COMPLETE

CREDIT RATING AGENCIES

Alberta's goal is to ensure that credit rating agencies understand the Province's financial and economic position. To fulfill this goal, Alberta Finance maintains a continual dialogue with three rating agencies and provides them with:

- detailed briefings and updates on the Province's financial and economic status
- budget highlights, annual financial reports, quarterly updates and other information to keep them current on financial issues.

In response to an annual survey, the three agencies reported that they are either satisfied or very satisfied with the information provided to them.

Supplementary Performance Measure

SATISFACTION OF CREDIT RATING AGENCY PERSONNEL
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULTS: ALL THREE CREDIT AGENCIES SATISFIED

FUNDS INVESTED TO MEET FUTURE DEBT MATURITIES

The Province has set aside funds from prior year's surpluses to meet its obligations on future debt maturities. The decision was made to invest these funds and repay debt only as it matures. The objective is to purchase investments that return a higher rate of return than the market return on Province of Alberta debt on the day the investment is purchased. If the investment return exceeds the market return on Province of Alberta debt, then the Province is able to save that differential. In 2002-03 the funds invested to meet debt repayments exceeded the market return on the matching debt by 5.6 basis points.

Supplementary Performance Measure

RETURN ON DEBT RETIREMENT INVESTMENTS
TARGET: RETURN ON THE INVESTMENT IS GREATER THAN THE COST OF THE DEBT ON THE DAY THE INVESTMENT IS MADE
RESULTS: 5.6 BASIS POINTS HIGHER THAN MARKET RETURN ON MATCHING DEBT

GOAL 5

FOSTER CONFIDENCE IN, AND ENCOURAGE THE AVAILABILITY OF COMPREHENSIVE, RELIABLE AND COMPETITIVE FINANCIAL PRODUCTS AND SERVICES

FINANCIAL INSTITUTIONS AND INSURANCE ACTIVITIES

Alberta Finance regulates the credit union, insurance, and loan and trust industries in Alberta, balancing the interests of stakeholders including depositors, insurance policyholders, investors, insurance intermediaries, and the companies themselves.

Alberta Finance also monitors provincially-incorporated insurers, trust corporations, the Credit Union Central of Alberta (CUCA) and, through the Credit Union Deposit Guarantee Corporation (CUDGC), monitors credit unions, and enforces applicable legislation. Alberta Finance's role with respect to deposit insurance is restricted to ensuring that CUDGC is capable of fulfilling its guarantee of credit union deposits.

All provincially-incorporated credit unions, trust and insurance companies, and CUCA met solvency requirements. No financial failures were recorded for insurance, loan or trust companies, CUCA or credit unions in 2002-03.

Notable legislative initiatives undertaken by Alberta Finance during the past fiscal year include:

- The introduction of Bill 12, the *Financial Sector Statutes Amendment Act*, in March 2003. Bill 12, which includes a set of amendments to various financial sector statutes administered by the department, fosters greater consistency with respect to the business powers of Alberta financial institutions and allows the government to better promote a level playing field with the institutions' federally-regulated competitors on a timely basis.
- The introduction of Bill 33, the *Insurance Amendment Act*, also in March 2003. Bill 33 - tabled after discussions were held with interested stakeholders - has been introduced in an effort to stabilize automobile insurance premiums. One of the department's five strategic priorities in 2003-04 is to review issues facing the automobile insurance industry, including compensation for auto injury claims and related premium increases.

Supplementary Performance Measures

FINANCIAL INSTITUTIONS MEETING LEGISLATED CAPITAL ADEQUACY REQUIREMENTS
TARGET: 100%
RESULT: 100%

PROPERTY AND CASUALTY INSURERS MEETING LEGISLATED MINIMUM CAPITAL REQUIREMENTS
TARGET: 100%
RESULT: 100%

ATB FINANCIAL

Work continues on growth strategies for ATB Financial, focused on personal and business banking, investor services and energy and commercial banking.

