

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, October 21, 2015

LEGISLATIVE CHAMBER

**Department of Finance and Treasury Board
Chapters 5 and 6 of February 2015 Auditor General Report**

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Public Accounts Committee

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Mr. Tim Houston
Hon. Maureen MacDonald
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[Mr. Stephen Gough replaced Ms. Suzanne Lohnes-Croft]
[Mr. Terry Farrell replaced Mr. Brendan Maguire]

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

Ms. Nicole Arsenault
Legislative Counsel

Mr. Michael Pickup
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
Mr. Geoff Gatien, Controller
Mr. Paul Davies, Director, Taxation and Fiscal Relations



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, OCTOBER 21, 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. We have today with us the Department of Finance and Treasury Board - thank you for coming back to see us again. We'll be discussing Chapters 5 and 6 of the Auditor General's February 2015 Report. We'd like to begin with introductions, starting with Mr. Farrell.

[The committee members introduced themselves.]

MR. CHAIRMAN: Mr. McLellan, would you please begin by introducing yourself and your colleagues. Just a quick reminder for everyone to make sure your phones are on silent so we don't have interruptions. Mr. McLellan.

MR. GEORGE MCLELLAN: Thank you very much, Mr. Chairman. It's good to see all of you here again; I feel like we never left. I brought extra help today, as you may have noticed. These three individuals are colleagues of mine at the Department of Finance and Treasury Board. They are all here to help me talk to some of the questions you may have with regard to Chapters 5 and 6 of the Auditor General's Report of February 2015.

To begin with, Byron Rafuse who you have met probably many times; Byron is the Associate Deputy Minister. To my left is Geoff Gatien. Geoff is a controller for the province and to the right of Byron is Paul Davies, Director of Taxation and Fiscal Policy, inasmuch as there may be some questions with regard to the formulation of our calculation of taxes as relates to Chapter 5.

Nova Scotia is the only province in Canada where the Auditor General reviews and signs off on revenue models. We're pleased - probably coincidental to that practice - we've begun to see no qualified opinions in this regard recently.

Chapter 5, which is the first chapter under review, includes seven recommendations. Three of those are directly related to our Department of Finance and Treasury Board. We are generally supportive of all the recommendations and work has been done to respond to each one of them. We are happy to speak to those in detail, relative to the questions you may have.

Chapter 6 is kind of in the same theme; it reports some improvement in the review of the audit reports of the independent auditors. There are many independent agencies, boards and commissions that require external review and in Chapter 6, the Auditor General has recommended primarily - principally, I guess - one thing I'd highlight, that our department communicate with the boards of government agencies to reinforce the expectations and to improve financial reporting standards. There are some repetitive aspects of those recommendations that I'm sure we'll have a chance to discuss today.

All entities, of course, are accountable to the people of Nova Scotia and we agree with the Auditor General without hesitation. There is work in progress to make improvements in this area and we'd be happy to discuss those and overall happy to take any questions from the committee now. Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. McLellan. We'll start with Mr. Houston for 20 minutes.

MR. TIM HOUSTON: Thank you, gentlemen, for coming back again this week. In the AG Report, they reference a journal entry to record sinking fund payments. He goes on to say: "During the year, a journal entry to record a debt maturity was entered in the general ledger incorrectly, and a \$10.9 million payment for interest was made from sinking funds rather than the general revenue fund. This payment contravenes the Finance Act. . . ."

Can you talk a little bit about that - \$10.9 million is not chump change by any stretch of the imagination. I'm wondering why it would take the AG to come in and do an audit to find that type of error internally?

MR. MCLELLAN: Mr. Chairman, I'll refer that to Mr. Gatien.

MR. CHAIRMAN: Mr. Gatien.

MR. GEOFF GATIEN: Sure, happy to answer that. What happened in this instance was there is a U.S. bond maturity, and what that entailed was that a large amount came due for an outstanding debenture. We pay through a paying agent so a paying agent receives the funds and then settles with all of the different bond holders who own that U.S. debenture. There are also swap contracts that come due at that point so if there had been some foreign exchange contracts to manage that exposure.

So then the financial institution at the centre of this sends effectively a net invoice saying, this is the amount the province has to pay to settle. Through that, there was a component of outstanding interest, which was included in the amounts that were owed to the bond holders. So on that, the sinking fund was drawn down for the whole amount of the amount due. Then it was through a year-end reconciliation where it was discovered.

I think it may have been sort of a simultaneous discovery with the Auditor General. I think our back office folks were going through the reconciliation process and realized that things didn't . . .

MR. HOUSTON: So when would it have occurred? If it was found during the year-end, when did it actually happen? Do you remember when?

MR. GATIEN: I don't know the date. It was close to year-end.

MR. HOUSTON: So for some period of time, long or short, would it be fair to say that the financial statements were misstated by \$10.9 million because of the incorrect journal entry?

MR. GATIEN: No, I don't believe that would be a fair characterization of it. What had happened was the sinking fund had drawn down the full amount, then it was owed back money from the general revenue fund, but an incorrect amount was not paid. Then we just had to allocate it to the proper fund.

I don't believe our statements ever would have been misstated. We hadn't published the financial statements at that point, so it would have been through the year-end reconciliation process that we'd be going through, so nothing would have gone out incorrectly publicly. It would have been sort of an internal accounting matter.

MR. HOUSTON: And the procedure in the department is just that - nobody was reviewing it until you're saying the next time it would have been reviewed by a supervisor or colleague would have been the year-end - and that you caught it during that process?

MR. GATIEN: It was picked up during a regular reconciliation, I believe. It was an oversight through that where the interest was included in the total. So it was an error that had to be corrected. We don't have a lot of U.S. dollar bonds outstanding so when they mature it was a little bit unusual from what some others . . .

MR. HOUSTON: So have you changed any procedures internally as a result of this happening?

MR. GATIEN: I would say yes. I think the process has now been more appropriately documented so it's a few years, I believe, before the next U.S. debt matures, but it has been documented so it should not repeat.

MR. HOUSTON: The way that this was recorded, it did contravene the Finance Act. That sounds pretty ominous. Are there any ramifications from a contravention of the Finance Act?

MR. GATIEN: Honestly, I believe the appropriate action was to make sure that the general revenue fund reimbursed the sinking fund, so as far as a consequence, we've improved the process. We found it, we've documented it to make sure it didn't happen again, but we account for it as two separate pots of money, as they are.

MR. HOUSTON: Okay, so the process has been improved on that one. The only other question I had on the sinking fund element - in the AG's Report, it says: "Sinking funds are set aside for the repayment of debt. The Division provided us with multiple versions of schedules supporting interest costs for Canadian debt issues, all containing errors with sinking fund swaps, . . ."

That sounds - all containing errors. It sounds like there might be a bit of a problem.

MR. GATIEN: With the pace of year-end, we work on pretty tight time constraints with the objective of getting the Public Accounts published by the end of July, so we start putting information into the auditors in draft form. One of the complicating factors with the debt management is, there are a lot of schedules that are integrated so when you make an error such as the sinking fund, it will ripple through other schedules that you've set up.

We sent them up in draft, and the Auditor General understands they're in draft form, but it certainly does bring an inefficiency to the audit process. When we have to update it, then you have to make sure that you go back and update all the other schedules and then you're sending them up. So I don't believe there were multiple errors, different errors all the way through but I think it was mostly an issue of a few errors associated with this which did have a ripple effect through the audit files.

MR. HOUSTON: And would those errors impact the overall debt servicing costs to the province, either as they are reported or as they actually are due?

MR. GATIEN: It would not impact actual.

MR. HOUSTON: Okay, but it would impact the debt servicing costs as reported?

MR. GATIEN: If gone uncorrected, there would be potential that it would.

MR. HOUSTON: But is it your belief that they are all corrected?

MR. GATIEN: It's my belief that they were all corrected.

MR. HOUSTON: Maybe I can ask the AG. Was everything corrected in terms of the final debt servicing cost as presented in the financial statements? Was there still a misstatement, material or otherwise?

