

# **HANSARD**

**NOVA SCOTIA HOUSE OF ASSEMBLY**

**COMMITTEE**

**ON**

**PUBLIC ACCOUNTS**

**Wednesday, February 25, 2015**

**LEGISLATIVE CHAMBER**

**Office of the Auditor General  
February Financial Report**

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## **Public Accounts Committee**

Mr. Allan MacMaster, Chairman

Mr. Iain Rankin, Vice-Chairman

Ms. Margaret Miller

Ms. Suzanne Lohnes-Croft

Mr. Brendan Maguire

Mr. Joachim Stroink

Mr. Tim Houston

Hon. Maureen MacDonald

Hon. David Wilson

[Mr. Terry Farrell replaced Ms. Margaret Miller.]

In Attendance:

Mrs. Darlene Henry  
Legislative Committee Clerk

Mr. Gordon Hebb  
Chief Legislative Counsel

### **WITNESSES**

#### **Office of the Auditor General**

Mr. Michael Pickup, Auditor General

Ms. Ann McDonald, Assistant Auditor General



House of Assembly  
*Nova Scotia*

**HALIFAX, WEDNESDAY, FEBRUARY 25, 2015**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

10:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. IAIN RANKIN (Chairman): Good morning, I'd like to call this meeting to order. Before we begin I would ask that all cellphones be placed on silent, vibrate or off. We will start with the introduction of members.

[The committee members and witnesses introduced themselves.]

MR. CHAIRMAN: Today on the agenda is the February Report of the Auditor General. We will begin with the presentation. Mr. Pickup.

MR. MICHAEL PICKUP: A very quick introduction to the topic. I would like to thank Ms. McDonald, the Assistant Auditor General, who is responsible for these six chapters of work, and her team who spent considerable effort to result in the product we have here today and, as well, thank government officials who were quite co-operative in getting us to this point today as well.

We're going to turn it quickly over to questions. One comment I would make is that starting with the March 31, 2016 year end for the new Provincial Health Authority, we will be doing the financial statement audit. That is allowed, per the Auditor General Act. We've had a discussion with government that we plan to do that and they are co-operating with us in order to get that put in place. I'm looking forward to working with the new board and with senior management as we set up this first year-end financial statement audit.

MR. CHAIRMAN: We'll begin with questions from the PC caucus for 20 minutes. Mr. Houston.

MR. TIM HOUSTON: Thank you, Mr. Chairman, and thank you to the Auditor General's Department for preparing this report. There are lots of things in this report that are definitely troubling. We can see some short-term problems. What I'm curious about this morning, to Mr. Pickup, is in looking at the 10 financial indicators that showed Nova Scotia is in a poor financial position, which of those 10 do you see as being the higher risk items to the long-term sustainability of what's happening here?

MR. PICKUP: I think it's important to look at all these indicators together. We've picked 10 of them as the recommended indicators from the Public Sector Accounting Board. If you look at sort of the grouping of sustainability, for example, with four or five key indicators, it's troubling that all of these indicators are showing unfavourable tendencies. I would look at all of them together to say this is a situation that requires attention.

MR. HOUSTON: So the average Nova Scotian would likely hear this and hear all these unfavourable indicators and they might say it's more of the same, they might say why does it matter? What would you say to that person who says why do these unfavourable indicators matter?

MR. PICKUP: The simplest way I would boil it down is to say look at the net debt per capita - it's \$15,659 per Nova Scotian and it was \$13,847 in 2010. So my comment would be that eventually somebody has to pay for this. Nobody is going to ride into town with a big cheque to cover all of this so I think that's what I would say to Nova Scotians, that it's not more of the same, it's look at the numbers and look at where we are today compared to where we were five years ago.

MR. HOUSTON: So the debt in particular is going to come home to roost eventually. If it's not in our generation, it will be in our children's or somebody after that so I do agree that it's pretty serious, it's pretty egregious what's happening with the debt.

I have to ask you a question, would the credit rating agencies be doing a similar analysis to this with similar financial indicators and coming up as to what their sense of the province is?

MR. PICKUP: We do this exercise obviously as an information piece to Nova Scotians. I would assume that in determining borrowing rates that all this information is publicly available information, that they would use this and a whole lot more information, as well, and all the importance as to why we audit the government's financial statements every year and have issued a clean opinion, so people like those agencies can rely on our audit opinion.

MR. HOUSTON: If the credit agencies did a similar analysis or relied on this analysis and had unfavourable conclusions, I guess one result of that could be a change in the interest rates that the province pays?

MR. PICKUP: To speak to the discussions that may occur between the province and lending agencies is probably best left with Finance and Treasury Board officials if you'd like to pursue that with them.

MR. HOUSTON: Is it fair to say, though, that if the rating agencies aren't happy with the financial condition of a company, of a province or anything, one impact of that is usually that they pay higher interest rates?

My question for you this morning would be, all other things being equal, is there any analysis that you've seen that shows what the impact is to the debt servicing cost of the province, of a 1 per cent hike in interest rates? We have roughly \$15 billion worth of debt, we know in the current year the debt servicing costs will be about \$900 million - what if interest rates went up by 1 per cent? Do you have any analysis of how high that \$900 million would go up to?

MS. ANN MCDONALD: No, even as part of the Public Accounts audit, we don't prepare such an analysis and I'm not aware of an analysis. That's not to say that one doesn't exist at the Department of Finance and Treasury Board.

MR. HOUSTON: You did do an analysis in your report that said on the unfunded liabilities of \$1.8 billion, a 1 per cent raise in the interest rates would equate to a \$42 million increase in servicing costs? I believe I saw that in your report this morning.

MS. ANN MCDONALD: Actually it was even lower than that. Between 2013 and 2014, a 0.2 per cent increase in the interest rate - attributable to those unfunded liabilities - resulted in that \$42 million increase.

MR. HOUSTON: So a 1 per cent rise in interest rates is going to cost this province hundreds of millions of dollars in annual debt servicing costs. I just want to make that point because that's why these unfavourable indicators matter. That's a very real possibility, a very real implication to the people of this province. Every dollar spent on interest is not spent on services.

MR. PICKUP: I would also point you to the indicator of how much debt is there for every \$1 in revenue. There's a \$1.47 in debt for every dollar in revenue the province brings in.

MR. HOUSTON: So you say in your report that we're in a steep decline. My question to you is, reversing that steep decline and improving these indicators to a favourable position - is that impossible?

MR. PICKUP: So we point out this information as a snapshot at a point in time and what has happened over the last five years. Now, how do you get out of this? I think I would explain that as I would explain to an individual to say, you either increase revenue, you decrease expenses or you do some combination. How that happens is really a question between a government and its citizens as to how to accomplish that.

MR. HOUSTON: Is there anything that you would like to see in the next budget that will be tabled in the next couple of months? Is there anything that you would like to see in that budget that would give an indication to you that we're on track to reversing these indicators?

MR. PICKUP: I think the most important part, without commenting on government policy, is sort of the open dialogue to indicate this is the financial position that the province is in, this is what the indicators show and then what the intention of a government may be to change that and how they're going to change that over time with clear sort of markers or performance indicators of what the trend will be to reverse these indicators.

MR. HOUSTON: Okay. Maybe start with a balanced budget? That would be a good indicator that we're on track to try to reverse the problems we're in.

You talked about the net debt per capita and how it's increasing over the last few years - it's now \$15,659 per man, woman and child. That's increasing at a pretty alarming rate. I think your report said it is the largest annual increase in the past five years, a 6 per cent increase this year.

We've all heard the talk about a shrinking population and we know that if you have less people, that's going to go up per person. I'm just wondering, even at today's level of \$15,659 per person, are the alarm bells already going off on the sirens, that this number is too high?

MR. PICKUP: The snapshot that we've given the report is that we've looked at 10 indicators and on sustainability all of them are unfavourable. Our conclusion based on that is that this is a picture of a province in poor financial shape. That's why these indicators exist. We didn't sort of derive the indicators as an academic exercise. They're there for a reason, they give results for a reason, and Nova Scotians and the government have the results and we'll leave it with them.

MR. HOUSTON: The unfavourable means that it's absolutely not sustainable to keep on that track. That's what unfavourable means.