In Personal and Business Banking, ATB's focus is providing personal service to its customers. ATB continues to invest heavily in its branch network. During the year, new branches were opened and existing branches renovated or relocated, including: Brooks, Calgary Fifth Avenue, Calgary Douglas Glen, Calgary Forest Lawn, Calgary Monenco Place, Edmonton Killarney, Whitemud at Calgary Trail in Edmonton, Peace River, and Rocky Mountain House.

On the product and services side, an enhanced insurance package was added to the AgriBusinessCard MasterCard and the Alberta Business MasterCard. The Extreme Discount Mortgage and a 10-year Guaranteed Rate Mortgage was introduced, providing customers an opportunity to lock-in their mortgages at a low rate. Through the ATB Financial-sponsored "Real Cash Real Profit" seminars, over 500 Alberta entrepreneurs learned more about the business of being in business and the difference between being profitable and being able to meet their day-to-day financial commitments.

Under the banner of ATB Investor Services, clients now have access to enhanced investment solutions at competitive prices. ATB Investor Services has partnered with some of the best financial solution providers in the world, in the construction of the Compass Portfolio series. These professionally managed portfolios, constructed with in-depth asset allocation strategies, are among the first of their kind in Canada. In addition, ATB has access to the universe of mutual funds and the ATB Investor Services team of licensed professionals is now in a position to offer full-service financial advice and solutions to all levels of client needs in Alberta. Through a partnership with Qtrade Investor, access to an on-line brokerage service is provided for clients who prefer to directly manage some of their own investments.

In Energy and Commercial Banking, ATB has moved from a regional focus to industry specialization. Customers require money to grow their businesses in Alberta and through local decision-making and industry specialization, ATB can provide that foundation for growth.

The Co-operation and Referral Agreement signed with Rabobank last year has progressed satisfactorily and the agreement was extended to 2005. Partnerships were established with Moneris Solutions, for ATB Financial merchant services. This alliance will improve payment processing for merchant customers, providing a streamlined single statement for all types of card payments.

Financial Results

ATB's forecast of net income for the year was $117.1 million. Actual net income was $198.9 million (see table below).

ATB FINANCIAL - SUMMARY OF FINANCIAL RESULTS
(millions of dollars)

	Actual 2002-03	Target 2002-03	Actual 2001-02
Net interest income	$ 364.2	$ 365.9	$ 365.6
Other income	107.4	101.2	101.2
Non-interest expenses, including deposit guarantee fee	(315.9)	(314.8)	(287.8)
Loan loss provision/(recovery)	(43.2)	35.2	21.1
Net income	$ 198.9	$ 117.1	$ 157.9

Operating revenue totalled $471.6 million for 2002-03, up from last year's $466.8 million. This growth represented a 1% increase over last year and compared favourably to 2003 planned growth of 0.06%.

Net interest income was $364.2 million for 2002-03, a decrease of $1.4 million or 0.4% over last year's $365.6 million. The modest decrease was due to growth in average earning assets (loans to customers, deposits with banks and securities) being more than offset by continued low interest rate margins. Net interest margin of 2.85% is the ratio of net interest income to average total assets. This compares favourably to the Canadian banking industry average of 2.00%. The main reason for this strong performance is that ATB Financial maintains a strong retail deposit base and has a smaller share of the corporate market, which tends to yield lower returns.