MR. CHAIRMAN: A request for Ms. Ann McDonald from the Auditor General's Office to comment.

MS. ANN MCDONALD: To my recollection, because that's a year and a half ago, there wouldn't have been any material misstatement. There may have been some small errors associated with debt servicing costs that remained uncorrected but certainly we asked government accounting, the Department of Finance and Treasury Board, to correct anything significant and those corrections are generally made. We have some differences of opinion on things on occasion, but I don't recall anything with debt servicing costs being anything significant. They would have been very minor errors.

MR. HOUSTON: Okay, thank you. I guess the level of debt the province has and the debt servicing costs approaching \$1 billion a year, taking money from other departments is obviously a concern for everyone. Anything we can do to make sure those numbers are accurate is certainly good news.

I want to move on to the Community Services element. I would actually ask the AG, I just want to clarify something; the report found that out of a sample of 23 payments, consisting of employment support and income assistance payments for services for persons with disabilities, seven of those samples did not have current eligibility reassessment and that goes against the department procedures obviously but should have ongoing eligibility assessments.

I guess I was trying to ask - you took a sample of 23. Do you know to hand what the actual overall population would be that you took the 23 from?

MS. ANN MCDONALD: I'm sorry, I can't recall what the total population is but 23 payments is a fairly significant amount of testing to do in one expense stream so it was a significant amount. I just can't recall, I'm sorry.

MR. HOUSTON: It just seems like payments across the province for services for persons with disabilities - I assume there would be thousands, would there?

MS. ANN MCDONALD: Yes, there would be.

MR. HOUSTON: So it was 23 out of thousands of the population. In the sample size, seven of the 23, there were errors or incomplete information so there was a 30 per

cent - let's call it error rate, there. Would it be fair to extrapolate that 30 per cent out over the thousands and say that that's probably representative of the number of errors - 30 per cent of errors is a pretty high error rate I would have thought.

MS. ANN MCDONALD: We follow a methodology with respect to extrapolating errors in samples. Certainly the dollar amount associated wouldn't have impacted our conclusions. I'd also point out that these findings here related to a controlled deficiency, not a dollar level deficiency. So a controlled deficiency in itself doesn't translate to a monetary deficiency. The fact that it's 7 per cent - we were testing a control here, not dollars, so this did not translate to a dollar error.

MR. HOUSTON: Okay, so back to the department staff - it might not have a dollar impact on the financial statements but it very well could have a dollar impact on the Nova Scotians who are relying on those payments. I'm just wondering, what are your thoughts on them? There obviously could be people whose situations changed and maybe they would be entitled to more support from the governments but if the files aren't being updated, then those people are doing without, let's say. Do you have any thoughts on this situation with the 30 per cent error rate and the impact it might have on Nova Scotians?

MR. GEORGE MCLELLAN: I don't disagree with your characterization of it and concern. I think in their response the department indicated that they are undertaking a major review of the administration of all their benefits and it is pretty substantial. It's a lot of money in itself over the next few years and that has been underway now for about a year. If you look at the appropriations for this year it is a significant project and I guess it's their view that this is something that is intended to be caught up by way of approved outcomes in terms of reassessment and reassessing on an ongoing basis as part of that project. I guess our job is to try to make sure that that is indeed the case, that that is a benefit realized from this effort and we are mindful of that.

MR. HOUSTON: I appreciate that and it's important because obviously as MLAs, people come to us for assistance dealing with Community Services all of the time, but we know for every person who comes in there is a great number who don't. It's a concern to me to think that the department wouldn't be following their own procedures and what the ramifications would be on the province if they did and we get the numbers right.

MR. GEORGE MCLELLAN: The alternate case is also of interest to us and as a fact - if you're not doing reassessments, are we making payments that aren't necessary as well. It goes both ways so it's important that we see this and realize it.

MR. HOUSTON: Absolutely, for sure. The AG had some concerns with outdated and inaccurate tax model assumptions and some of these assumptions weren't subject to annual review. I guess the tax revenue of the province is pretty important and we just had a financial statement update where the tax revenue estimate was way off, which was something that we were concerned about at the time of the budget.

I'm particularly interested in getting the tax revenue forecast accurate and I was a little curious about some of the model assumptions that were underlying - those models are only as good as the information that is put in them, right? So when some of the assumptions are found to be wrong - I wonder if you could just tell me, why aren't the assumptions subject to a more periodic review?

MR. GEORGE MCLELLAN: The question is probably best answered by the fellow who has actually some knowledge in this. But I just wanted to mention that of our tax revenues, a third of this could be subject to the comment that you're making in terms of federal transfers for a variety of reasons. This is always the case and for many years, as we discussed in our last appearance in discussion with you, that the prior year adjustments that we get, those swings can be pretty dramatic and that happened this year, as I explained if you recollect - I'm happy to do it again, but if you recollect what kind of a little roller coaster we went through in the Spring this year. Definitely, it is of issue.

I've been to one whole meeting with all of the deputy ministers across the country with the federal department. All of the provinces raised the issue because we're really responding to their information and adjustments that are made. Everybody in the country is concerned that we don't have a better degree of precision and timeliness in this information that allows us to make better appropriations. Nobody is happy when we set a budget wrong, I mean when you get it too optimistically you're creating a problem for yourself fiscally and when you get it too negatively then you've marginalized your ability to expand on programs.

The theory is something that is under review and there is a project between the feds and Ontario . . .

MR. HOUSTON: But obviously we know that Finance Ministers past and present love to take credit when the transfer payments come in higher and say what good work they're doing and they love to blame the feds when they come in lower so we'll see how that plays out over the next couple of years, I guess.

For the purposes of today's discussion, I am very interested in the stuff that's absolutely within the control of the department - their own models and their own assumptions. I'm just curious about how those assumptions . . .

MR. GEORGE MCLELLAN: Perhaps I can ask Mr. Davies and perhaps Mr. Rafuse to speak to Mr. Houston's question.

MR. CHAIRMAN: Mr. Davies.

MR. PAUL DAVIES: I think it's important to point out that there are thousands of variables that go into the tax models. Most of those variables are checked, double-checked, reviewed by the Office of the Auditor General to ensure accuracy and to ensure that the

models process them, that the equations within the models are functioning properly and so on like that.

There are a number of historical relationships that are used within the models which are not reviewed on an annual basis, and I'll give you some types of examples. Some things would be, growth in income is normally translated into an associated growth in RSP deductions for individuals. We don't go back and test on an annual basis or look at RSP deductions to individuals to make sure that they are in keeping with their growth in income.

Similarly, we assume things like people use all their deductions to reduce their tax liability. That's an assumption that's built in there that's not looked at on an annual basis.

MR. HOUSTON: I can certainly appreciate the level of complexity of the various assumptions and that there would be thousands of them; I appreciate that. I guess if you stand back from it, what I'm most interested in, I mean at the time of the budget and when I looked at the budget and I saw there were projections and forecasts that Nova Scotians would pay more income tax, for whatever reasons - I guess there's probably a thousand reasons why that may be the case - but my initial assessment when I look back is that that just wasn't my sense from people on the street. I guess sometimes you can overcomplicate things.

What I'm curious of is, what is the final stopgap in the department that somebody says, well you know, I understand the model produced this but does it intuitively make sense? When I hear that assumptions aren't being reviewed on a periodic basis, that kind of feeds into my theory that maybe there's a disconnect between modelling and reality, right? Have there been any changes to the way the department is going to review the overall assumptions process, as a result of either (a) what is happening with the budget compared to the actuals versus budget or (b), versus what the AG has reported? Have you made some changes?

MR. DAVIES: I'll address the first part of your question, Mr. Houston. In terms of the overall review of the model estimates, they are not accepted at face value when the model produces them. There is a review check that is done by staff in the division that is responsible for the estimates in terms of if they are reasonable, if it hangs together with what the economic circumstances are within the province or the other factors that we're following?