MR. PICKUP: Unfavourable would mean it would question the sustainability of past trends to be able to continue in that direction.

MR. HOUSTON: We have unfunded retirement benefits and compensated absences of about \$1.8 billion. That would be the \$1.8 billion part of our \$15 billion worth of debt, and that whole liability seems to be increasing at a pretty quick rate too. I'm wondering, does the existence of that amount represent a long-term systemic risk to the province?

MR. PICKUP: The reason that we did the chapter on the unfunded liabilities, the \$1.8 billion, again was to raise this as an area that has significant risks associated with it. The \$1.8 billion liability is of course unfunded. It does make up part of the balance sheet of the province, but with it being unfunded it does carry risks.

MR. HOUSTON: Have you compared that to other jurisdictions to see where other jurisdictions are on that number - the quantum of it first off?

MR. PICKUP: What we did is - the components of the \$1.8 billion, whether it's retirement or whether it's health care premiums, we summarized by jurisdiction for the 10 provinces and for Canada in a table as to who has those types of benefits. We've included that as an appendix to the chapter for an information piece.

MR. HOUSTON: So in terms of one portion of that was the accumulated sick leave - \$202 million of unfunded benefits of accumulated sick leave. Now that sick leave, I just want to be clear, is coming from just the Department of Health and Wellness and the Department of Education?

MR. PICKUP: The sick leave, the \$200 million liability, is coming from the education sector, including the school boards - not just the department - and the health sector as well, which would go beyond just the department.

MR. HOUSTON: Now on the sick leave, did you drill down on that and compare it to other jurisdictions on the sick leave entitlement of workers in this province compared to what it is in other provinces?

MR. PICKUP: We didn't go into that level of detail. What we did was provide information on the provincial scene. For example, health care, education sector, they can accumulate, for example, and carry over certain amounts from one year to the next. Of course, the Public Service, they don't accumulate and carry over so we didn't compare the entitlements or the calculations to other jurisdictions. We looked at the Nova Scotia scene.

MR. HOUSTON: So you didn't compare the actual components of the equation, I guess, but you looked at the high-level number of the \$200 million?

MR. PICKUP: For Nova Scotia, we looked at what makes up the \$200 million by each of the sectors.

MR. HOUSTON: But you didn't compare the \$200 million to what New Brunswick has?

MR. PICKUP: No, we didn't do that.

MR. HOUSTON: But overall, the \$200 million is part of \$1.8 billion and you compared the \$1.8 billion to other jurisdictions, or no? Okay, that's fine.

MR. PICKUP: The comparison to other jurisdictions was just by whether those benefits exist or not, not the total dollar amount.

MR. HOUSTON: Just the existence, not necessarily the details of it.

MR. PICKUP: Right.

MR. HOUSTON: What about the MLA transition allowance, is that something that exists in other jurisdictions - are you aware?

MR. PICKUP: We didn't consider other jurisdictions on that.

MR. HOUSTON: I want to talk about the annual accountability reports. I notice you've made a recommendation of expanding the Finance Act so that all government entities are required to file accountability reports. That seems like a no-brainer to me. I mean, if we think about a province that's in steep decline, the only way you can get out of that steep decline is if you start to pay attention to the various details and moving parts. There are a lot of things in this report that make me believe that there's not near enough attention to the details and the moving parts. Did you get any feedback on whether the Finance Act would be expanded to include those things?

MS. ANN MCDONALD: We didn't actually make a formal recommendation because we looked at so many entities and it's their legislation that right now determines whether or not they require to prepare a business plan and an accountability report.

We didn't make the recommendation to the Department of Finance and Treasury Board, because to be honest, we weren't sure that it would have the jurisdiction to expand the Finance Act to cover those other entities. I'll point out that within the Health Authorities Act and the Education Act, there is provision in those Acts for the minister to be looking for business plans and accountability reporting, but in the other entities that we looked at - so we didn't look at all 75, but in the other seven entities that we looked at, we noticed



there was a variation in the legislation. Actually, some of those entities - in fact, I think two - don't have any enabling legislation, although they did still provide some level of accountability reporting.

MR. HOUSTON: And what you found in health is that even though the legislation allows them to ask for accountability reports, they weren't bothering to ask for them?

MS. ANN MCDONALD: We looked at two aspects of accountability reporting. First the annual business plan, in which we anticipated seeing outcomes and performance measures and then a reporting against those outcomes and performance measures in some sort of year-end annual report or accountability report. So in the Health Authorities Act, there was and there currently is the provision for there to be a business plan and for an annual plan. The annual report, under the Health Authorities Act, does talk about reporting against outcomes established by the minister.

We understand from officials at the Department of Health and Wellness that they will be taking a more active role in the accountability reporting, but certainly during the period of our audit, which was 2013-14, they did not request annual business plans from the health authorities and the IWK. They did request business plans to be prepared in accordance with their guidance. We did note that the two entities we looked at - being Annapolis Valley Health and the IWK - provided an annual report, which I think they termed a report to the community on their results for the year, but we still found it was lacking because it didn't tie into outcome measures established earlier.

MR. HOUSTON: When you consider we just talked here a couple of weeks ago about the Tri-County Regional School Board and their failure to meet outcomes and maybe in some cases their lack of understanding of what their outcomes should be, this is an area where we should definitely be getting these reports from these various entities to show that they know what they're supposed to be doing and then to review whether they're doing it or not. That's a big weakness that I hope gets fixed.

In terms of the Halifax-Dartmouth Bridge Commission, I think I read in the report that they're not required to submit a business plan per se, but they did anyway, but the one that they did maybe wasn't up to scratch, so there seems to be way too many moving parts here - that there are a lot of places where we're falling down. Is that your assessment as well?

MS. ANN MCDONALD: We certainly feel that there is a need for improvement in the accountability reporting dialogue, I guess, throughout government. Whether that's through legislation or through policy, I'm not sure, but certainly there's guidance out there; there's a need for improvement in some of the guidance. Guidance provided by Treasury Board to the various entities that it looks at was pretty robust guidance, but in terms of what the entities produced, there's a need for improvement.

MR. HOUSTON: So the Halifax-Dartmouth Bridge Commission is in the process of doing a \$200 million renovation on one of the bridges, but they're undertaking that without having submitted a business plan to the province. I'm sure they probably have one, but is that a fair statement that they would be doing that and wouldn't be submitting those types of things to the province?

MS. ANN MCDONALD: No, the Halifax-Dartmouth Bridge Commission does have an annual business plan certainly in 2013-14, and I know they have one for 2014-15. We just didn't look at that in detail.

I know that within the 2013-14 business plan they did refer to their deck replacement project and listed some activity associated with that project.

MR. HOUSTON: Okay, good, thank you.

MR. CHAIRMAN: We'll move to the NDP caucus and Ms. MacDonald for 20 minutes.

HON. MAUREEN MACDONALD: Thank you very much for your report. I have been here for quite a long time, some people might say too long, but 17 years pretty soon. I'm looking at this report and I'm thinking about the time I've been here. Our province has continued to struggle I think for at least two decades with this very situation - soft revenue, difficulty controlling expenditures, and of course poor economic performance as a province. The rate of GDP growth has lagged behind most provinces for more than 20 years.

In many respects when I look at this it just reflects a condition that has been around for some time. It's not a pretty picture, it is a troubling picture. I also am concerned about the way we bring some balance to moving forward around the current situation.

I guess my first question to you is, should we panic? Are we in a crisis? Is there something new here that we need to be made aware of, I guess? I'm trying to situate this report in a context. Also, can you indicate to me - this audit is basically based on looking at a particular fiscal year, is it not? It's looking at the fiscal year 2013-14?

MR. PICKUP: Okay, a couple of comments to your questions. Firstly, what we did in this report is there's information on 2013-14, a sort of year over year against planned - but more important, there's a lot of five-year analyses in here. To move to your question of saying should we panic, should we be concerned? We, as the auditor of the province's financial statements and auditor of the province in general, I feel it's incumbent on me to bring this information to legislators and to the public of Nova Scotia so they are aware.