ATB FINANCIAL - STATISTICS
As at March 31 (per cent)

	Target 2004	Actual 2002-03	Target 2002-03	Actual 2001-02	Actual 2000-01	Industry Average*
Net interest spread on average earnings assets	**3.00**	**2.92**	**2.96**	3.09	3.35	2.35
Other income to operating revenue	**20.94**	**22.78**	**21.67**	21.68	19.75	47.22
Non-interest expenses to operating revenue	**65.34**	**66.99**	**67.40**	61.65	59.55	68.68
Credit losses to average loans	**0.25**	**(0.39)**	**0.33**	0.21	0.22	1.08
Loan growth	**14.33**	**12.41**	**7.65**	8,86	6.95	2.33
Retail deposit growth	**8.60**	**5.49**	**5.96**	9.85	13.33	n/a

* Average of eight major Canadian banks as at October 31, 2002

ATB Financial's net interest spread for 2002-03 was 2.92% compared to the 2003 target of 2.96% and a 2001-02 level of 3.09%. The target for net interest spread was not achieved, as interest rates remained at or near 40 year lows throughout 2002-03, which continued to place pressure on the spread.

Other income was $107.4 million for 2002-03, an increase of 6.16% compared to last year's $101.2 million. This increase is primarily attributable to growth in service charges. Service charges increased due to mid-year rate increases and higher transaction volumes. Card fees also continued to grow as a result of an increased number of card products in circulation.

The productivity ratio is the per cent of total revenue that is consumed by non-interest expenses, excluding provision for loan loss. ATB Financial's productivity ratio was 66.99% for 2002-03, compared with a planned ratio of 67.40% and last year's ratio of 61.65%. This increase in the ratio was due to ATB Financial's reorganization and retooling to support their three major growth initiatives. ATB Financial's productivity ratio compares favourably with the industry.

Non-interest expenses consist of all ATB Financial expenses except interest expense and provision for credit losses. Non-interest expenses were $315.9 million for 2002-03, an increase of 9.8% compared to last year's $287.8 million. The majority of the increase in non-interest expenses relates to increased human resource costs to provide competitive performance-based compensation, a full range of employment benefits and comprehensive training and development opportunities. Marketing expenses are higher and ATB Financial increased its commitment to community event sponsorship and corporate donations.

ATB Financial recorded a recovery of loan losses of $43.2 million for 2002-03, compared to a provision of $21.1 million for 2001-02. Included in the 2002-03 recovery is $45.0 million related to the West Edmonton Mall settlement. The ratio of the annual charge for credit losses to average total loans was a negative 0.39% comparing favourably to the target ratio of 0.33% and last year's ratio of 0.21%. ATB Financial's lower than expected provision for credit losses was directly attributable to a combination of lower newly established provisions and recoveries of both specific and general provisions.

Gross impaired loans (before deducting the allowance for credit losses) increased by $4.0 million to $91.4 million from $87.3 million as at March 31, 2002. Net impaired loans decreased $3.0 million or 3.51% to a negative $83.4 million as at March 31, 2003 compared to a negative $86.4 million as at March 31, 2002.

ANNUAL PROVISION FOR CREDIT LOSSES
Years ended March 31 (thousands of dollars)

	2003	2002	2001	2000	1999
Loans:					
Specific provision for credit losses	$ (50,667)	$ 5,889	$ 8,959	$ (13,300)	$ (40,671)
General provision for credit losses	7,456	15,206	12,010	(28,521)	(542)
Off-balance sheet items:					
Specific provision for guarantees	-	-	-	-	45,000
Annual provision for credit losses	(43,211)	21,095	20,969	(41,821)	3,787
Annual provision for credit losses as a percentage of average loans	-0.39%	0.21%	0.22%	-0.49%	0.05%

Supplementary Performance Measure

PROFITABILITY, EFFICIENCY AND LOAN LOSS RATIOS
TARGET: COMPARABLE TO THE MAJOR BANKS
RESULT: OUTPERFORMED THE INDUSTRY AVERAGE

In Fall 2002, ATB repeated its customer satisfaction research. An index score relating to customers' overall satisfaction with the products and services of ATB, likelihood to continue their relationship with ATB, likelihood to recommend ATB to others and the perception of the advantages of banking with ATB was used as an ongoing measure of the ATB's performance. The score of 83 among primary customers has remained stable since Spring 2002 (Index score 84). With this score, ATB performs better than some of the five major chartered banks and is on par with others.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Alberta Pensions Administration Corporation (APA) collects pension contributions, maintains member accounts, pays pension benefits, and provides information to pension boards, employers, members, and pensioners of seven different pension plans and two supplementary retirement plans.

