

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, October 7, 2015

LEGISLATIVE CHAMBER

**Department of Finance and Treasury Board
Chapters 2, 3 & 7 of February 2015 Auditor General 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

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

Mr. Terry Spicer
Deputy Auditor General

Ms. Ann McDonald
Assistant Auditor General

WITNESSES

Department of Finance and Treasury Board

Mr. George McLellan, Deputy Minister
Mr. Byron Rafuse, Associate Deputy Minister

Public Service Commission

Mr. Rollie King, Executive Director
Labour/Employee Relations & Benefits



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, OCTOBER 7, 2015

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. CHAIRMAN: Good morning everyone, I call this meeting to order. Today we have the Department of Finance and Treasury Board with us to discuss Chapters 2, 3 and 7 of the February 2015 Auditor General's Report. I'll ask everyone to place their phones on silent so we don't have any interruptions.

I will begin by asking Mr. Maguire to introduce himself.

[The committee members introduced themselves.]

MR. CHAIRMAN: Mr. McLellan, I'll begin by asking you to introduce yourself and allow your colleagues to introduce themselves and then please begin with some opening comments.

MR. GEORGE MCLELLAN: Good morning, my name is George McLellan, I am the Deputy Minister of Finance and Treasury Board for the Province of Nova Scotia. I've met many of you and it's nice to see you this morning.

I'd like to start by thanking my two colleagues here with me, who you probably already know. First, Byron Rafuse - he's the Associate Deputy Minister of Finance and Treasury Board and works with me. I'm relatively new to this but Byron has been on this for some time so if it's an error of either action or omission, it's largely Byron's fault. Next is Rollie King, Executive Director of Labour/Employee Relations and Benefits at the Public Service Commission. Rollie is here so that when discussion of this meeting follows for many generations, they won't be referring to me as the bald guy.

We're here to talk about Chapters 2, 3 and 7 in the Auditor General's February report. To begin I'd like to acknowledge that the Department of Finance and Treasury Board values the work of the AG's Office. We take all the recommendations very seriously, and that's one of the chapters that we're here obviously to discuss.

At a time when there's much uncertainty provincially, nationally and globally, it's helpful to make sure that prudent fiscal management is in the independent and objective view of a group such as the Auditor General's Office and it's essential and we appreciate and welcome their critical look at our finances in the interests of transparency, and none more than at this critical time at Nova Scotia's future.

Chapter 2 refers to the government's unfunded retirement benefits and compensated absences, which is sick leave. These benefits make up a significant portion of our overall obligations for the unfunded discussion in Chapter 2. The intention there is also to draw attention to the magnitude of those benefits. As the Auditor General notes, these obligations are properly accounted for and disclosed. No recommendations are made in the report in this chapter, however, it highlights the details and the risks associated with this liability and the policy decision.

The risks noted are ones government is fully aware of and closely monitors. Nova Scotia is undergoing a demographic shift; as I would indicate to you, we are getting older as a province - I am actually part of the youth movement here in the Public Service today. This is not unique to Nova Scotia but while all of Canada is experiencing the same thing, I think most of you are aware that we are leading the way in terms of the aging balance. In the Public Service, an increasing number of these benefits consequently are being paid out as more and more civil servants retire and the size of our work force in the Public Service contracts.

The unfortunate realities going forward, we also will have a smaller pool of taxpayers to help fund these liabilities and, I might add, other services of government. While these are costs looming, we know that we cannot continue expanding these benefits. The need to ensure these costs are affordable and being appropriately managed going forward is imperative. Though these risks are with unfunded retirement benefits, making a change could cause a bigger impact to our finances. The fact that if they were funded - it's one that we simply cannot afford at this time, and we'll discuss that.

Chapter 3, the second chapter under discussion today, does not make any recommendations either, but suggests different indicators. We have said repeatedly, whether it's budget, forecast updates, or Public Accounts, Nova Scotia as we all know has serious fiscal and economic problems that need to be corrected.

Being in a deficit position limits us as a province. Sustainable finances are key to unlocking the future of Nova Scotia; the Auditor General's Report suggests indicators point to this similar message. There is one chart there, I think, in that chapter that's fairly monolithic with regard to the cadence of unfavourable.

The province's financial documents provide snapshots of the finances at this time and include contextual pieces as well. This is sewn and looped throughout our fiscal forecasts as well as the budget documents and other information that we make available - it all says the same thing. The Auditor General suggests different metrics. We're always open to new ways to inform Nova Scotians and, indeed, that's something we look at on a constant basis. It's important to note, though, that he and we are reiterating the same message that we have been presenting to the public for years, all along - we need to get our fiscal house in order.

Chapter 7, the final chapter under review with you this morning, follows up on the implementation of the recommendations from the January 2012 report. We all take the Auditor General's recommendations very seriously. This is a chapter that deals with the follow-up on these recommendations as relates to finance.

We have a number of projects underway to implement many of these and I'd be happy to get into more details on them and it may be of interest to the committee during the question and answer period, the progress we've been making on some of them. It also would be, as we will discuss, the complexity of them is somewhat of a factor, and you'll note some of the things that remain undone are in a specific area as well; I think one of the charts in that chapter indicates that.

With that, I welcome any questions from the committee.

MR. CHAIRMAN: Thank you, Mr. McLellan, and before we begin questions, I would like to draw everyone's attention to our gallery where we have some guests with us from Fiji. I know this delegation is visiting here and seeing how we do things here in Nova Scotia, so I would ask everyone to give them a round of applause. I'm sure as our winter approaches, many of us would like to be going to Fiji with them. (Applause)

This is a great day for you to be here because we have the Department of Finance and Treasury Board, and we're going to be talking about the state of the province's financial affairs, government employee pensions. What we do at Public Accounts Committee, with the help of the Auditor General's Office, is draw attention to areas that may be able to be improved in government, and we're doing a follow-up on recommendations made by the Auditor General in the past.

So we have three political Parties here in Nova Scotia, holding seats in the Legislature. We're going to begin with Mr. Houston with the Progressive Conservative caucus, then we'll move to the NDP, and then the governing Liberal Party. Thank you for being with us today and with that, we'll start with Mr. Houston for 20 minutes.

MR. TIM HOUSTON: Thank you for the introductory comments - a little bit of humour to start the day, so I appreciate that.

You mentioned you're relatively new in the role and obviously we have a new Minister of Finance and Treasury Board as well, just over the past few months. Before we dig into this, I'm just curious - obviously today's session we're looking at some pretty serious issues like the unfunded liabilities, the unfavourable financial indicators and stuff. That's the portfolio that the new minister has inherited, and I'm wondering if you can tell us, what has the minister given you as your number one priority? What has he said to you as the new minister that this is the number one thing I want you to focus on?

MR. GEORGE MCLELLAN: Well I think it's evident from the government's priorities that everything that is being suggested or done in terms of their mandate - as it is framed to us, I think - is in the context of fiscal sustainability.

With the previous minister and with this minister I don't think my instructions or mandate has changed very much but to try and aggressively create some balance in terms of our progress towards becoming a sustainable province, to get ourselves back to balance where we can look at our future in terms of being able to reinvest in programs and services to the public.

MR. HOUSTON: So from my perspective a lot of the initiatives that I do see the government undertaking have to do with saving money - cutting services, reducing costs, whatever. So we do know that there was a presentation that the Finance and Treasury Board Minister gave to the unions that was reported in the media and you may remember that presentation - I see you nodding. I was just curious if you were involved in drafting that presentation that the Finance and Treasury Board Minister delivered to the unions.

MR. GEORGE MCLELLAN: Involved in drafting, no, but was I aware of the text of the remarks and actually present during that meeting, certainly.

MR. HOUSTON: One of the things that was reported through the media - a main thrust of that meeting was a message from the minister to the unions that they needed to find savings and that if they could find savings, then those savings would be returned to the union members through salaries and benefits. Is that a fair summary of one of the objectives of the meeting, to tell the unions that to save money you can have it?

MR. GEORGE MCLELLAN: Sure, but I hasten to qualify it in this regard. If savings are found, as I suggested earlier the case with regard to trying to get to balance - to find a way to reinvest again and stop continually getting smaller to solve the problem - the

challenge is that if we do find savings of course then these savings are available to help reinvest into the wages of our employees, but not dollar for dollar, not uniquely. I don't think that was the impression left in my own mind, although clearly that would be an implication.

The reason I kind of equivocate a bit, Mr. Houston - I'm sorry for this - is that if we find savings then of course some of that would also appropriately be something that the public - the taxpayers and others, right - would expect because everybody is sharing this journey. So certainly the sense that you are giving, I would not disagree with but I would qualify it, in terms of dollar for dollar.