Having said, okay, the province is in poor financial shape, there are a couple of these indicators that are particularly concerning. So you say what has changed over the past number of years? If we look over the past five years, for example, you see some alarming

trends. You have net debt per capita raising from \$13,847 to \$15,659; you have the debt growing faster than revenues. In 2010, net debt as a percentage of revenue was 141 per cent; today it's 147 per cent.

What I'm trying to do without being alarmist, without saying the sky is falling, is to say these indicators show a fairly serious financial situation. Nova Scotians need to realize that, so we're bringing this information forward based on public information but we're deciphering it, essentially on behalf of Nova Scotians to say that objectively speaking, this is a fairly significant financial situation.

We've also compared to five other provinces that we look at as being reasonably comparable, so we left out some of the big ones. When we look at these other five provinces, we see Nova Scotia - the debt servicing cost to revenue as being fifth out of six provinces, for example. When we look at net debt as a percentage of the GDP, Nova Scotia is the highest at six out of six.

If I look at a period of time over the last five years, things are going downhill, if you will. If I look at a comparison to five other provinces, not a good picture either in comparison to other provinces.

MS. MAUREEN MACDONALD: There was a substantial deficit reported in 2013-14; \$695 million, almost \$700 million. Were there any features in that deficit that were unique that we should be aware of when we look at that kind of a deficit?

MR. PICKUP: Two comments on that. First on your point about the deficit being greater than was planned, yes, there was the one-time accounting adjustment that accounted for \$280 million of that related to pensions. You can sort of put that in context to say perhaps that won't happen, but keep in mind there were other pluses and minuses that were relatively significant - Health and Wellness was up \$115 million. So yes, something valid there to put in context for that year. Keep in mind that the deficit figure is only one number of a host of information to look at and in a context beyond just the annual deficit.

The other thing to worry about is, as you remove flexibility, as you become more vulnerable - if you have these one-time items that come up, they have a much bigger impact in terms of when they happen.

MS. MAUREEN MACDONALD: You have the indicators laid out on Page 32. In the sustainability indicators, the last indicator, "Net Debt as a Percentage of Provincial GDP" - unfavourable on the one-year trend, but stable on the five-year trend. Can you explain that particular indicator and why it has a stability rating in the five year trend?

MS. ANN MCDONALD: I'll try to do that. If you turn to Page 39 of the report - of course, the indicator is a reflection of two variables, one being net debt and one being provincial GDP. When you look at the trend from 2010 to 2014, it varies. Overall, it went from 37 per cent in 2010 to 38 per cent in 2014, variations in between. It declined in 2011,

when there was a provincial surplus and it started climbing back up. We've turned its table over the five years, I think, because of the fact that the variance between 2010 and 2014 is one percentage point. However, you can see from the details in that table on Page 39, that there are variations within that five-year period.

MS. MAUREEN MACDONALD: Has the ratio, the net debt, as a percentage of provincial GDP - has it ever gone into the 40 per cent or 50 percentile range throughout our history?

MS. ANN MCDONALD: I can't answer that question. Certainly, we have been putting these indicators out for a few years and we have done a five-year trend for a few years. I would have to look at past reports, I just don't know off the top of my head whether it has climbed. My inclination is that it has not been above 40 per cent, but I'd have to confirm that.

MS. MAUREEN MACDONALD: One of the things that you've paid some attention to is the obligation of the province to its employees in terms of benefits: retirement benefits, sick leave provisions and so forth. There has been a failure over a long period of time to account in the Public Accounts for these obligations, for these benefits. For years governments did no planning for liabilities that they obviously will have to incur at some point, is that correct?

MR. PICKUP: In fairness to government, we raised these unfunded liabilities - the accounting is appropriate. There was a clean opinion on the financial statements for the last number of years and without giving you all of the details of every particular type of obligation, the accounting standards for these things came in over time. So if you look at accumulated sick leave, for example, it has only been a couple of years that has been on the books. So it's not that the province has necessarily been offside from the accounting rules, it's the accounting rules have changed over time.

MS. MAUREEN MACDONALD: Yes, I am aware of those changes. So the accounting rules have changed and the result of those changes is that now to comply - to be in compliance with the acceptable practices for public bodies - this needs to be reflected in the Public Accounts, but that is not to say that those obligations didn't exist prior to that, and were being met prior to that I suppose, and we now have to have a reasonable calculation of what those costs are and we have to accurately reflect them. Is that correct?

MR. PICKUP: I think spoken somewhat like an accountant, yes, the accounting caught up to the actual practice to recognize at a point in time what really people have earned and the liability that existed.

MS. MAUREEN MACDONALD: So I think it's really important - to be really clear about this - that those obligations were always there and are ongoing because there seems to be maybe a current in the air that somehow these obligations are new in some

way and unaffordable in some way, which is a whole different discussion but an inaccurate reflection of the reality. Is that not the case?

MR. PICKUP: What we wanted to do in this chapter - I came into this job last summer and one of the things that struck me right away was this \$1.8 billion liability, so what I wanted to do was provide Nova Scotians with more information on the history of where these things came from. This is why in this chapter we go to great length to outline that a lot of these things have been in place for a lot of years and then we sort of try to give the nature of how these things were derived.

As the Auditor General, I'm not questioning the merit of having or not having these benefits. What we're pointing out here is, these benefits carry risks and these risks need to be managed.

[10:37 a.m. Mr. Joachim Stroink took the Chair.]

MS. MAUREEN MACDONALD: I'm really curious about how calculations are actually done. I mean, the chances that everybody is going to leave the civil service all at once or that everybody is going to take their maximum sick leave at any given time is probably zero to none. I mean, we know that there's a staggering - there's an incremental kind of approach to all of these things. Some people will use their maximum sick time; some people will never use any sick time. There must be some way to calculate the actual use versus the total entitlement, is there not?

Does the \$1.8 billion in obligation represent the totality of entitlement for everyone in a kind of theoretical way if everybody was to take all of the benefits accrued to them - that's what we'd be looking at?

MS. ANN MCDONALD: I guess what I'd point out is that the numbers that are included in the report are the result of actuarial valuations, and key to actuarial valuation is assumptions. So there are assumptions about retirement dates; there are assumptions about interest rates. Mortality is a key assumption that has just recently been updated by actuaries. There are assumptions about the use of sick leave and the assumptions, for example, on sick leave - just being familiar because we do the audit of the Public Accounts, on sick leave per the actuarial valuation - the actuaries actually have information, or I guess assumptions is probably the clear way of saying it, based on the age of people in the health sector and the education sector who are entitled to these benefits, the use of their accumulated days and how much over the estimated or assumed period of employment. For example, somebody who is new in the system would obviously, I think, have fewer accumulated sick leave days than somebody who is nearer to retirement.

Going along with that is that there are of course assumptions about people who are due to retire and how much of their sick leave bank they would use prior to retirement, knowing of course that sick leave in particular is forfeited on retirement.

MR. PICKUP: I'd like to add just one thing to that. What Ms. McDonald has described is the accounting for this is not worst case scenario accounting. It's not what the potentially highest liability is that you can calculate, based on the worst case. There's a lot of detailed work that goes into calculating these numbers.

MS. MAUREEN MACDONALD: So in the \$1.8 billion figure, do the retiring allowances appear as part of that? (Interruption) They do. Is that \$373 million?

MR. PICKUP: That's correct, yes. On Page 15 it summarizes the three major components so there's a table on the bottom of Page 15 of the report. I know there's a lot of pages there and you've just received it but yes, at the bottom of Page 15 and there's a five-year summary there of how these things have changed.

MS. MAUREEN MACDONALD: And the \$373 million, is that also a total figure for everyone, or is it also subject to kind of an actuarial formula?

MS. ANN MCDONALD: It is subject to actuarial valuation. This would be the current liability associated with the number of people who are entitled to retiring allowances, and the estimate and the assumptions that go along with whether or not they will receive that retiring allowance at a point in time in the future.

MS. MAUREEN MACDONALD: You talk about long-term workers who could receive a significant one-time payment, as much as one-half year of pay upon retirement. Can you put a little detail to that? What is a long-term worker? What constitutes a long term? What are the provisions then that are calculated into this severance or retiring allowance, if you will.

MR. PICKUP: Why don't I start with sort of a simple example and if we want Ms. McDonald to give more details, she can.

