
Finance

BUSINESS PLAN 2003-06

ACCOUNTABILITY STATEMENT

The Business Plan for the three years commencing April 1, 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 of March 19, 2003 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

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

[Original Signed]

Patricia L. Nelson, *Minister of Finance*
March 21, 2003

THE MINISTRY

The Ministry of Finance includes the **Department of Finance**, the **Alberta Capital Finance Authority (formerly Alberta Municipal Financing Corporation)**, **Alberta Pensions Administration Corporation**, **ATB Financial (Alberta Treasury Branches)**, the **Alberta Insurance Council**, and the **Credit Union Deposit Guarantee Corporation** and its subsidiaries. The Ministry of Finance also includes the activities of a number of companies in wind-up.

The Department of Finance has four main areas: Office of Budget and Management; Pensions, Insurance and Financial Institutions; Treasury Management; and Corporate Support.

The Finance Business Plan incorporates all the entities reporting to the Minister into an integrated strategic plan that focuses on the key priorities for the Ministry. The following plan does not include the day-to-day activities of the Ministry.

VISION

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

MISSION

Develop and implement the government's fiscal framework and financial policies.

CORE BUSINESSES

- Fiscal Planning and Financial Management
- Regulation of Provincial Financial Institutions
- Pensions Policy, Regulation and Administration
- Financial Services

GOALS

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 Risk.

Regulation of Provincial Financial Institutions

- Goal 4 Confidence in Provincially Regulated Financial Institutions and Insurance Companies.

Pensions Policy, Regulation and Administration

- Goal 5 Pensions That Deliver on Promises.

Financial Services

- Goal 6 Financial Services Available to Albertans and Alberta Municipalities.

EXPENSE BY CORE BUSINESS

(thousands of dollars)

	Comparable 2001-02 Actual	Comparable 2002-03 Budget	Comparable 2002-03 Forecast	2003-04 Estimates	2004-05 Target	2005-06 Target
EXPENSE						
Core Business						
Fiscal Planning and Financial Management	815,618	659,647	623,707	543,094	515,871	541,124
Regulation of Provincial Institutions	4,092	4,724	4,814	5,156	4,936	4,959
Pension Policy, Regulation and Administration	17,504	22,482	23,559	28,131	23,053	24,267
Financial Services	339,952	331,644	340,848	315,938	298,170	277,779
MINISTRY EXPENSE	1,177,166	1,018,497	992,928	892,319	842,030	848,129

STRATEGIC PRIORITIES 2003-06

Through the Ministry's review of external and internal challenges, the strategic priorities described below have been identified. These are in addition to the important ongoing core activities of the Ministry.

Re-engineering Alberta's Fiscal Framework

Linkage: Goals 1, 2 & 3

The Financial Management Commission (FMC) was appointed to review the government's fiscal framework and to make recommendations for possible improvements. The government accepted in principle 22 of 25 recommendations. The government's new fiscal framework is designed to provide predictability, sustainability and continued discipline to prepare Alberta for the challenges that lie ahead, while maintaining a competitive tax environment. Finance will work with other ministries to implement the accepted recommendations, risk analysis, 3-year capital plans, alternative mechanisms for capital project financing, capitalization and amortization of assets, and continued refinements to the government reporting entity.

Kyoto Protocol

Linkage: Goal 1

Alberta is committed to addressing the issue of global warming, however, the province is concerned about market uncertainty associated with the implementation of the Kyoto Protocol and the potential negative impacts on the Alberta and Canadian economies. Alberta Finance will work with other ministries to address the challenge of global climate change and to assess the economic impacts on Alberta.

Enterprise-Wide Risk Management

Linkage: Goal 3

An enterprise the size and scope of the Alberta government faces risks from a variety of sources. The concept of enterprise risk management is to identify the sources of risk to all major components of the province's revenues and expenses and to use the collective strength of the enterprise to manage those risks with a comprehensive, cost-effective strategy. Finance will develop an enterprise risk management framework and provide recommendations for government consideration.