That review is then taken to the next to senior management, so the associate deputy minister and the executive director of our branch review those model forecasts and ask the questions, probing questions about does this make sense, is it reasonable? The estimates are then passed on to the Office of the Auditor General who does a very thorough review of the inputs of how the equations work to make sure that the model - and they are also reviewing the economic assumptions and comparing the revenue estimates to make sure they are consistent with what would be expected. They do have questions.

MR. HOUSTON: Have you made any adjustments as the year progresses now to the . . .

MR. DAVIES: In terms of the actual finding of the Auditor General we are putting a process in place.

MR. CHAIRMAN: Order, I do apologize, the time has expired for that round of questioning. We'll move to Ms. MacDonald with the NDP.

HON. MAUREEN MACDONALD: I'm pleased that you are back today because when you were here last, there were some questions that I had and we ran out of time with respect to those questions. I'm going to use my time, or some of my time, to just pursue some unfinished business. I'm not focused so much on the Auditor General's Report although there are things in that report I would like to return to, and I know that my colleague would as well.

I'm interested in using my time to talk more about the P3 schools and the contracts that need to be renegotiated. It's something I raised when you were here last time because one of those contracts is coming up for renegotiation relatively soon, and then subsequently there will be a lot more.

This is a really important issue in and of itself because of the financial implications, because of the educational implications, but I also think tomorrow is the deadline for the call for proposals with respect to the privatization of the various registries, and this is of great public interest - the whole question of public-private partnerships and privatization.

I want to pursue this a little bit because I'm a person who believes that you can learn a lot from the things you've done in the past to prevent difficulties in the future and you need to look at and learn from your experience. So the question I have with respect to the P3 contracts, which have been analyzed by the Auditor General's Office - in the past I think there was an audit in 2010, if I'm correct.

What I'm wondering now is what analysis is being done in the Department of Finance and Treasury Board to determine which of the three options that are available to government with respect to dealing with those particular contracts, which is the most viable?

MR. GEORGE MCLELLAN: Mr. Chairman, to Ms. MacDonald, I guess if I had been able to learn from what I've done in the past, I probably wouldn't be here today, but I'm learning. (Laughter) I'm probably not the best one on the P3s, although our department obviously has an overriding, overarching stake in this. I just checked with Byron about the three - when you mentioned the three options. I wasn't clear on that part of it, but the first step - and it is Education with the school boards that are going to have to determine what might be a keeper of those whole pool of schools.

Going back to the earlier part of your question, I know that there is some urgency to it with some of these schools now, and those discussions have been taking place. I'm not current on exactly where they've led, but the theory of it is, first of all, if these are schools that we want to keep. Looking at the ebb and flow of our student population and other schools that are in our direct ownership and things of that nature, what are the ones that would be best to try to keep?

In the keeping realm there are a couple of categories and maybe that's the three you're referring to - is own or continue to lease; and the third option, of course, is not to take them.

MS. MAUREEN MACDONALD: So my question is, what kind of analysis is being done in the department with respect to those three options and the budgetary implications of that?

MR. GEORGE MCLELLAN: Byron, apparently, is enthusiastically anxious to answer your question.

MR. BYRON RAFUSE: Once a decision is made from a program perspective - whether or not the schools are needed, and also Education through the school boards would make some determinations about if that's a long-term need or a shorter-term need based on school needs and demographics, then we would help out with them as we analyze - as we would with any kind of purchase - whether or not an outright purchase is the best option; if a P3 long-term lease is a better option; or in theory, a possibly shorter-term lease, which some people might characterize as an operating lease. That's kind of problematic in a public service setting.

We do have skill sets within the department and we do help out those lead departments, as we have with the Department of Transportation and Infrastructure Renewal now, which we lend our expertise - both from a financial modelling perspective, and also from a market perspective as to what is the best outcome financially and overlay that with the programming needs of the department and the fiscal plan of the government. We would provide that type of advice.

MS. MAUREEN MACDONALD: I'm trying to interpret your responses here because they're not directly responding to my question - what type of analysis has been done? Am I to take that no analysis has been done? Are you waiting for the department and the boards to provide you with this program review or, in fact, is a financial analysis being done now?

MR. RAFUSE: We've already run an analysis on what it would look like if all schools were renewed, based on the terms of the existing agreement; we know what that would look like. We would know what it would be if a sub-set of one of those obviously was chosen not to be renewed. We do need to know from the Department of Education and Early Childhood Development which of those are being pursued. That is an ongoing

process with which we are involved and to help them decide that need. As we always know, we know the impact of renewing them under the current terms.

As the Auditor General's Report outlined and as our experience in P3s has taught us, there are new things about those relationships that we should be discussing with anybody that would improve that relationship or improve that balance for the province. So those types of thoughts and advice have already been provided.

MS. MAUREEN MACDONALD: Thank you; that's much clearer. What are the financial implications of renewing under the current terms?

MR. RAFUSE: In each one of the agreements, there is a value attached that is based on a methodology. One could argue about whether or not it's a good methodology, but it's in the contract about what that asset is worth at the time of renewal. That would be what it would cost for us to purchase, and then if we were to enter into a P3 relationship - as we did in the original things, we would do a net present value calculation of the future lease payments and that would be the amount that would be hitting our capital budget at that time.

So although the actual capital payment or renewal payments have not been discussed with any developers yet, those would be easily determined once that discussion went forward.

MS. MAUREEN MACDONALD: Who owns the land that the P3 schools sit on? Can you tell me how they acquired that land and is that part of your analysis?

MR. RAFUSE: I'd have to get back to you. I think it's a mix on the ownership of the land; how that happened, I'm not sure. I think the province owns the land in a majority of the cases, although there is some discussion about purchase of lands for future ones; I know that it has come up. I'd have to get back to you.

MS. MAUREEN MACDONALD: I think we know that in at least one case the developer purchased the land from the government, in fact, at the time so it would be interesting to know - for all of the schools - who owns the land, what the purchase value was at the time, and what the valuation is now.

So there are service agreements for each school and they would be unique to each school then, is what I understand.

MR. RAFUSE: Yes, each agreement is unique and it's where the developers are responsible for certain things within the school, yes.

MS. MAUREEN MACDONALD: Can we be provided with copies of the service agreements between the province and each private sector operator?

MR. CHAIRMAN: Order. Ms. MacDonald, I'm sensing some concern by some of the other committee members that we are deviating from the topic today. We are here to discuss Chapters 5 and 6 of the February 2015 Auditor General Report - if there is a way you can tie your questions into that. Also, of course, our committee's purpose is to discuss past fiscal expenditure. I'm sensing there's some concern that we're moving into an area of policy but I don't want to interrupt your questioning. We've had previous advice from our legal representative here for this committee that members should have the freedom to be able to ask questions. Each caucus is allotted an equal amount of time.

I will let you continue but I do ask that you try to focus your questions on what we are discussing today. Ms. MacDonald.

MS. MAUREEN MACDONALD: Thank you and I certainly appreciate that. My concern, of course, is with respect to the fiscal circumstances of the government and the various pressures that are in front of our province and our government.

This is an issue that has, in fact, received attention from the Auditor General's Report in the past. Because of the immediacy, I guess, of the first leases coming due, I think this is a great opportunity to look at what implication that will have on the finances of the province and to understand better. This is in the public interest, I mean to have the Department of Education and Early Childhood Development walk away from a P3 school that we've already invested substantially in is of concern. I would suggest that people have a right to know what the options are and what the terms of those options will be, the implications, especially since the government is about to possibly embark on quite a significant privatization of the registries, which not only bring revenue into government but they additionally keep the cost of doing business down as they're currently constructed.

I am going to pursue a bit further this question of the finances of P3 schools because of those reasons. I just want to go back and ask about the service agreements. I don't believe the service agreements are in the public domain. I could be wrong about that, so that's all my question really is, are the service agreements - can they be provided to this committee and put in the public domain, or have they already been?