MR. HOUSTON: Okay, that's fair, I appreciate the qualification. So in leading up to that meeting, did the department do any analysis on the level of savings that would or could or should be out there for the unions to go and find?

MR. GEORGE MCLELLAN: No, we did not, in the sense that it's difficult to know where that will go. The other thing is that if this were to actually happen - and we hope it does, it's our sincere effort - then of course we can't, and I don't mean to put this in a bad way - I would say this about companies as well as unions or anybody - we have to see that these suggestions or savings are actually material and realizable. That will take time so whatever is suggested would have to be put into scrutiny at that time.

MR. HOUSTON: Was there sort of a timeline given for when they could report back to you with where they could find, where they suspected they might be able to find savings if they didn't?

MR. GEORGE MCLELLAN: Not that I'm aware of. I would speculate, and perhaps Rollie can help me with this - I don't see him jumping to the microphone so I'll just tell you. My understanding is that would be something you would expect to see as we joined them in discussions at the table. It certainly could happen prior to that in a different format, maybe, but I'm not aware that anything else was envisaged there so I suggest to you that it would be something that as these things came due, as we entered into sincere negotiations with the unions, those are the kinds of things we'd see.

MR. HOUSTON: So the department really didn't have an assessment as to what type of savings they believe should be out there. They just kind of really put it over to the unions and said, can you help us find some?

MR. GEORGE MCLELLAN: No, this is soup to nuts. It could be, in the eyes of the union and I think in our own minds, what we might envisage and to what has really happened in other provinces, to my understanding. I'm trying to be helpful here, but I also have to say this is not exactly my specific area of responsibility at this point, but I'm trying to be helpful. I will go so far as to indicate to you that the range of that, as I would envisage it more as a personal opinion, would be things like, what could you do with a shift, what

are the different concepts we could look at with regard to some of the things we're even talking about today with regard to benefits - things of that nature.

So where this could go, it would be kind of insincere, I would presume, to go so far as to speculate, after having asked them to come back, to speculate as to what they should come back with as well.

MR. HOUSTON: So could it extend to something like the Teachers Union where the province currently pays 100 per cent of the retirement health benefit premiums for teachers? Would that be an area where maybe the unions could come back with some savings, is that the type of thing you are saying?

MR. GEORGE MCLELLAN: Yes, I would suggest that would be appropriate as one of the elements to be considered.

MR. HOUSTON: So if the union could then decrease the payment of the health benefits for retired teachers and reinvest that into new teachers, that would be something that would be an example you were looking for?

MR. GEORGE MCLELLAN: Yes, Mr. Houston, it would be.

MR. HOUSTON: Okay. The Auditor General did report that the government has initiated a review of the long-term sustainability of certain benefits. What is the status of that review? Was it just initiated or is it done or is it pretty much done?

MR. GEORGE MCLELLAN: I'll ask Byron to take this one.

MR. CHAIRMAN: Mr. Rafuse.

MR. BYRON RAFUSE: In the context of retirement or post-retirement benefits, one that came to mind during that discussion is the Long Service Award or the Public Service Award - an analysis was done on that on how it compares to other jurisdictions, and some action has been taken on that this year.

As you know, for non-unionized employees, both within government and broader government reporting entities, government has indicated that benefit is frozen, it can no longer grow anymore. So that's an example of some action that has been taken. A review of your liabilities on your balance sheet, whether it's employee benefits or otherwise, it's a continuing type of effort to review to see whether or not you can curtail the growth of it.

MR. HOUSTON: So it's actually a series of reviews as opposed to a review of all of the different benefits? Like that was an individual review, I guess, for the Public Service Award?

MR. RAFUSE: That was part of a broader context about what a government could do in view of their liabilities. Obviously there were other aspects on there that would have been given to those who lead the negotiation processes to say, here are some suggestions of which you could talk with at the bargaining table that would provide a sense of savings for the province.

MR. HOUSTON: So that background work in preparation for the negotiations is pretty much done, I would say at this point?

MR. RAFUSE: For the purposes of employee benefits, yes.

MR. HOUSTON: Okay, so there are other reports. Would there be a review of the sustainability of sick benefits, for example? Would that review be completed?

MR. RAFUSE: Our review with the department would not be on sustainability. It would be this is the cost and this is what drives those costs. We would give that information to Rollie and others who are negotiating to say, here's what's driving that and can you incorporate that into some kind of a negotiation strategy.

MR. HOUSTON: So maybe a question for Rollie then, on speaking about the sick benefits. There is \$2.2 million of sick benefits unfunded, so do you have some projections on where that's going?

MR. CHAIRMAN: Mr. King.

MR. ROLLIE KING: I can't say where it might go. What I can say is that all employers in the public sector that have sick leave benefits for their employees work hard to try to support their employees when they are off, to get them back in a timely manner and to maintain employees at work through Occupational Health and Safety and other wellness initiatives. So their focus is on supporting employees to get them back in a timely way, to ensure . . .

MR. HOUSTON: For sure, but what's so - I remember when this came out, it was really news to a lot of people that there was that much accumulated sick time. Can you shed any light on what the plans are for that going forward in terms of, will it just continue to grow or is this an area where the government could take action like they did with the Public Service Award? How does that unfold? It's a lot of money, it's unfunded, it's going to have to be paid at some time. Is the pot going to get bigger or smaller? How would you like to see that addressed?

MR. KING: Sick leave benefits, the focus of the Auditor General's Report had to do with sick leave banks that are accumulated by some employees in the public sector. Those sick leave banks have been in existence and the entitlements and earnings as employees accumulate them have been in existence for many, many years. They vary, depending on the sector we're talking about.

There is no plan or no direction at this point to tell employers to reduce the level of sick leave banks that are being accumulated. However, as Deputy McLellan has pointed out, if an employer and the union are at the table and they think that's an area that might generate savings or efficiencies, that's for them to have that discussion at that table.

MR. HOUSTON: Do you happen to know how much it is now? It was \$202 million at the end of 2014, so do you have an update for the first quarter, second quarter, as to what that number might be?

MR. KING: That's probably something for my colleague.

MR. RAFUSE: The balance for accumulated sick leave - as of the end of March 2015, which is our last Public Accounts - was \$217 million, the value of that.

MR. HOUSTON: That's up from \$202 million at the end of the year. That's a pretty dramatic increase for one quarter.

MR. RAFUSE: It wouldn't be a quarter, it would have been a year-over-year analysis. I'm not sure, I think the Auditor General probably used it in the March 2014 balance but I'd have to go back and check that.

MR. HOUSTON: Maybe we can ask the Auditor General's Office, was the \$202 million at March 2014? (Interruption) Yes, okay.

MR. CHAIRMAN: The Auditor General's Office, for the record, has confirmed that's correct.

MR. HOUSTON: So it's \$215 million?

MR. RAFUSE: It's \$217 million. That valuation, to give you some perspective on it - as Mr. King has indicated, sick leave banks have been available for certain groups for some time. Bringing that on our books was an event that only happened within the last five years although it had been a benefit for some time. We couldn't quantify the value of that because to do that you have to look at your sick leave patterns and it was only recently we've been able to accommodate that.

MR. HOUSTON: Maybe, Mr. Rafuse, you can update the retiring allowance as No. 2, which was \$373 million at March 2014.

MR. RAFUSE: At March 2015, the Long Service Award - is that what you're looking at?

MR. HOUSTON: Yes.

MR. RAFUSE: It was at \$367 million.

MR. HOUSTON: So that one actually decreased a little bit.

In my last couple of minutes I do want to talk about the implementation rate, before we go into some of the financial indicators. The implementation rate for financial recommendations - back in 2012 we could see it decreasing so there was actually, at the period the AG was looking at, there was actually less of his recommendations that were actually implemented. You did make a reference today that the department is making progress on implementing more recommendations, but you acknowledge that some of them are complicated.

I wonder what you would consider to be a success if we're sitting here a year from now and we're looking at the level of implementation of recommendations. It's down in the 70 per cent range here in the report we're looking at. What would you say would be a success, that we could actually have a percentage of implementation?

MR. GEORGE MCLELLAN: Mr. Houston, I'll put it in this context. My understanding is the placement of the recommendations from 2011 would be 77 per cent, and 70 per cent in 2012 which is the year under report - as the Auditor General specified, "disappointing". Some of these things do take some time.

The challenge in specifying a percentage - I think maybe next year we could be around 85 per cent, it would be easier to say the 77 per cent again, so correct the record quickly to get a lower number, but it's difficult to say. Most of them are in this one area and it's not really prompted.