Automobile Insurance

Linkage: Goal 4

The costs of automobile (commercial and personal) insurance are rising steeply throughout Canada and this trend is making its way to Alberta. Finance will assess the issues facing the automobile insurance industry including a review of compensation for automobile injury claims and related premium increases. The department will seek input from the insurance community and Albertans.

Pension Plan Governance and Regulation

Linkage: Goal 5

Pensions involve long-term promises. Finance will continue to monitor the financial health of pension plans. One of the elements of long-term sustainability is good board governance. After many years, the independence of the Local Authorities Pension Plan (LAPP) remains unresolved given difficulties in achieving a sound governance model. The Minister of Finance, as trustee of LAPP, must be assured that plan members, pensioners and taxpayers would be protected under an independent model. Over the coming business plan cycle, Finance will resolve whether the plan should become independent. The governance of the other public sector plans, for which the Minister of Finance is also the trustee, will be reviewed as well.

GOALS, STRATEGIES AND PERFORMANCE MEASURES

GOAL ONE

1 A Financially Strong, Sustainable and Accountable Government

What it means Maintaining Alberta's strong financial position requires the government to keep the budget on a sustainable course for the future. Strategic fiscal planning and prudent economic forecasting are required to meet today's priorities and to sustain essential programs and services over the longer term. The government will continue to balance the budget every year in accordance with the Financial Management Commission (FMC) framework and to reduce the province's existing debt as scheduled. The *Government Accountability Act* is the government's legislated commitment to be accountable to Albertans. It requires that the government publish three-year consolidated fiscal plans, quarterly fiscal updates and annual performance reports including audited financial statements.

Key Strategies

- Oversee cross-government implementation of accepted recommendations of the FMC. Finance will concentrate on developing a new fiscal framework, establishing a sustainability fund, assisting in the development of the capital plan and assessing expansion of the government's reporting entity to include other entities.
- Work with other Alberta government ministries on climate change initiatives.

Performance Measures	Last Actual (2001-02)	Target 2003-04	Target 2004-05	Target 2005-06
Alberta's credit rating.	AAA	AAA	AAA	AAA
Value of assets in the Sustainability Fund	new	\$2.5 billion	\$2.5 billion	\$2.5 billion
Accumulated debt.	\$5.3 billion*	\$4.8 billion	\$4.8 billion	\$4.8 billion
Percentage of Albertans who think they get enough information on the government's financial performance.	new**	establish baseline	–	–
Percentage of FMC accepted recommendations implemented.	–	32%	64%	96%

* Less cash set aside and to be transferred.

** Survey question revised from previous year.

2 A Fair and Competitive Provincial Tax System

What it means Taxes are necessary to provide the revenue that government needs to fund its programs and services. The tax system must be fair and promote self-reliance. Our taxes must also be competitive with those in other provinces and other countries with which Alberta competes. This attracts the investments, jobs and skilled workers necessary to keep our economy performing well. On January 1, 2001, Alberta introduced a single rate personal income tax of 10% and by far the highest personal and spousal exemptions in Canada. On April 1, 2001 Alberta began implementing its plan to reduce corporate income taxes. Alberta remains the only province without a retail sales tax.

Key Strategies

- As affordable, implement the Business Tax Plan to reduce tax rates from 13% to 8% for large businesses and from 4.5% to 3% for small businesses.