Let's say, for example, you had a public servant in the Department of Transportation and Infrastructure Renewal. They spent 26 years working and were eligible for retirement, they were going to take their pension: 26 years times one week of pay per year of service, to a maximum of a half year's pay, they would get one-half of a year's pay at the rate when they retire, as a retiring allowance. That's my simple example of how I sort of boil it down now. I have oversimplified but essentially that's how it works.

MS. MAUREEN MACDONALD: Are there sick benefit provisions as well?

MR. PICKUP: There's no payout in any of the three sectors that we looked at for accumulated sick leave, keeping in mind that the core Public Service does not carry over accumulated sick leave, that is only in health and education sectors that they carry over sick leave.

MS. MAUREEN MACDONALD: Okay. And what about retiring health benefits? Do they have health benefit plans that roll over that are calculated as part of the cost?

MR. PICKUP: The most significant part of this \$1.8 billion is \$1.1 billion - essentially on Page 15, the retiring health benefits. These are the health care premiums for retirees in the three sectors, all three sectors get it - health, education and the core Public Service. As an example, in the education sector the government would be responsible for 100 per cent of those; in the core of the Public Service, 65 per cent.

MS. MAUREEN MACDONALD: Thank you, that's very helpful. I don't think I have any additional questions at this time.

MR. CHAIRMAN: I will now turn it over to the Liberal Party for 20 minutes of questions, starting with Mr. Rankin.

MR. IAIN RANKIN: I just wanted to have a moment, to step down from the Chair to ask a few questions. I guess in contrast to the last speaker, I haven't been here that long to participate in some of this discussion. It was important for me when I was campaigning and I was saying a lot of the same things that you're saying in your report about the sustainability going forward of our finances and our economy, struggling over the last - certainly in the last 25 years, I think, we're the worst performing economy.

Particularly with your accountability audit in Chapter 4, I think you make some very valid recommendations with the outcomes of the core programs. Obviously that's health and education, and judging the effectiveness. So you have the best practices aligned up there, and I'm just curious about the response from management, you indicate they're very positive and the recommendations are very consistent, but the impact of the recommendations may not be fully practical is what they're saying.

I do like the SMART goals - I think it's a relatively good framework to be working with. So what's the reasoning why they're not going to be using that framework, or did they indicate anything to you?

MS. ANN MCDONALD: We're not sure, I guess at this point, that they're not going to be using the SMART framework, because what we're looking for is that the outcome measures are generally specific and measurable. The attributes that are noted in the SMART framework there are good attributes. I certainly know from conversations with the Department of Education and Early Childhood Development that there is consideration of whether they need to use SMART.

I guess what we would suggest overall is that however you determine or whatever framework you're going to recommend to school boards and health authorities, and other entities as applicable, to prepare their outcome measures and performance, that they make sure they're specific and measurable and that they indicate to users what the entity hopes to achieve so that it can subsequently be evaluated thoroughly as to whether or not it was

achieved. The specificity and measurability of those performance indicators lead to a very successful way to evaluate them at the end of the day.

MR. RANKIN: In that same vein, you mentioned the KPIs - what about using that in the liabilities that are highlighted here, the \$1.8 billion, so you have it broken down there? What about accountability reporting for, say, sick leave that's \$200 million? How is that measured? There doesn't seem to be any highlighting of any cost recovery, and I'm just wondering if there are any comments on that.

MR. PICKUP: What we did in this chapter is provide information essentially on how these calculations arrive, how the benefits accrue, how they are earned. We did not look at sort of a performance audit within that sector to say how well these things are being managed, value for money. Any of that type of stuff was not looked at as part of this chapter.

MR. RANKIN: For the benefit of the hundreds of thousands watching at home, I'm just wondering if you can help people understand the impact of the collective agreements when for every percentage increase in salaries, which takes up more than half of the provincial budget, what impact does that have on the liabilities in terms of their benefits? Let's just use for an example over the last four years the increase of - I think it was 3 per cent one year. What kind of monetary impact on these liabilities is there on the budget?

MS. ANN MCDONALD: I guess what I would say is that I don't think there has been an analysis, but I'm not sure that there is a one-to-one impact of an increase of salary of whatever percentage to a potential increase in these liabilities. Certainly you talked about increases in salaries, but these are retirement benefits so there wouldn't be any salary increase in these. The main assumptions that are impacting these benefits would be based on things like inflation, so things post-retirement.

Perhaps the impact of a salary increase would be more reflected in like a pension plan, so that talks about the current cost of items.

MR. RANKIN: I realize that you focused on the civil service pension plan that is separated now through that one-time adjustment but you did reach in education - and obviously in education there's a huge unfunded liability in terms of the pension. I didn't see that anywhere in your report but it seems to me like the unions and the employer at one point or another have to get together and share in some of the responsibility of reining in this mismanagement over decades. There's now shared equity when you separate the public sector pension plan, so where can we have that shared equity in terms of education - just any comments on that?

MS. ANN MCDONALD: The information in this chapter is on the unfunded employee retirement benefits, so we didn't look at the teachers' pension because that is, in fact, a funded plan regardless of the fact that it does have a funding deficiency. We weren't



looking at pension plans in this chapter so we don't really have any comments about the teachers' plan right now and the unfunded position of that.

MR. RANKIN: Okay, but ultimately the pension liability does fall on government, even if it's at arm's length from government, does it not?

MS. ANN MCDONALD: With respect to the teachers' plan, the province recognizes 50 per cent of the liability on an accounting basis for that plan. As I mentioned earlier, it doesn't have any liability with respect to the Public Service Superannuation Plan anymore.

MR. PICKUP: If I could add, for the Public Service Superannuation Plan, the one essentially covering the core, the only thing really flowing through the financial statements of the province are the contributions made on an annual basis. Any liability or unfunded position that may or may not exist would not touch the balance sheet of the province, it's essentially completely removed from the statements.

MR. RANKIN: What is the figure for all pension liabilities?

MS. ANN MCDONALD: At March 31, 2014, the total of pension, retirement and other obligations was \$2.4 billion.

MR. RANKIN: And that's not teachers either in there. (Interruption) Teachers are in there, okay.

I think my colleague asked this question earlier, I'm not sure, but how is this unfunded liability being tracked? Can you explain how that is?

MS. ANN MCDONALD: Perhaps you can explain what you mean by "tracked" - I'm not sure.

MR. RANKIN: Is there any tracking system within government to judge where it is, where it's going?

MS. ANN MCDONALD: Well when we met with government officials on sort of the short-term and the long-term sustainability of the plan, I guess what we understand at this point in time, or at that point in time rather, is there really hadn't been a lot of mindset towards the long-term sustainability.

We understand and we reported in the chapter that we understand that long-term sustainability is being considered now, certainly on a short-term basis. The annual cost of these plans is included in the province's budget and then the results are included in the province's annual financial statements.

MR. PICKUP: Part of why we did this chapter is again, as summarized on Page 15, if you look at the retirement health benefits, over the last five years those have risen from \$766 million to \$1.1 billion. There has probably been a 40 per cent increase over the last five years. The retiring allowance has increased from \$312 million to \$373 million, that's some \$60 million. So for those two items together you're looking at a \$400 million increase.

To go back to your earlier question, can you track total compensation costs into this, in part you can with the retiring allowances because as employees' salaries go up, those retiring allowances are based on the salary at retirement. So to the extent that those go up, the liability would increase for those increases in pay.

MR. RANKIN: So it would be important in order to get our fiscal situation in line is to not allow relentless increases in terms of the liability for retirement - would that be fair? Further to that, we have a number of people retiring who are actually working less years than they have. People are retiring at the age of 50 now so their benefits are coming in when they're working less time than they're actually receiving benefits on the other end. That's kind of a shift that we're seeing all over the country, but I'm just wondering how we're prepared and that's why I'm concerned about the tracking.

MR. PICKUP: A couple of issues. The first one I would say is, we raise this for information because of the financial impact and the significant financial impact this can have. We are not questioning whether these benefits should or should not exist or how they might grow or how they might not grow. What we're saying is, take them into account as you do your planning; consider these and consider these as part of an overall compensation package that may exist.