I think there's actually some comments in the report in one area having to do with what I would call really the separation of duties, having to do with our management of liability. There was one there that was one of the ones that we thought we had implemented and the Auditor General thought we hadn't. I don't think they've been touched, but we should be able to move that one which shouldn't exist - move that into the win category. If we can move into that one area then I think what we might be able to do is to bring this number up because they're all kind of in one area, really. It's in the compliance area and that's our large area of issue, really, so with some focus on that, I think five of them are actually in that compliance area if I'm not mistaken, four out of five.

MR. HOUSTON: I'm just curious, you bring yourself up to 85 per cent?

MR. GEORGE MCLELLAN: I'll say sure, if we satisfied that category we'd pretty well be there.

MR. HOUSTON: I guess what I'm struggling with and it's not limited to this department, it's time after time departments come before this committee and have very, very poor records on actually implementing. I doubt very much that the AG puts recommendations forward in the reports that they think are not achievable. I doubt very much that the AG puts recommendations forward that they think aren't necessary.

So as a taxpayer of Nova Scotia and as a chartered accountant who spent a number of years auditing, I've prepared a good number of management letters for companies of all sizes with recommendations on improvements and there's always merit to those. It always amazes me because it just comes down to, is the will there to make the change? The reason for my question to you was in trying to get an assessment of your will - what is the will of the department to actually meet the recommendations and make the changes? That's what I was trying to get to so even talk of coming from 70 per cent to maybe up to 85 per cent and they're complicated and stuff, I'm going to be honest, it concerns me.

MR. GEORGE MCLELLAN: I'm trying to get the specifics, but that's quite a question. I'm sure if you've audited a number of companies, you've audited some ones that were close to broke. If this even needs to be said, let me say it - in my time here I am absolutely impressed with the quality of the people in the Department of Finance and Treasury Board. I see nothing in the Auditor General's Report to indicate that they're not representing the position of this province fairly and accurately.

MR. CHAIRMAN: Order, please. I'm sorry to have to stop it there, but we've run out of time. We will move to the NDP caucus. Ms. MacDonald.

HON. MAUREEN MACDONALD: I concur with you with respect to the last point that you were making about the professionalism and the abilities of the staff in the Department of Finance and Treasury Board. In my brief time there, it was a pleasure to work with these people. They work very hard on behalf of the taxpayers of the province, for sure.

The opening in Chapter 2 on the employee retirement benefits and compensated absences starts off by talking about the various employee retirement benefits and sick leave benefits and so on - that they've existed for many years and they've accumulated over time. I think this morning one of you made reference to this, but there is no specificity in the report around how long - what period of time, how many years are we talking about with these various benefits? I know it's probably a difficult question in one way because there would be different programs and different components, but you have to start some place, I suppose, if you're quantifying what the actual amount is that has accumulated.

How far back is that analysis? Where does it start? What is the period of time? How many years are we looking at these benefits having accumulated over?

MR. GEORGE MCLELLAN: Yes, I'm probably not the best person. Byron could help with that context in the earlier time frames.

MR. RAFUSE: To give insight about how we have to quantify these liabilities, some of these benefits came over time and that's important from a costing perspective. The reality is, we're required under GAAP to record the liability through the individual's working life. That's the benefit they've earned to date based on how much they've worked

with us or if the benefit is one that is associated with their term of work like a Long Service Award.

Benefits like post-retirement benefits where we participate in their health plans after retirement, that is actually even more complicated but it actually takes into account through actual valuation, a determination about how long that individual will receive benefits from the time they retire until they die. So it is a very complex calculation that brings into account things like mortality tables and health escalator clauses. It's actually down to the level of - there are differences between males and females in some of those categories, as there is in sick leave benefits, depending on where they are in their careers.

It is a requirement to record that expense through their working life, so the liabilities you have here in the Auditor General's Report are all those types of benefits that on average our employees have accrued that benefit to that point in time through their working careers.

To give you an insight about when certain benefits came in, that would be through the negotiation process and maybe Mr. King can give you some insight into that. Some people think that when we pay the Long Service Award, that is actually when the expense occurs. That is not when the expense occurs. We have to recognize that expense in increments as that individual works as an employee of the province.

When they actually pay that amount upon retirement it actually reduces the liability because we're just paying it out of their liability. You just have to shift your mind a bit about the size of this and how we accrue the expenses.

There have been changes in some of these areas. Some benefits have been brought on to other groups as they try to level up between the health care area or recently where some groups didn't have a Long Service Award and other groups have tried to incrementally bring that in over time. So it has been an incremental process of increased benefits - I'm not sure if Mr. King has any insight about how that has unfolded.

MR. KING: I do have some history and I want to preface my answer by saying while I'm not a historian, to the extent that I do have information, I can speak about some of those benefits.

The sick leave banks that exist in education and in health authorities, they have existed for many years. I don't have the exact point in time when they came to the particular levels they have, but I would point out there are two elements to sick leave banks. One is how much an employee earns per year. For teachers, it's 20 days. For a health authority employee - a nurse or a health care worker - it would be the equivalent of 18 days per year if they are full time.

The other component and the component that creates the liability is how much they can accumulate year over year if they don't use it. It's that liability that has been

acknowledged by the Auditor General. For teachers, they can accumulate up to 195 days, so basically a full year. That has been in existence for quite some time.

For health authorities, I believe those employees can accumulate up to 150 days and it's capped at that level, but that's the liability. The reason I want to mention that, however, is it is a liability but it doesn't necessarily get paid out. So an employee who doesn't use their sick leave, when they retire or resign, that sick leave bank is wiped out, so it's not automatically an expense that we are going to incur in the system.

When it comes to retirement allowances or Public Service Awards - they go by both names, depending on the sector - they, too, have been in existence for many, many years. In education, teachers have had varying retirement allowance benefits - some of them very low, some of them very generous. In 2002 there was a standard retirement allowance benefit that was introduced into the provincial collective agreement. So from 2002 and onward, any new teacher coming into the system earns exactly the same amount in terms of retirement allowance. It was standardized at that point but they had been in existence - I want to say in the 1970s and maybe even the 1960s.

For health authorities, their history is a bit more recent. The current level and the standard that health authorities enjoy when it comes to retirement allowance or service award actually got standardized to the 26 weeks cap back in the mid-2000s. Prior to that time, there was a less generous retirement allowance and it was levelled up to the 26 weeks in the round that straddled 2004-05, so retirement allowance benefits for health authority employees were actually levelled up to 26 weeks maximum at that point. Prior to that, they had a lesser benefit, again for several years.

When you look at the civil service, they also had a Public Service Award that has been in existence for decades. It has been at that level of a maximum of 26 weeks for quite some time, so it's quite a history when you look at those particular benefits.

The post-retirement health benefit for retirees, for teachers, was introduced at 100 per cent employer-paid or 100 per cent government-funded back in 1978, so it has been in existence since 1978, one of the first collective agreements that teachers had with the province.

The civil service, we believe that benefit has been in existence since about 1966. The current cost sharing arrangement for civil service retirees is 65 per cent employer, 35 per cent employee. That has been in existence since 1986 or earlier, based on what we could find. So again, for quite some time - not something new.

The health authority employees - most did not have a post-retirement health benefit until the 2006-09 round. In the 2006-09 round that occurred for all those unionized employees, retiree health benefits were introduced into the collective agreement and there were varying plans. In 2009 to 2011, that retiree benefit was enhanced a little bit more so

they are at the current level they are at - predominantly shared, 65 for employer and 35 for employee. That's a very brief history, hopefully that helps you.

MS. MACDONALD: Wow, that's very interesting. You may not be an historian but you sure have a lot of great historical information.

My question is, how is this liability associated with each of these benefits reported annually in the Public Accounts? I think the Auditor General is raising concerns about the fact that it's unfunded but the question is, how is it just recorded? How is it reflected in the Public Accounts?

MR. RAFUSE: Unfortunately for those who are looking at statements, it can be a little confusing because they actually are reported in several different areas and it kind of varies from benefit to benefit. Some you'll see actually at the department level, through a charge that employers share employee benefits, so actually it's embedded into the department. Likewise you'll see that at a school board or a health authority level as well.

Some of the larger ones like accumulated sick leave or the Public Service Award, those entities will record an expense but will automatically set up a receivable from the province and they're held centrally. In that area of great uncertainty or great unknown for everybody, the PVA, the pension valuation adjustment, where we record those expenses centrally, it's easier for us to maintain it and to measure them centrally. The ebbs and flows of all of those, with the exception of those employer contribution rates that you'll see out of the department or at the school board level, those entities, they're all held centrally there and we have extensive kinds of breakdown with the PVA for each type of plan and by sector.