Performance Measures	Last Actual (2001-02)	Target 2003-04	Target 2004-05	Target 2005-06
Provincial tax load for a family of four.	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
Provincial tax load on businesses.	Second lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
Total tax load in Alberta as a percentage of GDP.	30% (1999)	29%	29%	29%

Effective Management of Financial Assets, Liabilities and Risks

What it means The Government of Alberta has annual cash flows nearing \$300 billion. These cash flows must be managed to optimize returns and to ensure cash availability to meet Alberta's obligations. In addition, the Minister of Finance is responsible for managing several billion dollars in liabilities as well as certain assets. Through prudent management of the liabilities and assets, the Ministry endeavors to minimize debt service costs and maximize investment returns. The complexity of the entire government enterprise gives rise to many potential risks. Identification and management of these risks across government was identified by the Financial Management Commission (FMC) as an important issue. The recommendations of the FMC regarding alternate forms of capital financing may have major implications.

Key Strategies

- Establish and manage prudently a sustainability fund and capital account.
- Investigate and recommend alternative mechanisms for capital project financing for government consideration.
- Develop an enterprise-wide risk management program for government consideration.

Performance Measures	Last Actual (2001-02)	Target 2003-04	Target 2004-05	Target 2005-06
Return on Sustainability Fund (benchmark to be established 2003-04).	–	Greater than the approved benchmark	Greater than the established benchmark	Greater than the established benchmark
All in cost of debt issued compared to an issue of comparable term in the Canadian public debt market.	\$1.5 million Lower	Lower	Lower	Lower
Return on Debt Retirement Account compared to the cost of the debt on the day the investment is made.	Greater	Greater	Greater	Greater
Return on Consolidated Cash Investment Trust Fund compared to ScotiaMcLeod 91 day Treasury Bill Index.	Greater by 32 basis points	Greater by over 10 basis points	Greater by over 10 basis points	Greater by over 10 basis points
Government decision on enterprise risk management program.	–	Completed	–	–

4 Confidence in Provincially-Regulated Financial Institutions and Insurance Companies

What it means To foster confidence, Alberta's regulatory environment for financial services must be fair and efficient to encourage the availability of comprehensive, reliable and competitive products and services. Financial service providers are responsible for ensuring that Albertans receive fair value for the services they have purchased. Alberta Finance sets the legislative and regulatory framework, and with its delegated regulatory organizations, regulates the credit union, insurance, loan and trust industries in Alberta, in the interests of depositors, insurance policy holders, investors, insurance intermediaries and the companies themselves. Together, this competition and oversight leads to a financial sector marketplace in which Albertans can have confidence.

Key Strategies

- Carry out a review of issues facing the automobile insurance industry including compensation for automobile injury claims and related premium increases.
- Work with industry and consumer stakeholders to complete phase 2 of the *Insurance Act* dealing with contractual provisions.
- Work with stakeholders to harmonize financial sector legislation while ensuring that Alberta law is efficient, effective and does not create unnecessary regulation.

Performance Measures	Last Actual (2001-02)	Target 2003-04	Target 2004-05	Target 2005-06
Automobile Insurance Review.	–	Completed and implemented	–	–
Revision of <i>Insurance Act</i> .	Phase 1 completed	–	–	Phase 2 completed
Stakeholder satisfaction with harmonization of financial sector policy and regulation.	–	Set baseline	TBD*	TBD*

* TBD = To be determined.

5 Pensions That Deliver on Promises

What it means Pension Plan members need to be assured that their benefits are secure. Employers and other plan sponsors need to know that pension regulation is fair and even-handed. The Superintendent of Pensions focuses on assessing private sector plan compliance with legislative standards and ensuring that ‘at risk’ plans take action to comply with regulations. The Minister of Finance is the trustee of most of Alberta public pension plan assets. The department provides advice to the Finance Minister on the soundness of the public plans and governance arrangements. Alberta Pensions Administration Corporation (APA) provides administration services and member benefit and contribution calculations.

Key Strategies

- In consultation with public sector pension boards and stakeholders, facilitate the improvement of pension governance frameworks including the management of boards’ recommendations for policy changes.
- Work with stakeholders of the Local Authorities Pension Plan to determine, subject to meeting established principles and requirements, if the plan should be independent.
- Work with stakeholders and other jurisdictions across Canada to harmonize and streamline private pension legislation and regulatory processes.
- Develop a risk assessment system and plan examination process to help identify private pension plans needing special attention and provide assistance to help ensure plan viability.
- Work with the federal government and the other provinces to help ensure the sustainability of the Canada Pension Plan and, at the same time, explore other alternatives to allow Albertans the opportunity to secure their retirement income.