So I'm not commenting - to go to your initial comment, we are not taking a position that these should or shouldn't exist. That is up to government.

MR. RANKIN: Fair enough, but your comment about net debt growing more than the net revenue coming in - if this path of these increases continue, is it fair to say that trend will continue? How do we arrest that trend without looking at least at a collective agreement?

MR. PICKUP: I would suggest that this is one component, albeit a significant component, of the government's expenditures. Other things being equal, if one component of the piece goes up and everything else stays the same, then you're looking at these trends continuing. So I think it all needs to be looked at.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: The report is quite extensive and a lot to absorb at one time. I know my colleague did touch on the SMART outcomes and you did say that the Department of Education and Early Childhood Development sort of did not

recommend it, although they use that as part of their accreditation process and it worked quite well. I think it's a good methodology for setting goals and achieving change and progress, and measuring it is really important because I think internally departments need to be measuring on an ongoing basis and it provides that opportunity. Do you have anything more to say about that?

MR. PICKUP: My comment on that would be - we present that as one way of doing it as an option. To me, how you get there is really up to the people running the business, but the point as you suggested is the most important point, is to do this and do it in a way that people are going to understand. We've presented one way of doing that, but the key point again is about the accountability reporting and getting it done.

MS. LOHNES-CROFT: In Chapter 3, we all know the sensitivities we have with our tough fiscal reality here in the province, you don't provide any recommendations, but could you explain a little bit more on how you feel our position affects our financial sustainability, flexibility and vulnerability - from your perspective?

MR. PICKUP: If I was to bring readers to Page 32 of the report, we provide a nice summary of what are generally recognized as key indicators of things like sustainability and flexibility. Very quickly, in looking at that picture in terms of measures of sustainability you can see that six of the measures show unfavourable results over the one-year trend and five of the six results show unfavourable trends over the five years. What that tells you, besides being favourable or unfavourable, is that you roll all these things together, Nova Scotia faces a significant financial challenge and we summarize it as saying a province that is in poor financial shape.

MS. LOHNES-CROFT: You also state in this chapter that the province is vulnerable to changes in the federal transfer tax and we've seen our government make changes to the health authorities because viewing that changes were coming and they've been proactive in that way, how do you see this really affecting more departments and their finances and budgeting?

MR. PICKUP: Really the financial results and the financial indicators we give are one picture. The choices that a government may make in terms of how it impacts revenue, how it impacts expenses, including in health, education and the core government sector, are really the choices of government in order to turn these trends around.

MS. LOHNES-CROFT: I have another question here, I just have to sort through all my papers here. With the benefits and contributions of employees - and this is with Chapter 2 - there's a real difference between the different sectors in the Public Service in their employee contributions. Can you go into that a little bit more and highlight maybe why there are these differences, and do you know the rationale behind them?

MR. PICKUP: Just at a high level and then I'll ask Ms. McDonald to provide you further details. If you take, for example, the education sector and you take the retiree health

premiums that are paid, those are 100 per cent covered by the province. That was decided many years ago. Ms. McDonald will confirm but I believe it was in the 1970s. We reported in the chapter that it was decided there would be 100 per cent coverage of these.

If you take in the other sectors, health and the core Public Service, the province picks up 65 per cent of those health care premiums. That may have been the result of negotiations, or it may have been decisions in cases where employees were covered not by agreements but by decisions. These are historical, we can't point to one date that this came into being and this liability was created, it really is an accumulation of history now. Ms. McDonald will give you a couple more details.

MS. ANN MCDONALD: Thank you. Remember that with retiring allowances and accumulated sick leave there's no contribution by any employee. The retiring allowances are fully funded by the province and as we've noted here, there are no assets that have been set aside for that.

With respect to the retirement health benefits, I guess one point to mention that we discuss in the chapter is that the Public Service, health and education sectors each have what is - it's not formally called but they do have a benefits committee. Every year they look at what the retiree benefits are going to be, they look at the premium rate - or rather the premiums, not the rate necessarily because the rate is included in agreements. They look at what the actual premium is going to be and whether or not that premium is going to sustain over the next year what the expected use of that plan is.

I point out, as we mentioned in the chapter, due to our information from the Public Service Commission and also from officials at the Department of Finance and Treasury Board, that these retirement health benefits generally hold their own over the course of a year. The liability just reflects the large volume of members or retirees that are receiving these and the fact that they're going to receive them over a number of years.

MR. PICKUP: I would add that if you go to Page 19, this may give you a little bit of context, there's a summary table on the bottom of Page 19 in the report that shows the estimated retirement health benefit obligation per member. Essentially what that tells you is that each retiree in the education sector, you're looking at \$20,000, or almost \$21,000 per employee. In the core Public Service just over half of that amount, \$10,000, and that directly ties in to the percentage being paid. So if teachers are paying nothing then the government is paying \$20,846 per retiree to cover their health care. For the Public Service it's \$10,726 because the employees are paying part of that themselves.

Again, we want to provide these details not to have a view, obviously, on whether these things should or shouldn't exist or what the amounts should be, but it's to provide information to Nova Scotians and to the Legislature on what makes up these numbers. So if you're sitting at \$1.1 billion for retirement health benefits, this is the reason why: you have 30,000 members each costing \$21,000, and that's \$600 million there.

MS. LOHNES-CROFT: So 100 per cent government-funded plans aren't really sustainable if we look at what we're addressing with the budgets right now.

MR. PICKUP: Our point on this is that these benefits are one part of an overall compensation package but that they shouldn't be forgotten over time. So if you take the retirement allowance, for example, and somebody is earning a retirement allowance of one week per year of service, one week per year of service is essentially one-twenty-sixth or 2 per cent. We're not saying that should or shouldn't exist, what we're saying is . . .

MR. CHAIRMAN: Order, time has elapsed and I'll pass it over to the PC caucus. Mr. Houston.

MR. HOUSTON: Mr. Chairman, 14 minutes? Okay. Just looking at Paragraph 5.46 in your report, the liability for contaminated sites, it says. "The liability for contaminated sites standard provides guidance on how to account for and report a liability associated with the remediation of contaminated sites." That standard is in effect now.

In your report it says, "Management believes there will be no significant impact on future financial reporting as a result of adopting this standard . . ." - as I read that I'm thinking of Boat Harbour, which is a pretty serious contaminated site.

When management says that they believe there is no significant impact, can you quantify what "significant" may mean in their world?

[11:07 a.m. Mr. Iain Rankin resumed the Chair.]

MS. ANN MCDONALD: I'll just mention with respect to Boat Harbour, there already is a liability recorded for Boat Harbour in the province's financial statements.

With respect to these liabilities for contaminated sites, in 2013-14 the province introduced new legislation which required departments - and this is a high-level view of this - to look at the sites that are under their jurisdiction and to come up with an estimate of the liability associated with that. As a result of that review, the province recorded an additional \$16 million, almost \$17 million in liabilities for contaminated sites for the year ended March 31, 2014.

As we move forward into this current year when this accounting standard now comes into effect, our understanding is that the province does not anticipate having significant additional liability, that it has recognized liabilities for . . .

MR. HOUSTON: Do you know how much it has booked for Boat Harbour at the moment?

MS. ANN MCDONALD: My recollection is that it has \$12 million recorded for Boat Harbour.

MR. HOUSTON: That's also my recollection. So the additional \$16 million to \$17 million would be for the entirety of the province, all contaminated sites?

MS. ANN MCDONALD: That would be my understanding, yes.

MR. HOUSTON: So in theory, a portion of that \$16 million to \$17 million would maybe fall to Boat Harbour because there would be other contaminated sites in the province, there would be lots of them.

I guess my question still remains, even if we said there's \$12 million booked and if the whole \$16 million were for Boat Harbour, \$28 million would be allocated in the books for Boat Harbour, and management saying that there will be no significant impact, does "significant" carry a quantification or is it purely subjective? In audits you have a materiality threshold, is there a corresponding?

MS. ANN MCDONALD: I'm not aware that when the departments did a review of their contaminated sites that significance was a consideration. In other words, I think in order to comply with the legislation they were asked to look at the sites under their jurisdiction and come up with an estimate.