There is also an associated, as the Auditor General has pointed out - for those that are unfunded, it also impacts our debt-servicing cost. We are required through GAAP to have an imputed interest charge associated with not funding those liabilities and for most of these, for the most part, our five-year average cost of borrowing is the rate that we use, and that cost you will see in the debt-servicing costs. It really kind of shows up in three places: debt servicing, PVA and employer contributions at either the department or school board level.

MS. MACDONALD: I didn't realize that the PVA had this component in it, that's really interesting. Just to be clear, when it's recorded, when it's reflected, is it the full amount annually or is there any accrual, I guess, in how it's calculated?

MR. RAFUSE: Most of this is done through accruals because the vast majority of these are based on actuarial valuation which is an accrual as opposed to a cash item - so a Long Service Award or post-retirement health benefits - because the expense is an employee who hasn't actually taken the benefit yet, it won't happen until they retire. It is a valuation based on usage patterns, age and other factors, so it is for the most part all accruals, except that employer contribution one is actually, for the most part, cash that's

either provided - in some cases it would be a pension fund, if it's a pension cost, or it would be an insurance company for long-term care, or if it's for health benefits it could be an insurance provider. So those are real cash items, but they're all incorporated when we look at the overall expense.

The liability we spoke of earlier is really the total amount that is owing or the benefit has been accrued to date that has not been paid.

MS. MACDONALD: Okay. In the way that this is all reported in the Public Accounts, in departmental budgets, we do this in terms of following the generally accepted guidelines from the accountant organizations, I guess, the Public Service accountants?

MR. RAFUSE: Our guidance comes from the Public Sector Accounting Board on these matters. There actually are unique rules to the public sector, particularly on employee benefits because some of the arrangements are unique to the public sector. How we record the expense is guided by that; where we record the expense is not guided by that. We record it based on our budgetary practices and our accountability mechanisms where we have said to departments or to boards, you're accountable for the employer contribution, but the actual true cost of that, the government has decided that they will control that centrally and therefore not making it the responsibility of those departments or the school boards from that perspective. They're holding it centrally so it's a central government responsibility.

MS. MACDONALD: So let's say through the process of collective bargaining that's going on right now, if the unions came back and there were changes made with respect to the accumulation of sick time, some of the liabilities that have been reflected in the Public Accounts would diminish then in future years?

MR. RAFUSE: Yes. Certainly, if there's a change - and we refer to that as a plan amendment and that would have an immediate impact on the valuation because the benefit that the individuals now have accrued have changed, so there would be an immediate impact to that liability. It would also impact whatever was put in place. If there was a replacement benefit plan or a change in that, the change to the contribution rates we record in all those types of areas, yes.

MS. MACDONALD: Is it a real saving or is it - would it represent a real saving in expenditure or just the possibility of what we would be required to spend if everybody took all of the accumulated sick leave they actually had, for example?

MR. RAFUSE: No, it would be a real savings. These accruals are what make up our expenses. These expenses are what drive the deficit or surplus for the province. So they are real savings. It's not cash so much, but it is accrual and definitely real savings.

MS. MACDONALD: Can you tell me if the province is still paying for the Early Retirement Incentive Program from the 1990s? If so, how much?

MR. RAFUSE: The early retirement plans that were put in in the 1990s continue to impact the operating statement for the province. They do continue - they're still a liability on the books. It is through the pension valuation allowances where you would see that. The ERIP of 1986 had an impact of \$28,000 for the year ending March 2015. The ERIP from 1991 had an impact of \$720,000. The ERIP of 1992 had \$84,000. The ERIP of 1994-98 accumulatively had an impact of \$7.4 million. The ERIP, and I'm not sure which year it refers to but it's entitled 60-10-2 - that must have been what it was called at the time - had an impact of \$152 million.

So you can see they continue to impact us until those individuals continue to see their pension because the pension fund was not held responsible for the enhancement of their pension plan, to entice them to retire. Those are expenses that are being incurred throughout the lives of those individuals.

MS. MACDONALD: You've done a fair amount of analysis on the various plans. Some were referred to earlier, I think you in your earlier responses to some of the questions from my colleagues - can that information be tabled with our committee?

MR. RAFUSE: I need to check. Those are done as advice to government, as we do with any analysis on any of our expenditures, so I need to get advice on that - whether or not that can be released to the committee.

MS. MACDONALD: Thank you.

MR. CHAIRMAN: The time has just about expired so we'll move to Mr. Rankin of the Liberal caucus.

MR. IAIN RANKIN: Thank you for coming in today. I do think this is a very important topic because it kind of relates to all departments and the fiscal situation we find ourselves in. I definitely do agree when you say we cannot afford to expand benefits. It goes along well with the AG's comments that future payments associated with unfunded plans will have to be funded through taxes and revenues.

So we're looking at our situation today, having amongst the highest taxes in the country, so to look at raising taxes is probably not something that taxpayers are going to want to go through. I think generally most people would think that something has to give and this government has also made clear that services need to be protected so in the last 20 out of the 30 years we've been running deficits, so by definition, governments we couldn't afford. To me, that is nothing more than lacking political will to spend within our means. It's certainly not fair to future generations to continue on this path.

My colleague mentioned the teachers specifically and the fact that they actually pay for 100 per cent of their health care benefits. Is that the case in any other cohort of class? Are we looking to get employees to start paying part of that share?

Also, do you have a sense of, in terms of teachers but also other professions, if they are starting to draw from their pension more years than they are actually paying into their pension?

MR. GEORGE MCLELLAN: I'll refer the last part of the question to Rollie, who has more knowledge on that. I can say that with regard to that benefit, it is not common to other collective agreements nor do I believe it's generally common. I don't know, it may be elsewhere but it's not generally common in other provinces that the benefit is completely paid by the province.

MR. RANKIN: Having said that, in terms of the overall retirement health benefit obligation, is that why the education sector represents half of that liability?

MR. GEORGE MCLELLAN: The math would indicate that they would fight at twice their weight, I guess, or close to it.

MR. RANKIN: Beyond the unfunded liability, obviously that is exasperated by growth of public sector relative to the growth of the private sector. I'm just wondering, what type of metrics does the Department of Finance and Treasury Board have to show over the last say 10 years or maybe longer - what was the percentage growth of public sector relative to the growth of the private sector? Do you have specifics in terms of either GDP or employment growth?

MR. GEORGE MCLELLAN: I could only speak for the last few years. If I can, Mr. Rankin, if the question is, are wage increases generally relative to GDP growth, then we have, I think probably certainly in the last number of years, outstripped GDP growth.

I don't know, Rollie, if you have a better sense for the longer term or not.

MR. KING: I could say that since about the late 1990s, when public sector wage increases really started to be tracked centrally, wage increases have outpaced GDP in the province for that period of time; from, say, 1997-98 to the current. We don't base our wage increases on GDP or projected GDP, which is subject to change. We don't base our wage increases on CPI either, although we may compare them to CPI. Again, for that period of time, wage increases in the public sector have generally outpaced CPI for the same period over the long haul but we don't tie them together. What we do is determine what the province can afford, in terms of wage increases, which . . .

MR. RANKIN: But don't you think that's an indicator of how much the province can afford in terms of future finances when GDP is really a metric of tax revenue? So if tax revenue is not growing, how do we afford to pay incremental levels of wages to employees and benefits over that span? Why isn't that a metric that we would kind of gauge our future liability on?

MR. GEORGE MCLELLAN: That's not an unfair way of looking at it and I guess in the sense, you having asked the question, that's kind of how we are looking at it. Of course the issue is obviously that we all got out on this limb happily and now one of us wants to get back to the tree, out of necessity. How do you do that and still keep a sense of public service and that's what negotiations are for, in some sense that people are being dealt with in a certain way.

Nevertheless, at the highest iteration, we all agree that this is a problem but when you get down to the individual level, everybody has adjusted their lives to this level of expense and it's tough to recalibrate that as we can see because it's tough to recalibrate our own level of expense.

So it is a challenge but at that highest iteration I think everybody would agree, the problem is the devil is in the details, but it has to be done. We are starting to look at things in light of those kinds of metrics whereby there is a disproportionate weighting that everybody pays for in certain areas. We're not trying to personalize this by drawing attention to it - it's just those are the areas that you've got to try to level. These are the things you've got to bring to the common outcome as best you can and that's the challenge of it, definitely.

MR. CHAIRMAN: Mr. Stroink.