Performance Measures	Last Actual (2001-02)	Target 2003-04	Target 2004-05	Target 2005-06
Improved governance frameworks developed and implemented.	–	In progress	Implemented	–
Local Authorities Pension Plan independence resolved.	–	In progress	Achieved	–
Percentage of APA client members and employers satisfied or very satisfied with products and services.	95%	95%	95%	95%
Percentage of private sector plans that meet minimum funding requirements.	–	98%	98%	98%
Stakeholder satisfaction with Canada-wide harmonization of private pension legislation and regulatory processes.	–	Set baseline	TBD*	TBD*

* TBD = To be determined.

6 Financial Services Available to Albertans and Alberta Municipalities

What it means Alberta's dynamic economy and entrepreneurial spirit requires readily accessible and technologically advanced financial services and products. ATB Financial (Alberta Treasury Branches) and the Alberta Capital Finance Authority (ACFA) are key components of the financial servicing sector. ATB Financial is a full-service financial institution providing services to individuals, small businesses, the commercial and energy sectors, and the agri-industry in 240 communities in Alberta, through the largest branch network of any financial services provider in the province. ACFA provides financing to a variety of local authorities (municipalities, towns, counties, hospitals, schools and post-secondary institutions) throughout the province for capital projects. The province's triple A credit rating allows ACFA to pass along low borrowing costs to its clients.

Key Strategies

- ATB Financial will develop wealth management and commercial banking capacity.
- Modernize regulatory frameworks for ATB Financial to ensure that it continues to operate in a prudent and secure environment and on a level playing field with banks and other businesses offering similar services.

Performance Measures	Last Actual (2001-02)	Target 2003-04	Target 2004-05	Target 2005-06
ATB Financial				
Loan loss provisions as a percentage of average total loans.	0.21%	0.25%	0.30%	0.35%
Expenses to operating revenue.	61.65%	65.34%	65.51%	64.27%
Return on average assets (before tax).	1.29%	1.06%	0.99%	0.98%
Local authorities' cost of borrowing from ACFA relative to borrowing costs of other Canadian municipalities within the viability of the Corporation.	lowest	lowest	lowest	lowest
Percentage of local authorities satisfied with lending policies and efficiency of ACFA (biennial survey).	83%	–	85%	–

RISK ANALYSIS

Maintaining a strong and sustainable financial position faces future challenges. The Kyoto Protocol on greenhouse gases and the lack of clarity by the federal government on implementation have the potential to be costly to the Alberta and Canadian economies. The continued decline of high royalty rate conventional oil revenues will need to be replaced in the long term. Wage pressures in health and education add to base spending and create long-term funding pressures. Health sustainability is a particular concern given an ageing population, technological improvements and public expectations. If world capital markets stay weak for an extended period of time, funding pressures will be placed on pension plans. The new Sustainability Fund will help manage risks from energy and other revenues, and disasters and emergencies.

LINKAGE TO THE GOVERNMENT BUSINESS PLAN

Alberta Finance links to the Government Business Plan are primarily to a financially stable, open and accountable government and a strong intergovernmental position in Canada (Goal 9) and the goal to have a prosperous economy (Goal 7). As well, Finance links to the government's goals of an effective, responsive and well-managed local government sector (Goal 6) and Aboriginal Communities will be effective and self-reliant (Goal 5).