APA reached a significant milestone in December 2002 when it successfully implemented a new pension administration system for the Public Service Pension Plan, the Management Employees Pension Plan and the Supplementary Retirement Plan for Public Service Managers. Other client plans will go on the new system in 2003.

During the year surveys were sent out to employers. The response rate was 45%. A member survey (employees) was sent out in December 2002 along with pension estimates, optional service costings and retirement packages. From 1,000 questionnaires sent out, 177 were completed and returned, for an 18% response rate.

Responses were tabulated and results reported by a professional research firm. The surveys asked respondents to rate the importance of service areas and also to state their level of satisfaction or dissatisfaction with each area of service. 97% of employers and 89% of employees rated the services of APA to be satisfactory or better.

Supplementary Performance Measure

SATISFACTION OF CLIENT EMPLOYEES AND EMPLOYERS WITH PRODUCTS AND SERVICES
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULT: 97% OF EMPLOYERS AND 89% OF EMPLOYEES SATISFIED OR VERY SATISFIED

In addition to employer and employee surveys, APA surveyed other stakeholders, including a random selection of 930 pensioners (280 responded) and 35 board members (17 responded) from the pension boards served by APA. The satisfaction levels were 98% for pensioners and 93% for board members.

ALBERTA CAPITAL FINANCE AUTHORITY

On June 27, 2003, the Alberta Municipal Financing Corporation was re-named the Alberta Capital Finance Authority (ACFA). The new name is more reflective of the ACFA's shareholders, which include Alberta municipalities, post-secondary institutions, schools, regional health authorities, airport authorities, and irrigation districts. The Alberta Capital Finance Authority offers a range of borrowing terms to its shareholders at rates comparable to the Province's borrowing costs.

ACFA's goals are to provide local authorities with funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing corporations. ACFA continues to have the lowest new issue and lowest ongoing administration costs per million dollars of loans compared to similar organizations in Canada.

Supplementary Performance Measure

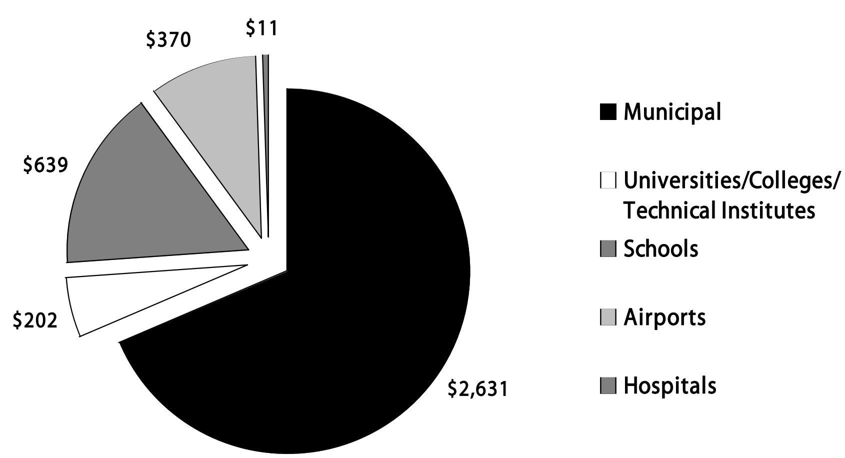
ALBERTA LOCAL AUTHORITIES COST OF BORROWING FROM ACFA
TARGET: LOWEST IN CANADA
RESULT: PARTIALLY MET
SOURCE: ACFA ANNUAL REPORT

Prior to September 2002, this rate was not measured on a set basis, but since then, it has been measured on a semi-monthly basis. The target was consistently met at short and long-term maturities, but mid-term rates (i.e. 5 and 10-years) have been slightly higher than the lowest rate in Canada.