MR. GEORGE MCLELLAN: Mr. Chairman, to Ms. MacDonald, I'm not sure if they have been or not. I think the best thing in just consulting for us is to get back to you. Sometimes, and I just know from my own experience, that the private sector, these things are - part of a contract is that they can be kept silent because it represents a competitive advantage as to how you've bid and priced and approached operating or maintenance aspects of an ongoing relationship.

I don't know if that has been part of a privilege of a contract or not but we will certainly find out and provide a response to you, if that's okay.

MS. MAUREEN MACDONALD: If there isn't a confidentiality provision in those service agreements, I would very much like to have them provided to the committee

because it would give us an opportunity then to have a greater understanding of really what the various provisions are with respect to those contracts.

MR. GEORGE MCLELLAN: Understood.

MS. MAUREEN MACDONALD: Thank you. I want to ask a question now about the audit around the Department of Community Services. In that process the Auditor General identified the department not following through, I guess, or not applying its own policy with respect to persons with disabilities.

When the Auditor General's Report is issued like that and it has implications for various departments, what is the role of the Department of Finance and Treasury Board with respect to other departments identified as having weaknesses in their controls or in their following up of recommendations to the Auditor General?

MR. GEORGE MCLELLAN: If I can speak generally, I guess it would be a comment that would in general apply to the concerns of Chapter 6, as well, in that the department often finds itself in the position of gaining information and better knowledge, whether it be through the activities of our Auditor General or external auditors. Parts of the Finance Act make us stewards of these matters, but I don't think the process for better or worse is really that proactive in government whereby it's an expectation that we would go in and police those matters by rote, I don't believe that has been the practice. Certainly, it's of increasing interest to us and we will always look for ways to try to improve the results. Unless during the current year, during the operation phase, things are really brought to our attention, there's not a matter for us to operationally gather up the information where we'd see an issue that we should be involved in necessarily, unless it showed itself in financial matters.

MS. MAUREEN MACDONALD: I know my time is drawing short. I want to ask about the petroleum royalty inputs. The AG noted four issues relating to petroleum royalty inputs and it's not the first time, I understand, that the AG has asked for a review of the royalty inputs. My question is, where is the threshold when determining what is a significant deficiency and are there issues related to closing that threshold?

MR. GEORGE MCLELLAN: I guess the Department of Energy would be the first place that this would probably start. My understanding is that our involvement may relate to the degree of materiality in the variance or the difference, I guess. Geoff, do you have anything you want to add?

MR. GATIEN: I don't have a lot to add, but if you wanted to follow up, certainly like matters of significance you always look at the total revenue that was previously estimated. If you look at what the error is you start looking at percentages. I think matters of significance are usually in probably the 2 per cent to 5 per cent based on what your original estimate was, but then building into an overall materiality in the province that number starts creeping up to the \$90 million to \$100 million range the last few years.

Certainly, when we're looking at petroleum royalties we would not be using the corporate level materiality for significance. So if there were wide variances it's really, I believe, a matter of judgment at the Department of Energy and I think when it comes through to the budgeting side of the Department of Finance and Treasury Board, we'd be looking at what the drivers of the variances were. Really, it can change based on circumstance. I don't know if that is an acceptable answer to you.

MR. CHAIRMAN: Order, please. We have run out of time for that round of questioning. We'll move to Mr. Rankin and the Liberal caucus.

MR. IAIN RANKIN: Thanks to the Chair for intervening there. I guess from my perspective and with all due respect to the member for Halifax Needham, which I do have a lot of respect for the member, but in terms of the mandate of this committee it is quite clear that it's about the execution of government resources. It's absolutely not anything to do with policy formation so questions that are outside of Chapter 5 and Chapter 6, I think we all agree we can ask if it has something to do with the Department of Finance and Treasury Board but when you're asking questions of a policy nature, that's just not the mandate of this committee. We've tabled it before during the committee. Whether it's in the public interest - nobody is arguing that the discussion of policy around P3 schools isn't in the public interest. It's about whether it's in the mandate of this committee.

The deciding factor of bringing things to the Public Accounts Committee isn't whether it's in the public interest or not - it's looking at government expenditures and the execution. I think the only question within the mandate of this committee that was asked by the member was the last question, having to do with inputs from petroleum. (Interruption) It was a good question and the questions around P3 schools I am not saying were bad questions but I think the committee should get together to talk about the mandate of the committee at some point, whether in this meeting or not.

Aside from that, I'll ask a couple of questions on the topic today. The member for Pictou East was asking about the model assumptions. I'm just wondering, are these assumptions driven by politics in any shape or form or are they driven by staff within the department? Is this typical within other provinces or would you say we are using a different model? Are they similar? Are they atypical? How do you form these models?

MR. GEORGE MCLELLAN: They are not driven by politics, although the outcomes often are. I think the practices we employ here aren't that dramatically different than other provinces. First of all, it's pretty obvious and the reason why we are here today is that they do get reviewed by the Auditor General.

We also have something called an economist's challenge, too, that the outcomes of our revenue predictions - and the Auditor General is actually present at these meetings and we have representatives from the six major banks in Canada on video conference. We have somebody from the economics departments of, I think, three of our universities here - St.

Francis Xavier, I think Dalhousie, I think Acadia - are all on this conference and often present.

Prior to the video conference with all these people, we submit our revenue projections to see if - and this is a pretty high-powered group and they review all our revenue assumptions, particularly as it relates to the economy broadly in Canada, and then the economists and the university sector are very good on the provincial economy. They review our assumptions and in the presence, I think, of a representative of the Auditor General.

We have had in the last few years since we've begun this, I think, a very close agreement with them on the assumptions. We really haven't had to go back on them.

MR. RANKIN: Did I hear correctly that staff make these assumptions? It wouldn't be practice for the minister to say maybe we should bump up these numbers or say that more revenue should be projected? Is it accurate to say it comes from staff rather than the minister?

MR. GEORGE MCLELLAN: That would be accurate. Probably your question would relate to the motivation as to why the Auditor General is in this business to begin with. The fact of the matter is, that wouldn't be the case or else probably because of his reporting, we'd be having a different conversation today.

MR. RANKIN: In the report you have four qualified assessments and that's down quite significantly from 10 so you should be commended for that. How long do you expect it will take to implement all the Auditor General's recommendations?

MR. CHAIRMAN: Mr. Gatién.

MR. GATIEN: It's hard to put a time frame on the length of time it will take us to implement all the recommendations, as far as assessing when we will be complete. There are a few recommendations in the chapter with regard to internal controls over financial reporting, which will be sort of phased in over a number of years.

There's a lot of activity that has been going on, there's a lot of activity that we'll continue to work on over the coming years in that area. We're constantly trying to become a little bit more robust with the documentation of our control environment, what some of our key controls are, how it's monitored. We're going through an implementation in SAP right now of a module that's going to help us quite a lot with some of our segregation of duties and internal controls as well.

MR. RANKIN: So have you made progress yet from the February report?

MR. GATIEN: I would say yes. I believe we've made a fair bit of progress. I think we have agreement from the Auditor General that we're certainly on the right track. I think

the fair answer to that is yes, we've made some pretty good progress, but it is absolutely still a work in progress. It's probably a number of years on some of those before we're complete.

MR. CHAIRMAN: Mr. Stroink.

MR. JOACHIM STROINK: Thank you for coming today. A little bit more following up with Mr. Rankin's questioning. The recommendations of the Auditor General are a key part of how government works and makes us better. I guess there have been some concerns that it's too slow or things aren't getting done. From what I understand there is a new committee and probably a lot of the public doesn't understand who they are so maybe this would be a good opportunity to talk about TAGR and where that fits in to the whole process with all the departments and everything like that.

MR. GEORGE MCLELLAN: I will refer that question to Mr. Gatien.

MR. GATIEN: TAGR, as we have fondly started referencing this small committee, is a group of four people who get together - and what TAGR stands for is Tracking Auditor General Recommendations. We have a system that we've implemented where all of the recommendations of the Auditor General get populated in the system. Each department has an owner responsible for updating the status, updating the responses, updating what their progress is on these recommendations from the Auditor General.