MR. HOUSTON: If I said it another way, I've heard estimates of \$100 million to clean up Boat Harbour. I've heard estimates higher, I haven't heard very many lower. So I'm just wondering if there was \$28 million booked and it actually was going to be a \$100 million cleanup, would their definition that there's no significant impact - that \$70 million difference, is that not significant? Have they done the analysis of how much Boat Harbour might cost?

MR. PICKUP: I think a critical thing here is the wording as it exists. We haven't audited it yet, the March 31, 2015 financial statements. This accounting came in on April 1, 2014, so the first year end will be March 2015. Part of why it is worded "management believes" is we haven't audited it yet. We'll be giving an opinion on the government summary financial statements as a result of our audit this year, including assessing whether the environmental liabilities are appropriately recorded. So I think this was careful wording to say this is what they believe. We haven't audited this yet, this will be part of the financial statements.

MR. HOUSTON: I'll probably come back to that one in a second, but I'm just trying to figure out some of the other big moving parts that may be out there that are similar to Boat Harbour. I know during the election campaign, it was a Liberal promise to index the pensions of retired civil servants. I'm wondering, did you see any analysis on what that may cost? Is anyone in the department looking at what that might cost?

MS. ANN MCDONALD: No, I have not seen any analysis of that and I'm not sure that would necessarily be part of any audit that we do on the Public Service for retirees, because that plan is no longer an obligation of the province.

MR. HOUSTON: That plan is no longer an obligation of the province so, in theory, could the government do that though - make changes to that plan?

MS. ANN MCDONALD: My understanding of that plan and its governance is that now it's governed by a joint board of trustees, which is represented by the province and the employees - so there's NSGEU and CUPE. I understand that there's not a representative - and I might be wrong on this - of retirees. No, sorry, I'm going to correct that - there is a representative of the Nova Scotia Government Retired Employees Association on that board of trustees.

MR. HOUSTON: Just in terms of the whole unfunded liability, I'm wondering - and I'll ask Mr. Pickup if he could explain what he sees as the major risks associated with that unfunded amount. I'll ask that in the context of - we have an aging population; over the next few years we'll probably see more retirees than we maybe have seen in the prior years. We're going to have a bump in retirees at some point, and as those retirements happen, those obligations go away from being an actuarial number to a cash reality. I'm just wondering what you see as the major risks as we sit here today with that unfunded liability.

MR. PICKUP: The annual accounting for that liability in many cases is actuarially determined, so it would be based on estimates and assumptions updated annually for things like mortality, expected rates of retirement, rates of pay increase - many assumptions. A lot of those things are to be built in annually so that you don't get a big hit in any one year and that you try to anticipate some of the waves that may be coming.

The risks in having that amount unfunded are obviously changes in interest rates. The government interest rate impacts that because this is part of the overall borrowing requirements that exist. So that's partially why we raised this as an issue: the unfunded nature does create risks.

MR. HOUSTON: And I think the cash payout of that overall liability is a big risk in the shorter term. It's going to come there soon. If we have a spike in retirements, we're going to have a spike in cash payments and it's kind of as simple as that in my mind. Is that a fair statement?

MR. PICKUP: If something was to happen on the cash side where, for example, some jurisdictions decided that they would eliminate the retiring allowance and pay it out, the liability would have been recorded but it would have had a huge cash impact.

MR. HOUSTON: Exactly, and that's a cash crunch. I think you answered this question but I wanted to make sure I circled back to it. In terms of sick time entitlements in the health care and education sectors, you didn't look at the actual per-person entitlements and scan that across jurisdictions to see where that lay - you did not, right?

MR. PICKUP: No.

MR. HOUSTON: I just wanted to confirm. I guess as I sit here and I try to assess all this information and I look at various details in the report of deficiencies and stuff, I'm kind of left with the overall impression that there's really not enough attention paid to guarding the taxpayers' dollars at all levels through the system. I look through the report and hear about the Boat Harbour thing and maybe that proper analysis hasn't been done as to what the liability will be and somebody says, well it's not significant without doing an analysis. Then I see that Medavie administers almost \$1 billion of payments on behalf of the province and nobody at the Department of Health and Wellness has even looked at their internal control report. Over at Community Services individual client files are not being properly monitored for eligibility. It just goes on and on. The Department of Finance doesn't have a process for regularly reviewing the tax assumptions.

I look at all these things that are right through the whole system and they just kind of reek of carelessness, a careless attitude over the taxpayer money. I flash forward to the top of the pyramid where we have the deputy ministers, at least in the core of the government, receiving these recommendations from the Auditor General and from their external auditors on control improvements they could make and a great number of them are not implemented. Again, it's just careless - they agree with it, they say we should do that, but they're not doing that.

You can kind of see how it just goes through the whole system because there's no accountability at enough levels. I'm just wondering, speaking specifically on the internal control deficiencies and recommendations, where as a province we've had a very poor track record of implementing those, if we took responsibility for that away from the core of government, the deputy ministers, and put that with the Treasury Board, I'm just trying to find a way to make somebody accountable for caring. I wonder if you have any thoughts on how we can implement more of the recommendations and send the message right through the whole core of government that you've got to care about the taxpayer money and you've got to do things properly. Do you have any thoughts on that?

MR. PICKUP: I do have a lot of thoughts on this, actually, because at the end of the day we're spending money to do the work that we do to come up with recommendations for suggestions for improvements and they are generally accepted and they're generally tangible.

Now what could change, I think the Public Accounts Committee has a role to play in holding government departments accountable for implementing recommendations. I'm going to take this on, since I came in here last July, to working with deputy ministers to figure out why these things aren't happening and what we can do differently, what they can do differently, what I can do differently, to see them implement more of these recommendations.

I think our first test is probably coming in our June report because we're following up all the recommendations in 2012. I would encourage you, as a committee, for those



departments that may not be implementing the recommendations, to bring the deputy ministers in here and have the discussion with them as to why they're not implementing the recommendations.

MR. HOUSTON: But there's no process in place. The deputy ministers report to the ministers, you're not aware of any standard process where ministers do a performance evaluation of deputy ministers across a standard criteria. Is it just basically down to individual relationships between the ministers and the deputy ministers? Is that kind of how it works?

MR. PICKUP: I really am not in a position to comment on that. I think in fairness that in at least one or two departments, I have met with the minister at his request and his interest in seeing follow-up done and understanding why the recommendations weren't being implemented. I take that as a positive encouragement, while being realistic to say let's see what happens in June.

MR. HOUSTON: I know we're looking at a situation where 30 per cent of recommendations made even in the 2012 report haven't been implemented, they just remain undone. With those types of internal control improvement recommendations just being ignored, there's no question in my mind that that opens up the province to risk, it opens up the province to financial risk and it opens up individual taxpayers to other risks, carelessness over their personal information or something like that.

In my final comments I would just say to you I certainly wish you well in getting those recommendations implemented and I certainly stand ready to help you. I believe that as a committee, we'll probably be more than happy to help you get that . . .

MR. CHAIRMAN: Order, order. We're going to move to the NDP caucus for 14 minutes. Mr. Wilson.

HON. DAVID WILSON: Thank you, Mr. Chairman, and thank you for being here today. I know at times going through financial statements and the information here that you've provided through your audits can be difficult to try to siphon exactly what's going on, what the picture is, but I think Nova Scotians recognize over the last number of years the challenges that government has had in front of them, and it's not just something that our province is going through. Of course there are a couple of provinces that have seemed to weather the downturn in the economy a little better than others. I know a lot of work goes into preparing the budgets from the staff within the departments, the departments themselves, the ministers, and tabling that in the House and then going through that process of doing the estimates and Opposition having a chance to go through line by line and question the ministers and their staff.

Some of the questions I have and the concerns I have and maybe some clarification will deal around your chart of the Actual-to-actual Variance on Page 33. In here you indicated, "Actual expenses were \$464 million over budget." Of course accounting for the

majority of that was that \$318 million pension valuation adjustment, but that leaves about \$146 million that myself, our caucus, and the other Opposition caucus did not have a chance to debate and ask questions about in the Budget Estimates because they were outside what was presented at the time.