Supplementary Performance Measure

SATISFACTION OF LOCAL AUTHORITIES WITH LENDING POLICIES AND EFFICIENCY OF ACFA
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULT: 83% SATISFIED OR VERY SATISFIED ON LENDING POLICY; 86.7% SATISFIED OR VERY SATISFIED ON EFFICIENCY
SOURCE: ALBERTA FINANCE, STATISTICS, SURVEY

ALBERTA CAPITAL FINANCING AUTHORITY ASSETS BY BORROWER



GOAL 6

FOSTER CONFIDENCE IN ALBERTA-REGISTERED PENSION PLANS

PRIVATE SECTOR PENSIONS

Employment Pensions administers the *Employment Pension Plans Act* (EPPA). The purpose of the Act is to safeguard the benefits promised to members of registered pension plans by setting minimum standards for funding, investment and qualifications for benefits.

The focus of this program is shifting from routine compliance monitoring to risk management. During the next fiscal year, a new data collection and analysis capability will enable Employment Pensions to use data filed for compliance purposes to help identify plans "at risk" of being off-side of legislation and regulations. At-risk plans will be subject to more detailed scrutiny, including on-site examinations of the plan's administration. A report will be issued as a result of the on-site review and any identified deficiencies will need to be corrected within a specified time. A consultation with key stakeholders this past year resulted in some modifications to the risk analysis system, which will be implemented in 2003-04.

A commonly used performance measure to determine if a plan is adequately funded is the solvency ratio. If the solvency ratio is 1, it indicates that the plan will have sufficient assets to pay out all promised benefits, if the plan were terminated immediately. This means that the market value of assets, at the valuation date, is at least 100% of the value of the plan's liabilities (promised pension benefits) as of that date. Over the last few years, investments, including those in registered pension private sector pension plans, have experienced a significant drop in returns that have reduced the market value of assets and therefore the solvency ratio of the plans.

The EPPA requires that the sponsors of the plans eliminate any solvency deficiency by making special payments, in addition to normal contributions, over a five-year period. Employment Pensions performance benchmark is that at least 85% of pension plans registered in Alberta will maintain a solvency ratio of 0.9 or better. Beginning in the 2003-04 fiscal year, the performance measure regarding the solvency ratio will be amended to better monitor whether private sector pension plans are meeting the minimum funding requirements under the EPPA.

Supplementary Performance Measures

REGISTERED PRIVATE SECTOR DEFINED BENEFIT PENSION PLANS SOLVENCY RATIOS
TARGET: 85% EXCEED 0.9
RESULT: 86% EXCEED 0.9

COMPLIANCE PROBLEMS IN "AT RISK" PENSION PLANS RESOLVED WITHIN ACCEPTABLE PERIODS OF TIME
TARGET: 100% PROVIDE AN ACTION PLAN ACCEPTABLE TO SUPERINTENDENT OF PENSIONS WITHIN THREE MONTHS OF IDENTIFICATION OF NON-COMPLIANCE ISSUES
RESULT: 100% PROVIDED AN ACTION PLAN ACCEPTABLE TO SUPERINTENDENT OF PENSIONS WITHIN THREE MONTHS OF IDENTIFICATION OF NON-COMPLIANCE ISSUES

SUPPLEMENTARY PERFORMANCE MEASURES IN THE 2002-05 BUSINESS PLAN NOT REPORTED IN THE 2002-03 ANNUAL REPORT

GOAL	SUPPLEMENTARY PERFORMANCE MEASURE	REASON FOR NOT REPORTING
5	· Satisfaction of financial institutions with the efficiency and fairness of the regulatory environment. Target: 4 out of 5 satisfied or very satisfied.	· No survey was carried out in 2002-03 as a result of the major legislative initiatives undertaken during the year. A survey of the financial sector will be carried out in 2003-04.
	· Meet and exceed customer expectations in ATB Financial's three target markets (independent business, personal and agri-industries lending.	· Only ATB's retail customers were surveyed regarding their personal lending experience.
	· Reform proposals accepted by government are implemented from business plan.	· Policy review not completed as of March 31, 2003.
6	· Satisfaction of pension plan administrators with the efficiency and fairness of the regulatory environment. Target: 80%	· Survey conducted biannually - next survey due in fall 2003.