This TAGR group, I sit on this committee. We have two staff - an executive director from Treasury and Policy Board Division, and we have someone from the Office of Priorities and Planning. So we have a bit of a central focus on reviewing the responses to the recommendations. It's not really a control. It's not our place really to go in and tell the department that their assessment is incorrect, but we want to see if their response is robust, if it is actually addressing the concern. It also serves a bit of a point that it is being observed - people do care.

I think this is a good group. I think the work that we've done is good. We do have plans to improve this. We liaise with the audit committee, which is a committee of deputy ministers and we report to them, I think, once or twice a year on what the results are.

We're trying to change this process a little bit to add a little bit more importance, I want to say; that might not be the ideal word. When we send out to the departments, we need to take action on these and we want to see progress. We want to see the percentages rise as far as what is being complete.

We also want to know - and the TAGR group, I want this group to be involved - if there are differences in opinion from the Auditor General as to what the assessment was, I want the TAGR committee to be involved in those discussions with the Auditor General. If it's a perception in the department that we thought we were complete but then there is

an audit issue, we do have some knowledge in the TAGR committee about the financial reporting on some of those issues.

So I want us to kind of liaise between the department and the Office of the Auditor General as well so that we get a better assessment - the department will be complete when they say they're complete - and hopefully help resolve some differences and make sure that plans are actionable. That's really what the TAGR committee has been about and what I think we're hoping it becomes a little bit more over the coming months.

MR. STROINK: That's all my questions, but I just want to say I think that's a great thing for the department and moving things forward.

MR. CHAIRMAN: Ms. Miller.

MS. MARGARET MILLER: Thank you so much for coming back in today, hopefully we're not being too hard on you. I wanted to go back into the Public Trustee, we talked a little bit about that last week as well. Can you discuss any changes made to the Public Trustee's management of estates and trusts and the accounting system used for that?

MR. GEORGE MCLELLAN: I think there's a fair bit of detail in the report with regard to the issue. It's not quite a Catch-22 but not far off. We do get funds and amounts - accounts, I guess - related to this issue referred to us, so that gets logged before the actual resolution of the actual balance gets transferred. It's a difficult issue to try to keep track of but I think the report does indicate that we're looking to put into place a new system. I don't know if one of these guys can help me with the details of it. But I think there is reference in there to the fact that we are instituting a new electronic system to help track this and better reflect it in real time as to where the accounts lie and the inevitable, I guess I'd call them, discrepancies to an extent that exist in that portion of the balance. With that, Byron, is there anything you'd want to add?

MR. CHAIRMAN: Mr. Rafuse.

MR. RAFUSE: I just want to add that one of the difficulties with the Public Trust and the audit findings related to whether or not there's complete information about what flows into them, an electronic reporting system is great to help them track what they know of, but in theory they still won't know of everything that should be coming their way and, therefore, that may continue to be a bit of an audit finding for them because they're acting in a bit of a vacuum and a bit of imperfect knowledge - you don't know what's coming to you so you can't say you're complete.

What the system will do, it will let them track and do a better job with what they do know that they have custody and control of. We have been working with them on that aspect.

MS. MILLER: That's wonderful, great. Maybe you could talk a little bit about debt servicing costs, can you tell us what the current situation is in regard to information on the debt servicing costs?

MR. RAFUSE: Certainly. As you know, there's a committee called the Debt Management Committee that helps manage our debt situation as a committee, chaired by the deputy minister. It has external members on it, as well as staff that provide policy and oversight to our liability management group and makes them focus around risk and controls.

The management in that section are the professionals who know the market and know when it's appropriate to borrow the amounts that we require to operate. We're not a positive cash-generating organization.

Debt servicing right now, our interest rates remain lower this year than we anticipated. There were expectations that debt costs or rates would go up. We're not seeing that yet, although it is anticipated across the board that interest rates will rise and we have anticipated that in our long bond rates.

MR. CHAIRMAN: Mr. McLellan.

MR. GEORGE MCLELLAN: Mr. Chairman, to Ms. Miller, Byron mentioned that I chair that committee and it's a very active discussion around that. I think when I was here last time I commented that the bad news is that there's a lot of debt; the good news is that it's well managed. You can imagine what a fun group that is to hang around with.

Some of the stuff that comes up there is really helpful. Consequently, I think you'd see us this past year getting positive recognition from the financial community for proactively recognizing the fact that a lot of other provinces are, for once, in a different trajectory than we are: it's a worse one. I don't know how long it will last for them. Some of them, of course, are oil-based economies and will probably recover, undoubtedly, but right now they're borrowers where they didn't used to be borrowers.

There's limited appetite for Canadian provincial bonds and there's a spectrum that gets fed constantly from the normal generation of this debt instrument. It has been much busier, for instance, this year. So proactively the discussion is made. We got out ahead of a lot of these larger provinces and satisfied our needs this year at a good rate - very well done and I'm very proud of them.

The other thing is, I think, although we're trending where we have, it's at a certain stasis right now and I think the bond rating recently that was reaffirmed had a comment in there to the effect, it was one of the more positive reviews of a province that they would provide this year. A lot of that had to do with how they're managing the debt, it's a good group, it's a good committee, and it provides a lot of valuable insight.

MR. CHAIRMAN: Mr. Gough, you have about four minutes.

MR. STEPHEN GOUGH: I'm just wondering, how will current global economic conditions impact Nova Scotia's economy as we go forward?

MR. GEORGE MCLELLAN: Tack on another hour, Mr. Chairman, for this one. Clearly, I guess I could joke, we'd love to have more impact which would mean we would be a bigger trading partner, a bigger export province, and that's kind of happening - that's slowly happening. The first iteration of impact clearly for us with our close relationship with the United States on exports and on tourism is the dollar and then the price of gas and collectively, we haven't built that into a forecast that's upcoming, but you'll see that. There are some negative things, obviously, with the economy broadly in Canada going back a few months, for a good part of the year, but I'd say generally speaking, hopefully we'll see that as a positive element.

More broadly, you can see trade is down and that's impacting everything globally. The slowdown in the BRIC countries, all of them, China in particular, most notably with people, has really slowed down global trade and demand and that has impacted Canada, in general, and it has had its impact on us as well.

So it's difficult and I don't think people are really seeing overall a robust recovery globally, although in Canada the numbers have been better lately. Normally, we do follow by a period of time a recovery in the U.S. and hopefully from recent indications that's beginning to happen.

MR. CHAIRMAN: Thank you, Mr. Gough. Mr. Farrell.

MR. TERRY FARRELL: I just want to go back a little bit to the section on the Public Trustee, Paragraph 5.51, where they talk about the recording of assets that are brought into the care of the Public Trustee. I guess I'm just having a hard time understanding how to improve that process. It seems to imply that they are to record something that they don't even know exists yet. If you could give me some help with that, I'd appreciate it.

MR. CHAIRMAN: Mr. McLellan.

MR. GEORGE MCLELLAN: I'd refer that to Mr. Gatién.

MR. CHAIRMAN: Mr. Gatién.

MR. GATIEN: Mr. Chairman, I'll give this a shot. I think this is one of the challenges in financial reporting for auditors, I think for people with the responsibility over assets like this. The issue is knowing completeness, whether there's anything that's about to be transferred or should have been transferred by the end of the year. To Byron's earlier point, a system can help with tracking inaccuracy, but I think part of the issue is the attempt

to know what you don't know, whether assets should have been transferred to you or not. I think that's one of the fundamental issues that we have here, where we may not be able to get to an unqualified position.

MR. FARRELL: I guess my question is, what's the remedy? How do you make this better? There's no implication there that they're doing anything wrong or they're not recording assets as diligently as they're accumulated. It's just where do you take it, what do you do?

MR. CHAIRMAN: Order, please. We will have to wait for the next round perhaps to get an answer, Mr. Farrell. We'll move to Mr. Houston for 14 minutes.

MR. HOUSTON: I just want to go back to the Community Services issue with a 30 per cent error rate within the sample and if we extrapolate that. Employment Support and Income Assistance payment by the province budgeted this year at least for about \$400 million. I had raised a concern about people getting less than they should be getting and the deputy minister quite rightly said, well, that goes two ways - people could be getting more than they should be getting.