MR. JOACHIM STROINK: Thank you for being here. I want to touch base on the last wage package that was put forward by the province. My understanding was it was 7 per cent over three years. During the time, it was the most generous in the country and Nova Scotia had the worst economy at the time. I guess just to give a quick snapshot on that one negotiation, how much impact did that have on the economy of Nova Scotia and the taxpayers of Nova Scotia?

MR. GEORGE MCLELLAN: Well the kind of metric that Mr. Rankin has mentioned, obviously that got a little more exaggerated as a consequence of that and having compressed growth in those years. It's worse. It's the top of the parfait, which was high but it was industry-leading nationally, I think it's fair to say. Whether or not we're the people who can afford that - now it's all about what happens next, I guess, and trying to get ourselves back to balance in so many respects - fiscal, but social and things. But it obviously didn't help the overall problem.

MR. STROINK: I guess that's a fair comment. I guess that's where I'm trying to get to - in the private sector. I mean, most business owners out there would make grave sacrifices to ensure they are sustainable and they'll work hard with their employees to be sustainable. They'll do purchases, they'll do cuts, they'll do everything that they can to ensure that they can keep the doors open and maintain a successful business. I guess that's where I'm trying to lead to with this conversation.

If you're going to spend 7 per cent over three years on a wage increase when you can't afford it and 1 per cent roughly - is it fair to say it equates to \$52 million of taxpayers money?

MR. GEORGE MCLELLAN: One per cent would be the rough, yes.

MR. STROINK: That's where I'm kind of going. Is there discussion - a little bit more following on Mr. Houston's comment on the co-operative gains model - is there appetite for that? Do you think that's a way that Nova Scotia can move forward in a more positive way and be a more sustainable way?

MR. GEORGE MCLELLAN: I would hope so. One of the things that happens - it's the last three years, but this is just my comment more from a bit of an outside observer too, right, for most of my life. You know, we have a dynamic here that some people would view as acrimonious by its nature; even if you're given 7 per cent over three years, it's never enough. The relationships of government to negotiation and the unions and things like that, it's late coming. We tend to let things expire and then let the pot start boiling before we actually decide to pull it off the burner, and whatever that takes is what we do. It's not that crisp.

So there is no question that it's an issue right now to have those conversations and when we go and talk a lot about co-operative gains, that's the dynamic in the past history, which you insert that discussion. So of course people never having had that pattern, mindset, any of us probably going into that discussion, people logically kind of say, well what kind of Trojan horse is this? I'm assuming this, but the fact of the matter is, it is genuine. That is a way forward, and it is a way forward because we don't have any more money and yet we have extended ourselves beyond the norm on benefits.

There are things at play here. There are simple equations that we can simply recognize and we can put those into discussion if we can get the passion down and put our past behind us. This is not a mug's game, not at all, it's the art of the possible, but in order to see it that way we have to put some things behind us.

MR. STROINK: I think I'll just kind of leave it at that because I think your comments are very valued to where things are headed now and I think in the spirit of everything, I hope that's where everybody heads, into that direction. Thank you.

MR. CHAIRMAN: Ms. Miller.

MS. MARGARET MILLER: Thank you - certainly a lot of good points and good discussion. My question is about the Public Service Awards and the history of that. I know there have been some recent changes, can you tell me how that whole program came into being? Who really gets it, is it all public servants? Do other sectors have it? What can you tell me about that?

MR. CHAIRMAN: Mr. King.

MR. KING: Public Service Awards, or retirement allowances, have been around in the public sector for quite a long time. There are varying reasons why they've come into being. Historically, they may have come into being as a bridge until full retirement at what was traditionally age 65, so that's one reason why service awards, or retirement allowances, had been introduced. They've been introduced in places where employees didn't have a pension plan or it was a bridge until a pension plan came into effect, so there are different reasons why they currently exist.

As I indicated earlier, I'm not an historian so I don't know the reason why ones exist today necessarily for teachers or for health authorities. I can say that the retirement allowance for teachers was very diverse prior to 2002; a couple of boards had very generous retirement allowances and some boards had very meagre retirement allowances. In the early 2000s the department standardized that to a 30 per cent to 35 per cent level cap for new employees.

In the health authorities it's even more recent than that, the current cap is at 26 weeks max, and that has only been in existence for about 10 or 12 years in the health authorities for most employees. The civil service has had that cap for quite a while. Some former civil servants actually were transferred out to the district health authorities of the regional boards many years ago and when they transferred out they took their benefit with them, including the retirement allowance benefit that they would see. Over time that put a pressure on the rest of the health authority employees to level up to that.

As recently as 2012, the last group of employees in the health authorities levelled up to the 26 weeks max. So hopefully that answers your questions.

MS. MILLER: Can you tell me, have there been any changes recently in the program with Public Service Awards?

MR. GEORGE MCLELLAN: Sorry, I didn't hear the question.

MR. CHAIRMAN: I'll ask the member to repeat the question.

MS. MILLER: Have there been any changes recently with the Public Service Awards and how they work?

MR. GEORGE MCLELLAN: There have been, as you are probably aware in the last budget, there's a lot going on there, but one of the things is that these things were suspended, frozen in the last budget for non-union employees and management employees. That was a pretty significant move so I think we're on tough territory when I mention about the fact that the devil's in the details, as we all agree here, but when you get down into it, that's where it gets difficult and that's one of those unfortunate measures that are necessary.

MS. MILLER: I'll pass it on to my colleague.

MR. CHAIRMAN: Ms. Lohnes-Croft, you have about five minutes.

MS. SUZANNE LOHNES-CROFT: There are many answers today to questions that I'm sure we all have been wondering about. I want to talk about Chapter 7. It seems that there was disagreement between the Auditor General and the department on the follow-through of the previous recommendations. It said that the Auditor General was going to provide you with more information on what is required to implement the recommendations. Was more clarification given to your department by the Auditor General?

MR. GEORGE MCLELLAN: They've been very fair and available to clarify it and even as recently as this week, before coming here, I sought some clarification on things to make sure that the interpretation that I have and carry forward here publicly - fair enough, it should be something that I get at least right from what they intended.

The word "disappointed" I guess is the word they are using. As I mentioned, there are a few areas on compliance and reporting where the majority of them are and go to Mr. Houston's earlier question, that we could hit it out of the park if we could clear that one. It has to do with a couple of areas, one of which I think we're going to be okay on very soon on the capital reliability management. I think the other one is one that we will clearly target.

There are a couple of areas where most of that is represented, I think it's like - I don't have it - there it is there, Byron has it there, it's seven not complete in the area of these audit reviews. The other one, this one has to do with I kind of think the revenue model for the budget. That's one that we're working on.

Sometimes the length of these things is due sometimes to the complexity of them and again, kind of anticipate - I hate to do this, but what I probably was intending to answer to Mr. Houston on with regard to his question about it - you know, it's very difficult. These things happen and we all know the right thing to do and we don't do the wrong thing and people feel that very greatly. What's required of us appropriately but continuingly and increasingly is transparent processes that reflect the independent judgments and assessments and the separation of duties. That all happens roughly with the same number of people.

So we are making our way to put these things in place and make room for the recommendations that have been made, that we don't disagree with. We're getting there and we are in constant discussion with the Auditor General's Office on it.

MR. RAFUSE: Further to the deputy's point on that, in the Auditor General's Report, they list them as either complete or not complete. I guess the argument would be that something from 2012, a recommendation should be complete.

A lot of them we have listed as work in progress. Now we can take the criticism that we haven't completed it, but it's still being worked on. It's not as if nothing has happened in regard to some of these recommendations. I think a report that we did provide to the committee shows that some of the recommendations we would classify as "work in progress" and it may take us maybe longer than the Auditor General's Office thought we should complete it, but we are continuing to work on those recommendations.

MS. LOHNES-CROFT: Can you be more specific, like tell me where you are? Can you update me where you are in that process?

MR. RAFUSE: Some of the recommendations in regard to an initiative that we refer to as Internal Control of Financial Reporting which is a world that only maybe auditors and accountants may know about, where you document your controls. It came out of a requirement of the United States referred to as Sarbanes-Oxley reporting. You need to be able to demonstrate that not only do you have controls, but you've documented them and you can prove that to your auditor.

We got into that game late, as did most public sectors in Canada. We did it in an incremental perspective. We . . .

MR. CHAIRMAN: Order. I do apologize, we've exhausted our time there. I'll move to Mr. Houston for 14 minutes.

MR. HOUSTON: I just wanted to follow up on a point that my colleague, Ms. MacDonald, was making, about if you can negotiate changes to agreements that result in a change to a formula as to how something is calculated and it brings the number down, is that a real saving or not?