So as I go through that chart that you have on Page 33, a few numbers stand out at me, so I'll go to a couple of them and maybe get some clarification if you can or if you could provide it. One of the areas was around the restructuring of the Nova Scotia Agricultural College and in there, under the Expenses column it indicated that \$37 million - and I don't know if I'm saying this right - was saved or not used. Why would that be the case if they went through that transition? Are you able to provide any more information on why that would be a savings to the government?

MS. ANN MCDONALD: I guess what I'd like to point out is that that's not necessarily a savings. That was an expense that was incurred in the prior year, and so when you're doing an analysis of what has gone up and what has gone down from last year to the current year, that was actually an expense in 2012-13 that they did not incur in 2013-14. So it's a reduction of expenses, if you will, in 2013-14 because it didn't take place.

MR. DAVID WILSON: So just jumping up a couple of lines - I know the Auditor General mentioned one of the significant increases was the \$115 million for the Department of Health and Wellness expenses. Were you given a detailed breakdown of that? Is that information you gathered to do your audit or you need that figure, the \$115 million - can you give a little bit more information on that \$115 million?

MS. ANN MCDONALD: Just to point out, in the Public Accounts, in the front part of the Public Accounts the government actually does prepare an analysis of budget to actual variances in both the revenue and the expense sides. On the revenue side, they also prepare an analysis of actual to actual variances, so 2013 to 2014. So if I look on Page 56 of the March 31, 2014 Public Accounts, there are details of the difference between the budget and the actual variances in departmental expenses and so there are comments there about Health and Wellness. That's budget to actual, but I dare say that some of the comments that are made there would also explain the difference between 2012-13 actual expenses and 2013-14 actual expenses. So when you look at the details in there, they talk about increases, for example, in payments to physicians and other program areas within the Department of Health and Wellness.

MR. DAVID WILSON: I appreciate that because of course getting the information or your charts earlier today limits our ability to pull off the shelf some of that other work, so I do appreciate you giving me some direction on where to go to try to find some of that out.

Also in here, the debt servicing costs of - and I don't know if I'm saying this right - a reduction maybe of \$35 million. I think Mr. Pickup mentioned this earlier in a previous question from one of my colleagues, around the interest rates falling. Of course, lower

interest rates, the debt we have and what we've borrowed reduces that - is that the case with the debt servicing costs? I'll say it appears to be down - it might have been booked the year previous - by \$35 million? Could you explain that a little bit?

MS. ANN MCDONALD: Again I refer you to the Public Accounts. On Page 88 of the Public Accounts - these are in the actual financial statements - note 9 to the Public Accounts is on debt servicing costs. It includes the details of the various components, the significant components that make up debt servicing costs. If you go through that you can see where there have been declines. For example, there was a decline of some \$22 million in the interest costs associated with Canadian denominated debt. That could be the result of a debt maturity and a reissue at a lower interest rate.

There also was a decrease in the debt servicing costs associated with pension and retirement obligations on a whole. If I refer you to that on Page 88 of the Public Accounts, that will give you the details of the variance.

MR. DAVID WILSON: Thank you for that. I know the bond ratings for the province have an effect on what our interest rates are as a province. Would you agree that the work the government does to ensure that those ratings we have are kept high - I know we've had some positive movement on that over the last couple of years. Is that something that government needs to continue to achieve so that - I mean we have to be honest, our debt is not going to be wiped out in the next year or two. We're going to have this debt for decades into the future. One of the things government can do to reduce that debt servicing cost is ensure that our bond ratings are favourable and continue to be as high as possible.

I'm not an accountant, I've spent a lot of time in health care but I believe that's the case and that's what the government should be achieving. Is that true?

MR. PICKUP: Yes, the better the rating obviously the lower the rates they should be able to achieve, so to continue to achieve that would be a goal.

MR. DAVID WILSON: Part of achieving that - is it that government should be working towards staying within budget, trying of course to pay some of the debt down but staying within budget, trying to keep costs I think at a level that we can afford to provide services? Is that a key to try to get us back to balance or ensure that we're at least living up to what budgets are presented when they are presented to the province?

MR. PICKUP: I would say that would be one of the key indicators, yes.

MR. DAVID WILSON: You indicated at the start that once the amalgamation of the district health authorities occurs, you will take on the responsibility of auditing the financial reporting of that authority into the future.

How does wrapping the DHAs - will you look back at that wrap-up? I know you are going to take over the new entity but potentially there could be a district health authority

that has a deficit, for example. What happens to that and will that be part of your monitoring and audit of the new entity? If there is debt out there from a district health authority it is rolled in and will you review that and look at ensuring that Nova Scotians understand what is going on when the new health authority is up and running after a year?

MR. PICKUP: A couple of things related to that. Currently with the district health authorities, their financial results roll up on a consolidated basis into the consolidated entity being the government's financial statements. So while we don't do those nine individual audits, we do formally correspond at this point with those individual auditors to be aware of whether there are any issues, significant accounting or auditing issues, adjustments we should be aware of. So we are already taking those things into consideration.

Now as we move into planning for the March 31, 2016 year end audit, it will likely be our intention as well to meet with some of these auditors to talk about the last year end audit, the 2015 audit, to see what issues may exist. Part of our planning will involve looking at unique risks and issues that may come up when you amalgamate all these entities into one set of financial statements.

MR. DAVID WILSON: My last question would be around the recommendations that your office makes to government and then the government's commitment to do that. Many of them have been within the district health authorities and the makeup that we currently have, are you going to continue to hold the government accountable for the recommendations and the responses that you've received from the district health authorities, for example? I know you mentioned some in here but come a few months, they won't exist. Will you continue to hold the government accountable, to make sure they live up to those responses as a new health authority and they won't get lost with the reconfiguration of the districts.

MR. PICKUP: The short answer to that is an absolute yes. We did the surgical wait time operating room use audit in the Fall and we were quite clear in there that notwithstanding the fact that there's amalgamation, we expect the new health authority to be responsible for these recommendations and to take on these recommendations. To me, whether there's one health authority or several, the wait times for knees and hips are an issue and they don't go away because you have an amalgamated entity.

MR. DAVID WILSON: I appreciate that and I look forward to your future audit. Thank you.

MR. CHAIRMAN: We'll move on to the Liberal caucus for 14 minutes. Mr. Maguire.

MR. BRENDAN MAGUIRE: I'm usually pretty wordy but I will be quick today, just to give a few members some time to speak. First of all, thank you for coming today. One of the points that stood out to me in this report is that the cost of benefits for retired

teachers is not shared but fully funded by the public. Is this unique to just the teachers? Could you remind me again of the cost of this.

MR. PICKUP: It is unique to the teachers of the three sectors that we're comparing to. So the health sector and the core Public Service, the province is essentially paying 65 per cent and the employee 35 per cent. For the education sector, it is 100 per cent funded by the province.

MR. MAGUIRE: Do you have the numbers on how many retired teachers we have and what the cost of this is?

MR. PICKUP: We do. On Page 19 of the report we indicate that in the education sector, just for the health obligation, it's close to \$21,000 per person and there's 30,000 people. If you compare that to the public sector, it's \$10,700 per person and it covers 26,000 people.

MR. MAGUIRE: Does this include teachers who may be coming back into the system on contract? We see that some of the more experienced teachers - I mean they come back into the education system because they are valued and they are earning some money doing that. Are we still covering their benefits when they come back into the system?

MS. ANN MCDONALD: Our understanding would be that once retired, those teachers who retire from the Teachers' Pension Plan - as opposed to other administrators who are in the education system - that their premiums are paid 100 per cent by the province. We didn't look at whether or not a teacher who has retired who comes back in on a regular basis to substitute, for example, if their benefits continue to be paid.

MR. MAGUIRE: Is it possible to get that information?

MS. ANN MCDONALD: Yes, I expect it would be. We might be able to track that down.

MR. MAGUIRE: One of the things we consistently hear from the Opposition and the Opposition Leader is that we need to balance the budget now. Is it fair to say that this would have a dramatic impact on services and this province if we were to balance the budget today, and is it possible?

MR. PICKUP: The impacts of any one or a combination of decisions that would have to be made and actions that would have to be taken to balance the budget really would be for the government to assess those impacts. I think any attempt to over-simplify those things would probably be naïve on my part. They fall more within the domain of the government and not the Auditor General.