I'm just wondering, in the context of materiality, which I think I heard was in the \$90 million to \$100 million range for the AG's audit - a 30 per cent error rating in Community Services on a \$400 million total payment is a pretty big number. I'm just wondering, how did you satisfy yourself that it's really not that bad? Do you accept the 30 per cent error rate as something that could be extrapolated out?

MR. GEORGE MCLELLAN: I'll allow Mr. Rafuse to explain that we don't.

MR. RAFUSE: I just want to pick up on the comment that the Auditor General's Office made on this. This doesn't convert to a monetary finding - this was a finding about not following the process.

MR. HOUSTON: Some element of it surely will convert to a monetary finding. Would you agree with that?

MR. RAFUSE: Yes, if you look at what they're supposed to be going back to assess the individuals about, whether or not they are earning income that they previously did not have when they became clients. So it's more likely that they are receiving more money - overpayments and under-payments on it.

We talked to the Department of Community Services on this matter when the matter came up and they assured us that they were going to - because it is part of their process - put some management oversight into the process to ensure that these were done on a more timely basis.

MR. HOUSTON: But that is going forward so I'm just wondering, obviously in the past there will have been some overpayments.

MR. RAFUSE: There may be some overpayments. There is a process where if an overpayment is identified, that can be recovered. However, there is a time limitation on that within their policy that if an overpayment has been incurring for a certain amount of time, they do not go back and try to recover that.

MR. HOUSTON: But with a 30 per cent error rate, that is pretty high. Would you say that I'm making a mountain out of a mole hill to focus on that, or would you just say, well it is what it is?

MR. RAFUSE: I stand to be corrected. I think 30 per cent was that it wasn't going back and doing a reassessment. There wasn't that there was actually a 30 per cent error rate; it's just that they hadn't gone back and checked.

MR. HOUSTON: But that is an error because it's contrary to the policies of the department.

MR. RAFUSE: It may result in no change at all.

MR. HOUSTON: It may, but I think we agree there will be some monetary impact. Change in policies and move on - is that the . . .

MR. RAFUSE: I wouldn't say change of policy. It's actually ensuring that the existing policy is adhered to.

MR. HOUSTON: Change the oversight of it, I guess.

MR. CHAIRMAN: Mr. McLellan.

MR. GEORGE MCLELLAN: I also want to add to the comments earlier with regard to the project, I guess I could call it, that's underway at the Department of Community Services to encompass this and some of the other issues in terms of how we provide our service there. We are engaged now through our people on the Treasury Board side - we are actively plugged into that discussion and that project. That's probably, as it occurs and as it happens, we have the opportunity to help with benefit realization.

MR. HOUSTON: As that project concludes and comes out with some new initiatives maybe, would you be willing to or could you track - where now the department's gone back and reassessed and found out that there was a mistake, would that be something that would be requested of the department to track?

MR. GEORGE MCLELLAN: I guess if requested, I guess my thought would be - is it given the other things that we have underway, as Mr. Rafuse has referenced, we don't

know the magnitude of the fact that there is an error, although we would agree with you that there is an issue. So would we go back and actually do a retrospective as to how much this actually cost or lost?

MR. HOUSTON: With all due respect, I don't think it would be a question of taking a new initiative to go back and find out. I would assume that now going forward, somebody is going to start to reassess these files and it would just be a simple information capture from that process of this one has now been reassessed and it was we had to make a change. That would be useful information probably for this committee but certainly for the department.

MR. GEORGE MCLELLAN: If I may, Mr. Chairman, to Mr. Houston, we can follow up and give you a sense for where we are with that during this process. At this point in time here I'm not aware as to the prominence that the issue has but I would assume you are correct. I wouldn't want to confirm that because this really relates as to how that project is unfolding and where this stands relative to other issues in terms of the project as it goes along. I'd be happy to get back to this, if requested.

MR. HOUSTON: Thank you very much for that. I do want to talk a little bit about pension indexing. Back in April 6, the indexing rules for the Public Service Superannuation Plan were changed to a new method. The change applied to all pensioners, including those people who were already retired at the time and it changed the indexing method.

Now back in 2013, Stephen McNeil said that if elected - and we know how that unfolded - that his government would move up the legislative review of the plan with the intention of returning indexing to those civil servants who were already retired, as of the change, so he was going to make a change to the indexing. I wonder if the department is aware if that has happened.

MR. GEORGE MCLELLAN: Mr. Chairman, I'll ask Mr. Rafuse to comment.

MR. RAFUSE: Some of the indexing rules were changed in 2012 and did apply to all retirees at that time. The indexing, for the first five years, were fixed at 1.25 per cent per year, and then after that, five-year chunks based on the health of the plan. The commitment from the government to look at the indexing provisions had - the staff or the department has looked at the implications of doing a retroactive change to the pensions at that time.

MR. HOUSTON: So you've costed it out?

MR. RAFUSE: Yes, we costed it out . . .

MR. HOUSTON: How much was it?

MR. RAFUSE: At the time of the change or the two changes in 2010 and 2012, the plan was \$1.5 billion underfunded and the benefit of indexing provisions associated with retirees at the time was \$500 million. So to reinstate that provision would be an actuarial cost of \$500 million.

MR. HOUSTON: Is that something that is going to happen? I mean that's something that the now Premier promised. Has he instructed you to go ahead and make that change yet?

MR. RAFUSE: You'd have to talk to the Premier about the promises he made. We've indicated to them the cost of reinstating that and whether or not going forward that's a government . . .

MR. HOUSTON: Was that an analysis that was done at the Premier's request or was it something - did you say that was just done anyway as part of the change back then, in 2012?

MR. RAFUSE: As part of - all the commitments made by the government, each department was assigned to deal with individual ones. That one was assigned to the Department of Finance and Treasury Board and we did an evaluation outlining what the costs would be and what the implications would be and what necessary changes would have to be implemented to make that change.

MR. HOUSTON: So if that were to go ahead at this stage, what year would that show up in the books?

MR. RAFUSE: That would be a one-time hit in the year of implementation.

MR. HOUSTON: In the year it was done, so if they were to go ahead with that promise there would be a \$500 million hit, I guess, in whatever . . .

MR. RAFUSE: The promise from my perspective was to review, it wasn't to implement but I'll take your - you should refer that to the Premier's Office.

MR. HOUSTON: Okay, tomato/tomato, I guess, when you are an elector here and the Premier will tell you something.

The government, I'm just curious as to when that would show up in the financials, and you say it's the year that it happens, should it happen.

MR. RAFUSE: Immediate plan amendment.

MR. HOUSTON: I'm just wondering about the commitment to meet the national standard of six months for hip and knee replacements. Is that something that your department has costed out, what it would take to meet that commitment, or the Department

of Health and Wellness? Do you have any knowledge around the commitment to meet the national standard for hip and knee replacements to six months?

MR. GEORGE MCLELLAN: Mr. Chairman, we would have to consult with Health and Wellness and get back to Mr. Houston on that.

MR. HOUSTON: So that's not something that your department has been asked to cost out?

MR. GEORGE MCLELLAN: No, I think the funding was determined, but what they're doing in regard to meeting that operational commitment, I can't confirm.

MR. HOUSTON: So funding was allocated?

MR. RAFUSE: One of the previous agreements with the federal government was a transfer amount associated with that to meet that national objective. That money would flow through to the Department of Finance and Treasury Board and then to the Department of Health and Wellness. Whether or not they are actually achieving that objective and how they're tracking that would be an issue for them.

MR. HOUSTON: So has the money come from the feds yet or no?

MR. RAFUSE: That would have been part of an ongoing agreement - it was part of the Canada Health Transfer.

MR. HOUSTON: So the province, as part of the Canada Health Transfer, is receiving specific dollars to meet the national standard of hip and knee replacements. Do you know how much they would have received toward meeting that standard?

