

**HANSARD**

**NOVA SCOTIA HOUSE OF ASSEMBLY**

**COMMITTEE**

**ON**

**PUBLIC ACCOUNTS**

**Wednesday, February 24, 2016**

**LEGISLATIVE CHAMBER**

**Department of Finance and Treasury Board**  
**Review of the Public Accounts**  
**November 2015 Financial Report of the Auditor General**  
**Chapters 2 and 4**

## **Public Accounts Committee**

Mr. Allan MacMaster, Chairman  
Mr. Iain Rankin, Vice-Chairman  
Ms. Margaret Miller  
Ms. Suzanne Lohnes-Croft  
Mr. Brendan Maguire  
Mr. Joachim Stroink  
Mr. Tim Houston  
Hon. Maureen MacDonald  
Hon. David Wilson

[Mr. Terry Farrell replaced Ms. Margaret Miller]

In Attendance:

Ms. Kim Langille  
Legislative Committee Clerk

Mr. Gordon Hebb  
Chief Legislative Counsel

Ms. Nicole Arsenault  
Assistant Clerk, Office of the Speaker

Mr. Terry Spicer  
Deputy Auditor General

Ms. Dana Jasper  
Audit Principal  
Office of the Auditor General

### **WITNESSES**

#### **Department of Finance and Treasury Board**

Mr. George McLellan, Deputy Minister  
Mr. Byron Rafuse, Associate Deputy Minister  
Mr. Geoff Gatien, Controller  
Ms. Lilani Kumaranayake, Executive Director  
Fiscal Policy, Economics and Budgetary Planning



House of Assembly  
*Nova Scotia*

**HALIFAX, WEDNESDAY, FEBRUARY 24, 2016**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

9:00 A.M.

CHAIRMAN  
Mr. Allan MacMaster

VICE-CHAIRMAN  
Mr. Iain Rankin

MR. CHAIRMAN: Order. 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 and 4 of the Auditor General's November 2015 Report.

I'd like to remind everyone to place their phones on silent so we don't have interruptions. We'll start with introductions.

[The committee members introduced themselves.]

MR. CHAIRMAN: Mr. McLellan, we'll allow you to provide some opening comments and also, if you could introduce your colleagues who are with you here this morning.

MR. GEORGE MCLELLAN: I have three colleagues from the Department of Finance and Treasury Board - quite a show, which means that the taxpayers are probably relatively safe, at least for the morning.

I think you've met on previous occasions when I was here on roughly the same subject matter on the previous Auditor General's Report - Geoff Gatien, the controller, was with us. Also on several occasions since I've been here, Byron Rafuse, the ADM has been with me as well, I guess, and Lilani Kumaranayake has been here, I think, when we were here on film and I believe on a previous occasion as well with NSBI, I think, or Business one time, certainly to my knowledge. So you have met them and that is who is with me here today, Mr. Chairman.

Not much in the way of remarks. We are the only province in Canada, and I guess everybody would be aware of this, where the Auditor General reviews our revenue recommendations for the budget. So far so good, and we'll be going through that again. We're in the midst of that at present, getting those assumptions on revenue prepared for the Auditor General. So far we've never received a qualified opinion, to my understanding, which is good news and we certainly hope that this year is no exception.

There are two chapters before us today. First, Chapter 2 focused on the results of the Public Accounts audit and the review of those revenue estimates. We accept the recommendations from the Auditor General, but I guess obviously we'd be pleased to discuss any questions you have with regard to why they're there and what we're actually proposing to do with those recommendations.

The other chapter is Chapter 4. It makes observations on Nova Scotia's financial condition. No recommendations there. Although there are no recommendations, the comments are supported by the department and we do get it. There are a few things there that are repetitive from my previous time here, which I'm sure you'll speak to a bit so we are, I guess, continuing to work through the difficult situation, but again, not much more to be said there. I guess you're all aware of that.

Mr. Chairman, with that, I'll turn it back to you and the committee.

MR. CHAIRMAN: Thank you, Mr. McLellan. We will begin with Mr. Houston for 20 minutes.

MR. TIM HOUSTON: I'll start off by talking about Chapter 4, Nova Scotia's Financial Condition. I was looking at some of the indicators for the province and obviously they're not that great. I'm trying to figure out how we ever change this trend we're on, so I'll have a bunch of questions around that.

I want to ask you first - I see that under the financial performance indicators, the first couple, the budget-to-actual variance, the one-year trend last year was favourable and so was the actual-to-actual variance. They were both favourable for that one-year trend at that time, but I'm wondering as we sit here today, will that be favourable going forward, do you think, what has happened this year?

MR. GEORGE MCLELLAN: I think I will answer the last question and you can tell me if you would like me to speak to your first comments, but this year - do you mean the year we're looking into now coming up, going into . . .

MR. HOUSTON: The one that's going to end right now.

MR. GEORGE MCLELLAN: The one that's going to end. Those variances would have to do with our expense control more so than on the revenue side - that's what you're referring to. We're on track there. I think the variance will be small. Again, we'll have our forecast for the year end with the budget and, of course, we then have to wait a few months to see exactly what the auditors actually tell us. Right now, on the expense side, I think we'll probably see a similar experience to last year on the expense side.

MR. HOUSTON: So there has been a lot of focus on the expense side by the department and by all the departments. I guess you would say that focus has been on saving money. That's what happens when you try to control expenses and stuff, but I don't hear much effort being exerted on the revenue side. I've heard it said that what's happening is there has been a management of the decline of the province. It's hard for me to dispute that when I hear people say that you're managing the decline as opposed to managing a growth.