MINISTRY STATEMENT OF OPERATIONS

(thousands of dollars)

	Comparable 2001-02 Actual	Comparable 2002-03 Budget	Comparable 2002-03 Forecast	2003-04 Estimates	2004-05 Target	2005-06 Target
REVENUE						
Internal Government Transfers	153,376	319,830	334,330	95,679	242,156	227,621
Other Taxes	1,014	400	800	600	600	600
Transfers from Government of Canada	4,434	4,030	4,055	4,030	4,030	4,030
Investment Income	569,487	498,339	530,777	504,311	471,986	461,152
Premiums, Fees and Licences	18,402	21,753	21,562	26,582	28,544	31,287
Net Income from Commercial Operations	165,200	121,722	204,150	156,660	165,219	181,256
Other Revenue	20,970	123,038	124,765	28,313	23,134	24,247
MINISTRY REVENUE	932,883	1,089,112	1,220,439	816,175	935,669	930,193
EXPENSE						
Program						
Fiscal Planning and Accountability	7,160	8,276	8,157	10,088	9,900	9,869
Treasury Management	71,060	71,009	70,971	71,887	72,367	72,438
Financial Sector Operations	3,822	4,425	4,541	4,881	4,642	4,675
Public Sector Pension Policy and Administration	16,688	21,532	22,586	27,068	22,008	23,243
Financing to Local Authorities	339,634	331,287	340,483	315,518	297,738	277,365
Ministry Support Services	4,336	4,912	4,924	5,074	5,054	4,983
Valuation Adjustments and Other Provisions	(33,078)	350	(440)	300	300	300
Total Program Expense*	409,622	441,791	451,222	434,816	412,009	392,873
Debt Servicing Costs						
Department Voted	80,463	70,706	70,706	61,503	53,021	45,256
Department Statutory	687,081	506,000	471,000	396,000	377,000	410,000
Ministry Debt Servicing Costs	767,544	576,706	541,706	457,503	430,021	455,256
MINISTRY EXPENSE	1,177,166	1,018,497	992,928	892,319	842,030	848,129
Gain (Loss) on Disposal of Capital Assets	(16)	-	-	-	-	-
NET OPERATING RESULT	(244,299)	70,615	227,511	(76,144)	93,639	82,064

* Subject to the *Fiscal Responsibility Act*. Program expense includes the province's cash payments towards the unfunded pension liability (which will be eliminated under a separate legislated plan). Program expense does not include the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements. The annual increases (decreases) in the Ministry of Finance's unfunded pension obligations are:

(9,560)	(7,000)	(8,000)	(6,000)	(6,000)	(8,000)
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CONSOLIDATED NET OPERATING RESULT

(thousands of dollars)

	Comparable 2001-02 Actual	Comparable 2002-03 Budget	Comparable 2002-03 Forecast	2003-04 Estimates	2004-05 Target	2005-06 Target
Ministry Revenue	932,883	1,089,112	1,220,439	816,175	935,669	930,193
<i>Inter-ministry consolidation adjustments</i>	(221,094)	(398,630)	(416,254)	(174,274)	(326,142)	(316,167)
Consolidated Revenue	711,789	690,482	804,185	641,901	609,527	614,026
Ministry Program Expense	409,622	441,791	451,222	434,816	412,009	392,873
<i>Inter-ministry consolidation adjustments</i>	(256)	(167)	(149)	(196)	(196)	(196)
Consolidated Program Expense	409,366	441,624	451,073	434,620	411,813	392,677
Ministry Debt Servicing Costs	767,544	576,706	541,706	457,503	430,021	455,256
<i>Inter-ministry consolidation adjustments</i>	(99,478)	(96,487)	(89,629)	(95,394)	(99,778)	(103,155)
Consolidated Debt Servicing Costs	668,066	480,219	452,077	362,109	330,243	352,101
Consolidated Expense	1,077,432	921,843	903,150	796,729	742,056	744,778
Gain (Loss) on Disposal of Capital Assets	(16)	-	-	-	-	-
CONSOLIDATED NET OPERATING RESULT	(365,659)	(231,361)	(98,965)	(154,828)	(132,529)	(130,752)