MR. RAFUSE: I guess to go back, the specific amount that you're talking about ended previously - to meet the national standards are just part of the normal Canada Health Transfer. But the amounts that were specific to those, there were a couple of them - that money has ceased.

MR. HOUSTON: Okay. If you get money for a specific purpose from the feds and you don't meet the outcome, have you ever in your experience seen money returned?

MR. RAFUSE: The way the federal government positions that money is they make a standard and rely on the provinces to be accountable to their public on how they're fulfilling that.

MR. HOUSTON: Okay, so they never ask, they never come and check if . . .

MR. RAFUSE: They do not ask for that money back. The way they position it is not to come back.

MR. HOUSTON: Would you be able to check to see how much money would have been received for meeting that purpose?

MR. RAFUSE: I think \$7.5 million per year is what is received.

MR. HOUSTON: It was \$7.5 million per year and that went on for a couple of years, but has now ceased?

MR. RAFUSE: I'm going to ask Paul, who has more specifics on that one.

MR. CHAIRMAN: Mr. Davies.

MR. DAVIES: In the latter years of the agreement, there was approximately \$7.5 million to \$7.8 million per year and it was actually an escalating arrangement as part of the 10-year health accord between the provinces and the federal government. So it started out at \$500 million to the provinces over the first of two or three years of the agreement and then expanded to \$1 billion.

MR. HOUSTON: So how many years would it have been received by the province? I appreciate the amounts changed, but how many years?

MR. DAVIES: It was received over a 10-year period which ended in 2013-14.

MR. HOUSTON: And at the end it was \$7.5 million a year so, would it be safe to say the province received \$25 million in aggregate over 10 years?

MR. DAVIES: It would probably be a little over \$50 million.

MR. HOUSTON: So the province had received about \$50 million over a 10-year period to meet the national standard of six months for hip and knee replacements?

MR. DAVIES: That's correct.

MR. HOUSTON: It's a pity they never met it, I guess. I know my time is short . . .

MR. CHAIRMAN: Thirty seconds, Mr. Houston.

MR. HOUSTON: Just a question for Mr. McLellan, just a clarification. On the assumptions analysis, did I hear you say that the assumptions are prepared and then presented to a committee of the leaders of the six big banks and the three people from the universities to - I don't want to say "endorse", but to bless the assumptions?

MR. GEORGE MCLELLAN: It's more of a challenge thing. It's not the leaders of the big banks, I wish, but . . .

MR. HOUSTON: I was wondering how far your reach went, I was pretty impressed, actually.

MR. GEORGE MCLELLAN: Yes, there are files everywhere, so . . .

MR. CHAIRMAN: Order, please. I do apologize we have run out of time on that question. I will move to Mr. Wilson of the NDP caucus.

HON. DAVID WILSON: I just want to turn to the Auditor General's Report, Chapter 5, specifically around Paragraph 5.42 and onward. In the audit the Auditor General's Office indicated that the Department of Health and Wellness had not been provided a report on internal control deficiencies from Medavie. Of course, I know the deputy and myself have had some connections with Medavie or their junior company. Are you aware if that report has been received by the Department of Health and Wellness from Medavie?

MR. GEORGE MCLELLAN: Mr. Chairman, we understand that the report has been received but we will confirm that. That's our understanding.

MR. DAVID WILSON: Of course, I think when the auditor recognized that that report had not been received, alarm bells should go off. For those who might not know, Medavie deals with almost \$1 billion in claims and being the parent company of EMS, we're looking at well over \$1 billion of taxpayers' money moving back and forth with that company.

Would you be able to provide us some information on what that report - what would be contained in that type of deficiency report or control deficiency report? Can you give us a little bit of an oversight on what that report would indicate from Medavie?

MR. GEORGE MCLELLAN: I don't think we have - we're not privy to that. I wouldn't have been previously, in partial answer, so we'll have to get some details as to what that report would look like.

MR. DAVID WILSON: So you're not aware if that's something that can be publicly transparent or divulged to the committee, if that report had been received?

MR. GEORGE MCLELLAN: We'll inquire at the same time as to whether that's the case or not, Mr. Chairman.

MR. DAVID WILSON: I hope so. I would think that would be a priority, especially where, as I mentioned, over \$1 billion in claims and transactions do take place with Medavie. I know that under Recommendation 5.7 the department's response was that they would ensure internal control deficiencies are being appropriately addressed by Medavie and the department. I would think the Department of Finance and Treasury Board would

take a keen interest, especially around the sheer magnitude of the transactions that happen - like I say, well over \$1 billion.

I guess I'm going to go to some more on the privatization and the impact on the Treasury and the finances that may have. As my colleague mentioned, we are on the cusp of hearing from the government potentially where they're going to go with privatization in the vehicle registry and those land registries. I know that over the last 10 years there has been well over \$1 billion in revenue generated from the registry alone. Has the department done any analysis to determine the effects of privatization and the impact on government revenue?

MR. GEORGE MCLELLAN: Mr. Chairman, I think it's something that we have been watching and mindful of. Ultimately, the impact to the province from revenues from privatization, things of that nature, would largely depend on the model. That's affected by so many variables, obviously the private sector, the more - and I think it would be an expectation of the public on government to be mindful of the public policy issues and the ultimate fiduciary responsibility the government has to its taxpayers, no matter who does the operation. The more constraints we put on it with regard to their ability to, in this case let's say, move fee revenue up or to change the approach to it, and one very current issue that I think everybody is mindful of is management of data and things of that nature.

The more restraints you put on it, then obviously that affects the price and the revenue model. I'm not aware that there has been a decision on those variables or how that would actually go out. I think in large measure this is a request for information on the type of interests that there is at this stage, I believe. I may be mistaken there, it's not my department. So the calculation probably would get a lot sharper, based on some of the information that may soon come to light, perhaps.

MR. DAVID WILSON: I'm not here to get into a debate or question on policy of the current government - definitely the impact, and that's what I think has been some concern of ours. So from what I'm hearing from you in that answer, I guess it will be determined what model or whatever policy the government decides to take on this is when you and your department and your officials start looking at the impact, am I correct on that? I'm concerned there hasn't been any analysis done on the potential impact. Did the Premier or the department or the minister who oversees this - did they not request some of that information from your department prior to going out and seeking what interest is out there in the private sector for this?

MR. GEORGE MCLELLAN: Some of that discussion probably pre-dates me, but I know that other provinces have gone through this exercise and there is a track record there that is available probably to all, but probably would have been based on some assumptions here that certain things would have occurred - probably sufficient. We are involved in the process. We are involved at the stage of seeing what happens next. So it will depend upon what does come back.

Clearly, the ideology in these matters is really for those who can afford one. If there is a material difference and it respects all of the public interest issues, then it's worth pursuing. If it doesn't, then clearly you have to wonder why.

MR. DAVID WILSON: So would the department be able to give what loss of revenue potentially could happen? Are you at that point or is that something we'd have to wait and see what interest is out there? Are you able to express to us the potential loss of revenue for the ongoing revenue for the province or am I premature in asking that question at this time?

MR. GEORGE MCLELLAN: I guess I can only speak for myself, but I think all of us would hate to come back here with a smile on our face indicating there is any loss of revenue because of a decision that we'd endorse like this. That question will largely affect - from our mandate, which is only limited in that respect - that would largely determine our view.

MR. DAVID WILSON: So I would hope as this process goes forward, and up to today, that the government has turned to the expertise within your department. The analysis on the potential revenue loss or that implication, I know, will come out.

Has there been any analysis done to determine the effects on the private sector if privatization goes forward? Has the department involved in this asked your department to do any analysis on what impact the private sector may feel if the decision is to move forward with privatization of the registries?

MR. GEORGE MCLELLAN: Unless some of the other guys can add some comments here, to my understanding there have been consultations - not just on the motor vehicle side, but the other registries. It affects so many things - whether it be real estate, the legal community and things of those natures. I believe consultations have taken place with regard to what the various directions are. I understand that to be the case.