If I look at the amounts we are talking about today like the retiring allowances, \$373 million which is now currently down to \$367 million from what I understand. Is there any chance that number wouldn't all be paid out? Presumably everyone who is eligible for a retiring allowance would take it when they go. That's a real number, right?

MR. RAFUSE: When we do that valuation, unfortunately, it actually doesn't employ an actual valuation to it, so there is an assumption as to who stays until they're eligible. The Long Service Award, to receive it, you must retire and immediately go to pension. So some individuals don't stay and that factor would reduce that number.

MR. HOUSTON: So there's some analysis involved in that. Now in thinking of the accumulated sick leave liability, which was \$202 million and is now \$217 million, is that something that you would know - like over the past five years - what percentage of retiring employees actually use their full benefit? Maybe presumably, I guess, when they think they're going to retire, in their last year of work they would take 100-and-some sick days. Do you have any analysis as to how often people use their full allotment of sick leave before they actually retire?

MR. RAFUSE: For the valuation of that, yes - sick leave patterns are provided and given. I think there is a myth out there, but it's not supported by the facts, that a lot of people take their last year off in the teaching world by using their 195 days. The data doesn't support that notion. Certainly there are individuals, especially as they get older, these patterns do increase as one gets older, but a large percentage of these days lapse but the liability must be recorded.

MR. HOUSTON: I just want to stop you. I'm sorry, Mr. Rafuse, but in calculating the number - and I'm sure that's a big, complex actuarial formula - then that formula has already built into it that most people aren't going to take their full allotment.

MR. RAFUSE: Yes, it does incorporate that into the sick leave patterns - they're incorporated into that.

MR. HOUSTON: So the number becomes more real with every complication you add to the formula, I guess. It probably is relatively accurate, I would say, at this time.

I do want to move in my last few minutes to the financial condition of the province. I guess I'd start off by asking the deputy minister what one word he would use to describe the financial position of the province.

MR. GEORGE MCLELLAN: Restricting - in terms of our potential is the context I use it in. Mr. Houston, everywhere you look it's behind why we do what we do and what we don't do. It's behind everything we do and everything we don't do. That's the context and that shouldn't be the case.

MR. HOUSTON: I appreciate that. That's probably a good choice of words. Looking at the financial indicators - there are 10 of them here that the AG has looked at - I'm wondering, are these indicators relevant in the day-to-day operations of the department? Is this something you kind of have up on the bulletin board that says, folks, we have to improve these indicators? Where do they rank in your way of thinking and in the minister's way of thinking?

MR. GEORGE MCLELLAN: I'm flipping while I'm doing this. Having looked at them all, yes, they're all relevant. The refinements - there are categories down the left and what they are - each one of them is relevant. When the rear end is out of 'er, you're really finding different ways to describe the number one. It's that and so you can walk around it and get a different perspective, but it's really the same thing.

MR. HOUSTON: So improving these indicators will be an accurate indication that we're improving the financial fortune of the province.

MR. GEORGE MCLELLAN: Yes, definitely. It's urgent - another word, I guess I get a second kick at your question. It's not good anywhere these days - it's not rosy.

MR. HOUSTON: Well with that in mind, how are we doing at improving these indicators, if you look at - your tenure in the department is relatively short so that's not a fair . . .

MR. GEORGE MCLELLAN: It is, but in a way, it actually works to my advantage in some respects coming in. I would say that in our region we're the tallest short person which is a context that's not something for joy. Broadly in Canada, obviously we're not.

Some of these provinces that you see that are incurring larger deficits - the Albertas and the Newfoundlands - with a recovery of a certain commodity that we're all aware of, their revenues will return. We don't have that ace in the hole. We have to fight for everything we get.

MR. HOUSTON: Well, I agree, I take your point on that, but I do think there are a number of things that are in our control and it's those areas that I hope we focus on.

MR. GEORGE MCLELLAN: Yes, I . . .

MR. HOUSTON: Sorry to interrupt you, but in the interests of time I did want to step through some of the indicators. The first indicator, budget to actual variance, that's an unfavourable trend. I suspect that is not anything that we're improving on at the moment given the fiscal update we just had. I wonder if you can put into context - we're performing worse than our budget, the first quarter of the budget was kind of blown, to use that word, by almost \$30 million. Laying down an accurate budget is something that should be in the control of the government. To have a budget blown by 20 per cent to 30 per cent in the first quarter of the year, it took me back. I wonder if maybe try to give me some context as to how that might have happened? I have my own suspicions as to why it happened, but maybe from inside the department you can give me that perspective.

MR. GEORGE MCLELLAN: Sure. I'll answer the question and give you some context not to waste time. We're off by that amount of money and largely - there are two issues, first of all being off by that amount of money and the second issue is not recognizing it and correcting with further appropriations that would have measured against it.

We were off because we got some news, as you are aware, with our Public Accounts presentation and release that we were off on revenues when the final prior period of adjustments came in at the end of the year. When we did the budget it looked better. When we actually got the results on that and the prior year adjustment went against us, our jumping-off point into this year on the revenue side - taxes primarily, HST, personal and corporate - were all lower, so the jumping-off point was worse. Now remember, we're talking about the budget. We had the budget and they were actually looking better, further adjustments were worse, so when we state a budget it's up here, the actual amounts come in down here and so this year plays itself out from that base, unfortunately, not that base. So we're behind the eight ball a bit, right, on that.

Why didn't we make any appropriations on it? Because we feel that we have the measures in place in terms of expense control that we'll be able to manage that first quarter indication.

MR. HOUSTON: But I guess what I'm curious about on that is around the revenue side. At the time that the budget came out I know lots of people were saying, myself included, that projecting higher tax revenues, more tax money out of the pockets of Nova Scotians - I wasn't getting that sense when I was out walking the streets. I didn't get the sense that people were optimistic about their financial prospects and boy, they're going to pay this much more tax this year. Yet the budget was projecting that they were, and obviously reality is turning out to be different.

I guess that brings me to my major concern because there is a lot of focus on costs - where can we cut, where can we save. That's a big part of the equation, but it's not the only part of the equation. Growing the economy is the answer to changing these indicators. Revenue growth is where this province will turn itself around, not by cutting wages or benefits or services or anything like that - that's not the answer to stimulating growth.

I guess what I'm trying to say is, in these ratios here - I mean three of them alone, like net debt as a percentage of total revenues, debt servicing costs as a percentage of total revenues, federal transfers as a percentage of total revenues - it's revenues, revenues, revenues.

Is there something you could share with us today that says what the focus of the department is in growing revenues? Has the new minister given you some indication as to, well I have some good ideas on how we can grow our economy? That's the answer to our restrictive financial situation and that's the part that I'm most concerned with - not as a politician but as a Nova Scotian, as a father, as a taxpayer. What is the government doing to grow the revenues of the province?

We know lots of things they're not doing. They're not going to do onshore gas exploration, they're not going to support the film industry - we know all the stuff they're not doing but I wonder if you can tell me something that we do plan to do to try to grow the revenue. It's a long question, I apologize, but it's deeply important to the financial prospects of this province. We need to start growing and stop reversing.

MR. GEORGE MCLELLAN: I agree. Actually if you look at some of the metrics on how we spend relative to other provinces, the bad news is we're in tough shape but the good news is, it's not that badly run because our expenditures per capita here are pretty low; we've got them that way.

We need to find - clearly for some time our economy has been the worst, I mean we're talking like 20 years and now somehow that's a big secret. The problem is we need an economy, we need those jobs, I agree with you. This is again my extrapolation of things because to be very clear this is not my department. There are departments with lots of

people running around trying to do exactly that, to answer the question that you are raising. But from my minister's point of view and from the context of my involvement in these discussions, remember that we do a lot of things here, too, to give away money, with tax credit systems and things like that, that on the one hand people decry but on the other hand support when it gets down to the individual outcome. So it's not fun . . .

MR. HOUSTON: But on the taxes, if I may, just on the taxes, I mean we do have the Broten report; maybe I'll just leave you with a final question on taxes. Is it helpful for a province that is trying to grow their economy to be talking about new taxes and new red tape and things like carbon taxes and stuff like that? Is that helpful to a province that is trying to grow? What has happened to the Broten report? Is it done and dusted forever? Is the department still analyzing the impact of the carbon tax on the people of the province?

MR. GEORGE MCLELLAN: The Broten report is not in the dust forever, as I think you put it; there's obviously incremental progress on it. We have been looking to some of the tax credits with great public tumult, which will go unnamed or else we will have another two hours. The challenge for us is looking forward to balance. We have got a regulatory focus and regime in place now, this government . . .