APPENDIX: METHODOLOGY USED TO CALCULATE ALBERTA FINANCE'S KEY PERFORMANCE MEASURES

DEBT RETIREMENT

The following table illustrates the calculation of accumulated debt.

ACCUMULATED DEBT
($millions of dollars)

	2002-03	2001-02
Accumulated Debt (start of year)	8,416	10,265
Repayment of debt maturities	1,670	1,849
Accumulated Debt (end of year)	6,746	8,416
Cash set aside for future debt repayment	2,010	2,741
Accumulated debt less cash set aside	**4,736**	**5,675**
Cash to be transferred in 2002-03		414
		5,261

ACCUMULATED DEBT

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 debt.

The calculation begins with the accumulated debt at the start of the year. This is equal to the audited accumulated debt outstanding at the end of the previous fiscal year. From that figure is deducted the debt that matured during the current fiscal year and was repaid. This results in the accumulated debt that is outstanding at the end of the fiscal year. Also deducted is the cash in the Government Investment Account, which the government has dedicated to paying off debt as it comes due over the next several years. This yields accumulated debt less cash set-aside, which must be paid off by 2024-25, according to the *Fiscal Responsibility Act*. Accumulated debt less cash set aside is estimated at $4.7 billion on March 31, 2003.

ALBERTANS AWARE OF THE GOVERNMENT'S FINANCIAL PERFORMANCE

Environics West, on behalf of the Province, conducted a telephone survey of 1000 Albertans from January 28 to February 4, 2003. The survey accuracy is +- 3.1%, ninety five times out of a hundred.

Survey respondents were asked "to the best of your knowledge, is Alberta's budget for this year operating at a deficit, that is spending more than it gathers in revenue, or at a surplus, that is spending less than it gathers in revenue?" Albertans responded: 63% surplus (the correct response), 12% deficit, 1% balanced budget, and 24% did not know.

A new question was added to the survey and is included in the 2003-06 Business Plan. Albertans were asked "how satisfied are you with the information you receive on the government's financial performance, either directly from the government or through other sources?" Albertans responded: 67% satisfied, 29% dissatisfied, 5% did not know.

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR

Calculations are based on applying each province's tax regime to the individual family financial situations known as of budget day for Alberta and March 19, 2003 for the other provinces. The comparison includes provincial personal income taxes, provincial sales taxes, health care premiums, payroll taxes, fuel taxes and tobacco taxes. The families considered are:

1. One income family with two children aged 6 and 12, earning $30,000.
2. Two income family with two children aged 6 and 12, earning $60,000.
3. Two income family with two children aged 6 and 12, earning $100,000.

Other assumptions used in the calculations include:

- For two income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- RRSP/RPP contributions are assumed to be $1,000 for the family with $30,000 in income, $7,800 for the $60,000 income family, and $13,500 for the $100,000 income family.
- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- 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 health care insurance premiums.
- Fuel tax is based on an 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 an estimated consumption of 100 packs per adult per year.

PROVINCIAL TAX LOAD ON BUSINESS

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue that 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 business income taxes, for example, is corporate profits.
2. The revenue that 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. Provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

The latest available data are used in these calculations:

- July 2003 Interim Estimates for 2002-03, except for Alberta corporate income tax, which has been adjusted from budget to actual
- February 2003 Fifth Estimate for 2001-02

As a result, the 2001-02 business tax loads are restated from what was reported in the Alberta Finance Annual Report for 2001-02.