MR. DAVID WILSON: That was my next question. I'm wondering, are you able to provide us with the stakeholders, for example? Being in government for some time, that is really the key - whatever policy or direction the government takes, getting buy-in from the stakeholders is important. So are you able to provide us today with maybe a list of stakeholders that the government has reached out to, to get some advice and maybe the potential impact, especially on the private sector?

MR. GEORGE MCLELLAN: It's not our department who - we're humble accountants here, but we'll inquire as to whether or not we can do that and we'll get back to you as to whether that list is available at this stage. Again, I don't know why it wouldn't, but again, they're in the middle of these discussions and some people may or may not have put conditions on their opinions and involvement. I'll have to get back to you on that.

MR. DAVID WILSON: It's interesting that you mentioned track record. I'm not sure if you and your department are aware that one of the companies that have been in the media is Teranet from Ontario who might be interested in providing these services for Nova Scotia. Currently in Ontario, there is a \$500 million lawsuit against them for copy infringement. So those alarm bells should be going off and I'm just wondering if you are aware of that. Is that something that you're keeping in mind? Hopefully, when the government turns to your department to seek some advice, that the impact on our revenue, not only lost revenue from providing a service like motor vehicle registry, but potential lawsuits will all impact the finances of the province. Are you aware of that and are you ensuring that is part of the information that you're going to ensure the government, the department, the minister, or the Premier has, when a final decision is made on moving forward with this or staying at the status quo?

MR. GEORGE MCLELLAN: I believe they are aware. Again, in a matter of a lawsuit, I'm not here to defend them or anybody in that regard and the decisions that get made taking in the moral issues. One of the things that defines this great country is the fact that we do have the ability to sue each other with impunity so we'll see where that lands, I guess.

MR. DAVID WILSON: I appreciate that and I know the Chair and committee clerk will ensure to try to get the information that potentially you can provide us. I think it's important for the committee and for Nova Scotians with some of the questions and information that we requested. We're done with our line of questioning, Mr. Chairman.

MR. CHAIRMAN: We will move to the Liberal caucus, back to Mr. Farrell.

MR. FARRELL: I just want to complete this discussion we were having about the Public Trustee. My understanding of the role of the Public Trustee is that they administer the affairs of people who are either incompetent or deceased, and in the process of doing that they would gather in the assets of those people. Sometimes that would be a fairly straightforward process if there was a limited number of assets in amount and in number, or regardless of the size of the estate it might be fairly straightforward if the person was highly organized and they had made that job easier in advance. If not, that is going to be a lengthy process and things may be discovered over time so they would do the best that they can to take control of those assets and bring them into their trust so they could appropriately administer them.

Getting back to Paragraph 5.51, with respect to what the Auditor General is looking for here, there's an implication that something is not being done or it wouldn't be in the report and it leaves a deficiency of some sort. I guess my question is, what aren't they doing that they should be doing or could be doing? How can we remedy this? Is this something that in effect either your department or the Public Trustee agrees with the recommendations and agrees to do something about it, or is it something that we can't see where they want you to go?

MR. GEORGE MCLELLAN: Paragraph 5.51 is kind of hard to argue with, it could be an annual event for us. The electronic system, as Byron mentioned, is not going to really bring this to an end. I think the Auditor General in their comments here, they do respect the implication involved here with the process taking time and the fact that it goes on over a period of time. And they're kind of sitting over there glaring at me so I have to be careful of this, there are lots of innings to be played with these guys yet so I'll try to be delicate with this.

This is the only place where they qualified their opinion, yes, I agree with that, but in fairness, what else could they do because I don't know when there would be a point as to what we can do - and maybe we'll get some guidance on that - to provide perfect asset verification, based upon the nature of the process. They're definitely right because they can't "attest" - I guess is the right word - to that, but I don't know what more we can do to get them there without . . .

MR. CHAIRMAN: Order, please. The Auditor General's Office wishes to make a comment. Mr. Farrell, are you okay with that?

MR. FARRELL: Yes, I'd appreciate that. Any guidance that we could get would be much appreciated.

MR. CHAIRMAN: Ms. McDonald.

MS. ANN MCDONALD: Just to clarify, in Paragraph 5.51 we're raising the issue of our qualified opinion. Regardless of the system that the Public Trustee has and in Paragraphs 5.59 and 5.60, we've recommended that there's a need for an actual financial reporting system there. Regardless of that, there will still be a qualification.

At the end of any year, and Mr. Gatién alluded to this, it's a matter of completeness. The courts assign clients to the Public Trustee that at the end of the year the Public Trustee might not even be aware of - well would not be aware of certain clients being assigned to them and consequently, the assets that are related to those clients. So even though at, say, March 28th someone new has been assigned, the Public Trustee doesn't know that.

This qualification will continue for all time. It's not uncommon - you would find that in other public trustees.

MR. FARRELL: So it's not a criticism of practice or a recommendation that requires any action on behalf of the Public Trustee or anyone else.

MS. ANN MCDONALD: No, it's unavoidable in an operation like that where someone else is dictating what the Public Trustee will obtain control of, in terms of clients.

MR. FARRELL: Okay, thanks. Since Ms. McDonald mentioned Paragraphs 5.59 and 5.60, I just wanted to ask for a little bit more explanation about the common fund and

the special reserve fund. I guess if you could just give some background about why there are two funds there and how they operate and if there is some action planned with respect to that recommendation. I'll throw that out there to whoever.

MR. CHAIRMAN: Mr. McLellan.

MR. GEORGE MCLELLAN: Well yes, I'm looking to the left and right and I'm not getting a lot of help here so you're just going to get what you get here.

MR. FARRELL: That's why they put you in the middle, Mr. McLellan.

MR. GEORGE MCLELLAN: Looking at the last part there, when I read that I don't disagree; it's overly conservative. It seems to be that what we've got in special reserve as I guess a contingency relative to what that is, that part I wouldn't have an issue with that. I don't know why I'm looking over, I really don't want them to comment on this.

The common fund is what it is, it's for the expenditures, et cetera. I guess the issue to me was more along whether or not the appropriation to the special reserve fund - I did agree with their comment there and it's something that obviously we'll be looking into.

MR. FARRELL: I agree, too, why have two funds? There doesn't seem to be a purpose.

MR. GEORGE MCLELLAN: I don't know, I guess one is really like an insurance philosophy on the balance, I suspect, but you could subdivide or sub-categorize one to the other account. Fine, but it's just that the amount that's in there you could agree with their comment.

MR. FARRELL: Okay thank you, those are my questions, Mr. Chairman.

MR. CHAIRMAN: Are there any further questions? Hearing none, Mr. McLellan, perhaps you could provide some closing comments.

MR. GEORGE MCLELLAN: Thank you very much, Mr. Chairman. Again I recognize and apologize that we didn't get to finalize some of our answers on some of the questions which are worth answering. Again, if there's anything that we didn't do in terms of an answer, we have some follow-up items and we'll be back on those. If there are still remaining questions, any of us are available to help with that as well - I do want to point that out.

Thank you, Mr. Chairman and all the members for the invitation to be here to discuss these matters. Again, if we've committed to information, we will follow through and look forward to seeing you again soon.

MR. CHAIRMAN: Thank you, Mr. McLellan, to you and all your colleagues for being with us today and providing all the information you so generously have provided, so thank you.

Just a couple of items for committee business. On November 25th we're going to be having a Subcommittee on Agenda and Procedures. That is to set future meetings and the record of decision will be put forward for approval from that meeting on December 2nd.

We do have meetings currently booked until January 13th. I believe perhaps our clerk has provided a copy to each of you what the schedule is for those meetings. You may take an interest in that.

As for the upcoming November 25th Agenda and Procedures Subcommittee meeting, the clerk will be contacting committee members to request caucus topic lists to be submitted for that. Please start thinking about other topics you wish to appear before this committee.

With that, the next meeting is on October 28th where we'll have the Department of Business to discuss the Nova Scotia Jobs Fund. This meeting is adjourned.

[The committee adjourned at 10:40 a.m.]