MR. CHAIRMAN: Order. I do apologize, I would like to hear the rest of your answer as well, but we do have to move along to the NDP caucus and Mr. Wilson.

HON. DAVID WILSON: Thank you for being here today. It sometimes can be a dry topic, talking about finance and everything that is composed in the budget of the province but it is important to get the whole picture of what's going on and how do we improve it and how do we ensure that our province can move forward in a way that I think encourages people to stay here and attracts people to come to our province.

We all know that we have a debt problem here in the province. The debt per capita is a figure that we hear often and it's concerning to many. Every time someone leaves the province or we see a reduction or our population shrinks, that number grows, and if I'm not wrong, if our population shrinks or people leave the province, that per capita number increases, which I think concerns many Nova Scotians

MR. GEORGE MCLELLAN: Yes, the demographic shift is clearly not helpful to that calculation. The telling one is that amount to GDP and that's the kind of a measure that's used across Canada, and there we are making some progress as we get some slow growth in the GDP, hopefully, outstripping the growth on the debt, but that's a challenge. Again, it is helped greatly by getting back to balance.

The thing I mentioned, I don't know, again, it goes back to the fact that I'm kind of new, is that I'm struck a bit by the focus across the country on that ratio. We're looking at something that might give us a little more sense as to really what this means to us because there's a lot of other provinces that are worse on that ratio of debt-to-GDP - at the time Greece went under, I think Japan had a worse debt-to-GDP - but it all has to do with the

other side of it, your resilience, your ability to have an economy and generate income and to sustain the debt. People will give you money as long as you can pay it back.

So we're challenged not just by the amount of it, but the resilience of our economy as well and that goes to earlier questions as to part of what our job is. I think we're aware of that and I know we're focused on that.

MR. DAVID WILSON: I know reading the Auditor General's Report, he mentions the debt per capita, so that's why that figure is definitely one we need to look at and should be concerned, especially after the Ivany report showed, and I think indicated, a strong emphasis on our province's ability to attract and grow our population. We know health transfers from the federal government are determined by the number of people we have. I think the number and the population is extremely important here in the province.

Since 2010, the consumer price index across Canada has increased by 9.9 per cent. Over the past five years public sector wages have increased by 9.5 per cent. Do you think the consumer price index should outpace wages here in the province or do you have an opinion on that?

MR. GEORGE MCLELLAN: I do have an opinion on that, I think we're in the kind of shape now that we can't put our fate in the hands of a measure over which we don't have a significant degree of control. The only measure we have is what's sustainable and what puts us in the ability to earn \$5 over what we spend and to take that and put it back into some service quotient. Whatever does that and any measure we have that's going to fluctuate and deviate goes on the assumption that we're kind of normal and that we can do that. I wish that were the case, but it's not.

MR. DAVID WILSON: Thank you for that. Going to the debt again and I don't know, Mr. McLellan, if you can answer, or maybe Mr. Rafuse, when was the last time the government made a payment on the debt and if you know that, do you recall how much that was?

MR. GEORGE MCLELLAN: I guess given my age, I'd be the best person. The way it operates is when an issue comes due it kind of gets renewed and it normally gets renewed at a higher amount. Paying off the debt, you know, what really happens over time is we just issue less so there's a cadence to it. I would suggest that - Byron, I don't know in your memory if it has actually dropped.

MR. CHAIRMAN: Mr. Rafuse.

MR. RAFUSE: It hasn't happened since 2004, so that would be my context.

MR. DAVID WILSON: Well, hopefully you can go back and try to get that information, but I believe in 2011 there was a payment on the debt.

MR. RAFUSE: There would have been a reissue at the same time; debentures come due all the time and they're paid off.

MR. DAVID WILSON: We can discuss that further, I guess, as to who and when that was done.

When we go through the Auditor General's Report - I know my colleague had asked for some current figures around the retirement allowance and the accumulated sick leave - the retirement health benefits were pegged at about \$1.1 billion. Do you have the current amount for that just so we can have all three updated figures?

MR. RAFUSE: The liability for retirement health benefits as of March 2015 was \$1.1 billion.

MR. DAVID WILSON: So it stayed the same. Thank you for that. Under some of the charts that we saw here - and I believe it was in Paragraph 2.8 of the report, there's a line item there "Other Employee Future Benefit Plans." What's included under that heading and could you maybe give us some information on that?

MR. RAFUSE: In addition to, what we would say is the typical, which would be pension liability amounts, there are supplementary pensions for high earners and judges. The members' retirement allowance is included in that calculation. There are, as I said, accumulated sick leave amounts for teachers and some non-teaching. There's an amount in there associated with what we would call our WCB - although not technically WCB, but our injury and work liability. Also, impact on long-term disability plans that are different from the premium itself so it's sort of a catch-all for all those other peripheral types of employee benefits.

MR. DAVID WILSON: I know we spent some time - and it seems to catch the attention of the media often around the accumulated sick time, for example. I try to wrap my head around this liability and this amount that is there and I believe it's at \$217 million as of last year.

Do we keep track of employees on the percentage of sick time they use? I'll give you an example. How many employees are at 25 per cent use of their sick time - 50, 75 or 100 per cent? Do we keep track of that and are you able to provide any of that information to the committee?

MR. RAFUSE: That valuation has an extensive report with that type of individual information. It wouldn't be at an individual basis - it would be at probably the age group information with differentiations between males and females. That is actually all at the back of that report and that report can be made available to the committee.

MR. DAVID WILSON: One of the reasons I ask that is, it's my understanding that this isn't cash money that is going out in additional costs. This is a benefit that employees

have and it goes back decades, some of these benefits. I would assume there are not too many employees who use 100 per cent of their sick time. So that liability, of course, that \$217 million would be paid out only if every employee employed under the government takes 100 per cent of their sick time. It's not like other employers out there that if, for example, you take a day off, the province hires a part-time person and there's a cost to that. Am I correct? I mean, most employees are not covered unless it's maybe a nurse or that specific, but we even know that there's information now that there is an allowable percentage of employees that can be missing without replacing them. Am I correct in understanding that?

MR. KING: If I understand your question correctly, in many cases the employee that is off sick is replaced. So if you look at the sector, whether it's teachers in education or health authorities or within the civil service, there would be some examples where a replacement is not needed, but there are many cases where a replacement is needed as well. I would say more are needed than not.

MR. DAVID WILSON: Under the numbers covered by those three areas that we just mentioned - retirement health benefits, retiring allowances, accumulated sick leave - what are the numbers of people that are covered under those? Are you able to provide information to the committee, let's say for the past five years, on how many people in each of those categories are covered by the liability that the province holds on them?

MR. RAFUSE: For the Long Service Award, which is applicable to both the civil service and the broader public sector, we do have the numbers of employees associated with that as is with retirement health benefit. The accumulated sick leave program is not a benefit for the civil service - it's unique or it's a subset of that for just teachers and some health care workers. So it's a subset of that but the overall numbers associated with those benefits, we definitely can provide those.

MR. CHAIRMAN: We'll move to Ms. MacDonald.

MS. MACDONALD: While we have you here I want to ask you a question about the P3 school leases. I noticed the first one expires on November 30, 2015 - this is Sherwood Park in Sydney. I know that time is almost here now so I want to ask, what is the plan for renewing or extending - what is the plan? Then I notice there are a lot coming due next year so the department has to be working on that; that has to be part of the calculation. But specifically around the one that is coming due November 30th, what is the status of that lease?

MR. GEORGE MCLELLAN: I'm aware of that school. The first decision point I think for us is actually June of next year so two things; first of all, that one comes off, now I think we still have until then to determine its future but I do know that specifically with regard to that school and the program in general, the Department of Education and Early Childhood Development is working with the school boards now about the broader use and

the necessity of the renewal. In that of course there's a whole complexity of issues surrounding the schools that are in there.

MR. CHAIRMAN: Order. I do apologize once again, we have run out of time. We'll move to Mr. Maguire.

MR. BRENDAN MAGUIRE: One of the comments I've heard from certain sectors of the population is that this province is not in as bad fiscal shape as the government likes to say and that there's room to go further into debt. Personally, the thought of leaving a higher debt load on our children - the thought of it is irresponsible to me.

Can you actually just take a moment and be crystal clear on the fiscal situation of this province and what impact on our infrastructure, our social programs and our future, plunging ourselves further into debt would have on these things? I just don't want there to be any misunderstanding coming out of this on the fiscal situation of our province.