MR. CHAIRMAN: Mr. Stroink.

MR. JOACHIM STROINK: Thank you for your time today. I know this is a very detailed audit and a lot of work went into it so thank you. Can you describe your working relationship with the economists within the Department of Finance and Treasury Board during your preparation of Chapter 3?

MS. ANN MCDONALD: For Chapter 3, we don't deal with economists at the Department of Finance and Treasury Board. We're really just reporting on indicators based on the 2013-14 results and the five years previous to that in some circumstances. We deal with the economists at the Department of Finance and Treasury Board during our work on the revenue estimates every year and on our work for the Public Accounts.

MR. STROINK: So I guess you wouldn't also go to the private sector then to talk to them about the fiscals?

MS. ANN MCDONALD: No, this is really a "it is what it is" kind of thing.

MR. STROINK: That's fair. In other jurisdictions, does the Office of the Auditor General prepare and examine the provincial's financial condition and if so, what is the process that they use in preparation of this sort of reporting?

MS. ANN MCDONALD: I can't speak to all jurisdictions. I know that at one time - and I'm not sure whether they still do it - Saskatchewan actually reported. I think other jurisdictions do. I don't know whether they have a full chapter like we do. In terms of their process, not being aware of whether they do or not, I can't really comment on that, but I know for example, for Saskatchewan when they did and if they still do, they follow the same format that we did, which would be to compare using the indicators that are suggested by the Public Sector Accounting Board, using the actual audited results for their jurisdiction and using it to compare with other factors like GDP and population.

MR. PICKUP: I would quickly add that having spent 25 years at the federal OAG, the federal OAG does not provide an analysis such as this.

MR. CHAIRMAN: Mr. Farrell.

MR. FARRELL: Just skipping over to Chapter 7 that talks about follow-up in the Department of Finance and Treasury Board, there is obviously a separation there in terms of the recommendations, and there are two in particular that the Department of Finance and Treasury Board appears to disagree with your office in terms of whether they've been followed up on or not. Could you give us a little bit more detail on that, please? What are the respective positions of your office and of the department in terms of complying particularly with those two recommendations?

MS. ANN MCDONALD: In Paragraphs 7.13 and 7.14, we go into the recommendations on which we have a disagreement in terms of completion. Paragraph 7.13 - I think in that instance it's more that the Department of Finance and Treasury Board

didn't provide us with the information that we needed to be able to conclude that the recommendation had been implemented. The Department of Finance and Treasury Board says that they have had a process by a private sector firm to look at the design and effectiveness of controls over model-based revenues, but at the time of our report's completion, they weren't able to provide that to us so next year when we look at this, it is something that may be complete once we're provided with that information.

With respect to the other recommendation, that was the result of an audit that we did several years ago on the Liability Management and Treasury Services division and the Capital Markets Administration division within the Department of Finance and Treasury Board. There is a risk assessment that they completed, but we didn't think it was thorough enough. We expect a risk assessment to go through all the stages of risk to identify the risk, to evaluate it, to look at the controls that are in place to mitigate the risk and then to assess whether there is residual risk in how that's being dealt with. We didn't think that had been thoroughly done for this recommendation that's noted in Paragraph 7.14, so we disagreed with their assessment as complete.

MR. FARRELL: So with respect to the first one, you have some optimism that the next time you look at it, there may be compliance?

MS. ANN MCDONALD: That's right, yes.

MR. FARRELL: With respect to the second one, it sounds like it's more of a difference of opinion and they may not be taking the measures that you feel are necessary?

MS. ANN MCDONALD: At this point they believe that recommendation is complete and we disagree with that. I think what will help perhaps in resolving that difference of opinion is that we intend to meet with the Department of Finance and Treasury Board to go into that in more detail.

Overall, with respect to risk assessments, we feel that more information is needed, not just on this recommendation but overall in government on risk assessments to financial reporting and other risks, et cetera.

MR. FARRELL: So there's an ongoing dialogue there in terms of compliance. It's not as if they are saying one thing and you are saying another thing and we're stuck on that.

MS. ANN MCDONALD: With respect to this recommendation here, we may agree to disagree. At the end of the day, it may be that there's no movement there. However, I just point out that we have a very excellent relationship with the Department of Finance and Treasury Board and work with them well.

MR. FARRELL: Is there any kind of a dispute resolution mechanism if you do agree to disagree?

MR. PICKUP: What I intend to do as part of the June follow-up process is for any departments where we have a disagreement or any departments that are what I would call laggards, are not really implementing well, I intend to go and meet with their deputy minister and have a good discussion about whether this really is a relevant recommendation - does that deputy minister have a good understanding of what we're talking about? I'm optimistic that as part of that dialogue we can come to a solution.

MR. FARRELL: Of course in that particular department, there's a new deputy now so the new deputy would not have been part of the process that led up to this report.

MR. PICKUP: No.

MR. FARRELL: Okay. I have no further questions, thank you.

MR. CHAIRMAN: Any more questions from the Liberal caucus? Ms. Lohnes-Croft.

MS. LOHNES-CROFT: I'd just like to expand on that. Is this work with the deputy something you've taken on in your role as the Auditor General or has this always been the process with the Auditor General?

MS. ANN MCDONALD: I guess in the past - we've only been reporting on the implementation status of recommendations for the last several years, although we have made formal recommendations of course for a number of years. I know that the former Auditor General also was interested in having the Public Accounts Committee bring in deputy ministers whose portfolios were indicating that recommendations have not been implemented and have the committee deal with that. I'll let Mr. Pickup though speak to his proposed current practice.

MR. PICKUP: Just as an example of something tangible, I went in a number of months ago to speak to the weekly deputy meeting. Obviously from an independence perspective, I wouldn't typically be involved in that kind of thing. I asked for some time on the agenda to go in to speak to deputies about some of my priorities. One of the things I raised to them was the follow-up of recommendations and implementation of these.

I got a good reception, which I will be following up with by individual meetings as we go through the next couple of months and as well going back to that committee of deputies to talk to them as well.

MS. LOHNES-CROFT: So this would be a relatively new practice that you are implementing with your mandate?

MR. PICKUP: I will tell you what they told me, that it was the first time that an Auditor General came in to speak to the committee of deputies.



MS. LOHNES-CROFT: Well that's commendable. Hopefully this will continue and it won't be two years before you check in on them, that you will be checking in on them on a regular basis, I take, from . . .

MR. PICKUP: Right, because we have a report coming up in June, looking at performance audit recommendations from 2012. That's going to be in many ways sort of the first test of how things are or are not improving on the recommendations.

MS. LOHNES-CROFT: Oh, the AG is watching. Thank you.

MR. CHAIRMAN: Time for questions has ended. Would you like to do any final comments, Mr. Pickup?

MR. PICKUP: My final comment would be thank you for your interest from all members today. To me this very much goes to the core of issues facing the government. If we look at the financial indicators chapter, if we look at one sub-component of that being the liability for employee future benefits, what I'm attempting to do in these reports is provide information to you where it's not an audit but also to provide information to Nova Scotians who ultimately pay all the bills for all of this, so that they understand what they are paying for, they understand what makes up these; and they understand the challenges that governments face in dealing with these issues. That's really how we've gone beyond the typical audit and provided this type of information in this report so I'm hoping people do find it useful.

MR. CHAIRMAN: For committee business, there is no business other than to reiterate that the committee will not meet again until March 25<sup>th</sup>. The witness scheduled for March 4<sup>th</sup> has been moved to April 8<sup>th</sup> and the committee does not meet during the March Break. Following this, we'll start the subcommittee right away and we'll decide the agenda.

I would also like to introduce Kim Langille to the Public Accounts Committee as the new committee clerk, and on behalf of the committee I'd like to extend best of luck and thanks very much to Darlene Henry for her work over the last year and plus - before I was here, I'm sure.

The next committee meeting will be on March 25<sup>th</sup> with the Department of Internal Services and the topic is Governance of Information Technology and Operations, and that will be followed by an in camera briefing by the Auditor General's Office regarding the integrated case management system coming from Chapter 2 of the December 2014 Auditor General's Report.

We now stand adjourned.

[The committee adjourned at 11:46 a.m.]