MR. GEORGE MCLELLAN: As I mentioned earlier, Mr. Maguire, we've got the worst performing economy in the country. We have the highest rates of tax - corporate, personal, tied for the highest with many provinces on HST. We have a deteriorating infrastructure situation, we are obviously running a deficit there. At the same time we see the evolution of a tax base that needs to be reversed. The demographics are such that the people we have in Nova Scotia are getting older and more dependent on our services, particularly health care but also community services as the economy flags.

The base upon which some of these benefits get spread and part of the urgency around this, I would suggest on the matter of the non-funded or unfunded portion of these benefits - tolerable now, not so tolerable as we go forward because we've got fewer people who are going to be able to cover this as we expense it. So that is the challenge and I suspect the context for the Auditor General's remarks.

Then we still haven't found those four legs for our economic table that are going to support us. That is not pretty and we need to change that, but that's for all of us to recognize and the difficulty, of course, lies in the details. It is not hopeless, this is still Nova Scotia, it's a great place and at the end of the day, if we all recognize the problem, I have every confidence we'll all solve it. So this is my plea but also my hope.

MR. MAGUIRE: So it's fair to say that train of thought is not a sustainable one and that this could have negative impacts on especially the social programs and the programs that we, as Nova Scotians, are accustomed to, it would have a negative impact on that.

I just want to shift gears for a second and get into the absenteeism. What is the number of total days for absenteeism that we had last year? I know all of our contracts have a set number of days that you're allowed to be absent. Do you think this works? We're back at the table now and some employers have gone away from the set number of days and gone to no number. Some people feel that they have to take every day every year, and

some people actually are sick, but some people are sick more than the amount of days that they are given and actually come to work sick. Is there a different model being looked at or would you like to see a different model being looked at than say, everybody gets 12 days? Would it be better just to say listen, if you're sick don't come in?

MR. KING: In our public sector within Nova Scotia there are generally two sick leave models in use, there are other models. No matter what model is looked at there are pros and cons to them. One of the questions you had was with respect to sick leave usage. I can't speak to usage within health authorities or by teachers, certainly, we'd have to go to the school boards and the department or the health authorities for that information. But with respect to the civil service I do know that our current average - and this is an average - is 13 days per year at this point in time.

MR. MAGUIRE: How does that compare to the private sector, do you know?

MR. KING: I don't have stats so I would be hesitant to answer that other than my own personal instinct, if you will, so I would prefer not to answer that because I don't have it in front of me.

The issue of what sick leave model is best, there is no right answer, that's the challenge. What employers have concluded is the best approach is to work with employees to get them back to work as quickly as possible when they are off, because employees will legitimately be sick and injured. The other focus is on keeping employees at work. Depending on the sector and depending on the work, the work can be very arduous, and everything that can be done is being done in those sectors to try to keep employees working safe. Employers in the public sector are focusing on that versus what is the right sick leave model, given that these models have been in place for many, many years.

The one comment I would also make with respect to the models is that nobody is contemplating changing it in the civil service or changing the model that they have in education. The reality of the health authority consolidation is they have two models in place already, and with that consolidation they will have to come to grips with what the appropriate model is. They're examining that right now as they get ready to come to the bargaining table with the unions. But there's no right answer, that's the challenge.

MR. MAGUIRE: Thank you. I'll pass it on to Iain.

MR. CHAIRMAN: Mr. Rankin.

MR. RANKIN: I just want to revisit the question of if there was a repayment of debt over the last government, I think the Third Party mentioned 2011. Do you have the figure of the total net impact on debt between 2009 and 2013? I think it's \$3 billion, but I could be wrong - it could be more.

MR. GEORGE MCLELLAN: Mr. Rankin, I'm sorry, we'll have to get back with a specific answer.

MR. RANKIN: That would be great if the committee could get that for the record. I think it is \$3.17 billion, is the amount that I recall and that would be a 25 per cent increase of the debt that was in 2009, which was about \$12 billion at the time. So when you talk we could easily pay \$10 million on the debt right now, by the time you close the books it's going to be a different impact so I think that's important to recognize.

In terms of balancing the budget, I think that is an important part of business confidence. My colleague mentioned that people might not be confident on the street and that government has so much control over revenues, but I think government has a lot more control over spending. The businesses that I talk to are interested in investing in provinces and areas where the finances within government are more predictable - and this isn't me speaking. The CFIB came out and said that we have the highest business confidence in the country now. I'm just wondering if you can comment on that, that in terms of controlling spending if you think that is relative to economic growth.

MR. GEORGE MCLELLAN: There are a few iterations to controlling expense. First of all, getting our house in order has a definite impact on our fiscal situation; the second thing being, if you're asking others to pull in their belts a bit you had better have at least some moral suasion when you do it by having acted in those respects for those accounts that are directly yours. That is what we would do.

So getting better and lowering the expense helps, but to go to an earlier question, for many years that's kind of what we've done. Sometimes there's a time and a place and I really thought the One Nova Scotia report was an opportunity for everybody to kind of put their differences aside in this society of Nova Scotia and move it forward. I think that's where we're going.

I think there's a recognition now that we have very little choice. Getting smaller is not the answer to being great, that's for sure, but that's where we're headed. It is our role to make sure that as even as we grow, we're effective. Sometimes that's lost sight of, both in government and in the corporate world. So there's a job to be done of being effective with taxpayers' money, whether you've got a lot of it or whether you're getting more of it.

MR. RANKIN: The second part to my question would be on the infrastructure deficit and this could be more appropriately directed at Transportation and Infrastructure Renewal. I know they did give a figure several months back that it is in the billions of dollars, and I think that's important.

I'm just wondering if the Department of Finance and Treasury Board keeps a watchful eye on how high that type of deficit is incrementally growing over time. I know it's in the billions and I think that's probably what bothers me the most of governments, how they let schools and hospitals deteriorate, they let important assets like Exhibition

Park, and then they leave it to the next government to handle because they'd rather spend money on opening new buildings and cutting ribbons for boats. That is something that I know our government has taken steps with the schools with the capital asset improvement plan every year; we're fixing roofs and we're fixing assets that have just been neglected over time without investing in preventive maintenance measures.

Does the Department of Finance and Treasury Board have any role to play in ensuring that government does keep their eye on that part of the infrastructure?

MR. GEORGE MCLELLAN: I think the Department of Finance and Treasury Board has an absolutely critical role in that everybody kind of considers off the top of their head, I guess, that Finance is just that area that manages the money and says what doesn't happen. But I firmly believe, and I think my colleagues would agree, that we're the enablers of our potential and it's not a matter of saying no, it's a matter of deciding the appropriate yeses and making sure that we have the capacity for many more yeses as we go forward.

On infrastructure, that's a big element of it, but the challenge of course is that every time you build something, it's to use it; every time you use it, it deteriorates; every time it deteriorates, you have to reuse it. So here we are at the critical crossroads, whether it be the schools or whether it be roads. A lot of the places where the schools are and the roads are, when we decided to build it we're putting homes on it, and now that we've decided to renew it there's two. These are challenges. So there are some critical decisions as to these allocations that are going to confound us. Immigration, a stronger economy - these are the things that we're working on and those are the underpinnings of what long term is going to help us address them.

MR. CHAIRMAN: Are there any further questions? Seeing none, Mr. McLellan, I would ask that you provide us with some closing comments.

MR. GEORGE MCLELLAN: I first of all want to thank you very much. I have sincerely enjoyed this, as have my colleagues - I mean that. You're smiling, but I have enjoyed the opportunity to talk about this. We don't get out much - kind of a lonely bunch of guys here. (Laughter)

There are a lot of questions that I didn't get to answer and I'd be happy to do so informally if you wish or at any time. We're fighting to get on the right track. If you go and have a look at some of the verbiage - I know I've painted a dire picture at times because that reality is going to give us the courage to fix it - not illusion, but reality will give us the courage to fix it. So it's very purposeful.

On the other hand, in relative terms, if you look at some of the responses from the debt rating agencies of late, you can see that we are making headway. We're holding our rating. We have a good response to the One Nova Scotia report. We are recognizing that the underpinnings have to change. It's not quick fixes anymore. I am encouraged and I'm

proud of the role that we're playing in it and I hope with your support we'll continue to help the successful trend of improvement.

MR. CHAIRMAN: Thank you, Mr. McLellan and thank you as well to your colleagues for being with us here this morning.

Next week on October 14th, we'll have the Department of Fisheries and Aquaculture and the Department of Environment to discuss Chapter 3 of the Auditor General's Report of June 2015 on aquaculture monitoring. Immediately following this meeting, we will have our briefing with the Auditor General for that meeting.

We are adjourned.

[The committee adjourned at 10:52 a.m.]