I do have some questions about what the department may have been involved in to date. Hopefully it's a lot so hopefully we can have a very fruitful discussion about some of the economic impact studies that the department has done on some of the alternatives for improving the revenue side of the equation. Some of them are federal and some of them are provincial. I do want to start with the shipbuilding contract. We hear a lot of talk about the shipbuilding initiative and the impact it can have on the province. Has the department updated any analysis of the potential economic impact on the province of the existing shipbuilding contracts? Have you updated any of the analysis?

MR. GEORGE MCLELLAN: We have not updated the analysis. The current economic forecast does include the impact of it.

MR. HOUSTON: How much, would you say? Do you know how much - can you isolate the favourable economic impact on the province from the existing shipbuilding contract?

MR. GEORGE MCLELLAN: One moment, we'll see if we have a specific.

MR. CHAIRMAN: Ms. Kumaranayake.

MS. LILANI KUMARANAYAKE: What we've been doing is - as the steel has been cut, we're starting to see some uptake on the employment. Those employment numbers and the spinoffs, et cetera, have now become part of our routine economic forecasting process. We haven't done a separate economic impact of shipbuilding, the

Conference Board did that for the province a while ago. What we're doing now is as we see the actual changes, those are being built into the province's forecast.

MR. HOUSTON: Okay, thank you for that. So the shipbuilding contract, from a financial modelling perspective for the province, is a fait accompli - the department just assumes that that's going to happen. Have there been work papers or analyses that you've kind of armed the Premier with? He was just speaking to the Prime Minister and stuff. Have you sent him forward with, like, make sure that they understand in Ottawa exactly how important this is to our financial position? Have you armed the Premier with that type of information?

MR. GEORGE MCLELLAN: Mr. Houston, no, I didn't think it was necessary. It has come up and we've talked about the economic forecasts.

MR. HOUSTON: Okay, so it's part of the regular discussions, the importance of this project to the province.

MR. GEORGE MCLELLAN: When we talk about the economic forecast, yes.

MR. HOUSTON: But it's hard to isolate the actual - like if you were to take it out of your modelling, I guess you'd be left with a certain number, and then when it's in you have a certain number. If you compared the two, is it as simple as that's the impact of the shipbuilding contract on the province?

MR. GEORGE MCLELLAN: I'll defer to Lilani, Mr. Chairman.

MS. KUMARANAYAKE: For the purposes of the revenue estimates and the economic forecasting we rely on a macroeconomic model, which basically is looking at how GDP grows, so we're looking at overall employment, et cetera.

When you're talking about specific economic impact that would be a separate approach, which is our input-output model. What that essentially does is say let's take an industry and look at all the indirect and induced effects. When we're doing budgeting we need to stick to our macroeconomic model because we need our GDP to add up to the actual, so about \$39 billion.

If we took every industry and added up their economic impact, our GDP would be \$300 billion or \$400 billion because there's double counting. So for the purposes of budget, we rely on the macroeconomic model in order to ensure that we reconcile with the GDP numbers being produced by Statistics Canada, so that's the approach that we're doing.

A separate economic impact analysis could be done if someone wants to do that. There was a comprehensive one done with the Conference Board.

MR. HOUSTON: By the Conference Board?

MS. KUMARANAYAKE: Yes, the Conference Board did it for the province.

MR. HOUSTON: So there's not really industry impacts, economic evaluations done. I think this came up with the film industry when we were asking to see, does the department understand the impact of the film industry on the province? It was kind of months before anyone came up with something. That's somewhat consistent with what you're saying, that we don't really look at it by industry.

MS. KUMARANAYAKE: Let me clarify. For the purposes of budgeting, GDP is our key economic indicator of economic performance. When you talk about GDP it's about the new value added in the economy. This is what Statistics Canada and every jurisdiction in the world does, essentially when you count GDP what you do - I'll take an example. Let's say you're creating a book and the GDP for that is calculated as the price you sell the book at, minus the costs of your input. Let's say your price is \$100,000 and your total costs of inputs are \$80,000, the GDP that we would count for the purposes of our budget and economic forecasting would be \$20,000 because it's a new value added, because the \$80,000 is inputs to all these other industries so we don't want to double count. Obviously we don't want revenue that has double-counted or triple-counted or quadruple-counted our economic impact because we'd significantly overestimate . . .

MR. HOUSTON: I guess I'll finish up on the shipbuilding. The shipbuilding contracts are important to Nova Scotia, I don't think there can be any dispute over that. Maybe we can't - it's not really possible for the department to say how important, is that the short answer?

MS. KUMARANAYAKE: No, within our forecasts we build in the impacts of the major projects as they roll out. For our budget purposes we're forecasting over the next four fiscal years so we've been building that impact in as we roll out, and as we get additional information we rely on . . .

MR. HOUSTON: But you can't say how much you built in, only that it's built in.

MS. KUMARANAYAKE: What we don't do is for our macroeconomic models, that's the nature of it, it's an economy-wide model; we don't separate out industry effects. We're looking at the total effect of employment, consumption, exports at that level, rather than taking the thousands of industries and trying to do that because that would be an impossible task. Our methods are consistent with what's done in every jurisdiction in the world.

MR. HOUSTON: So, short answer, you don't know the impact of the shipbuilding contract. If you do, I'd love to know what it is.

MS. KUMARANAYAKE: What we are doing is - obviously the shipbuilding started, cut steel this past September. Currently, it's not even a full year of that time period. What we are doing is looking - relative to the Conference Board projections, which are out

there for the next 30 years, and as we understand the actuals, we'll be able to refine that, but right now we've had about six months in terms of the actuals, so it's a little bit early to say there's a significant deviation . . .

MR. HOUSTON: If the shipbuilding contract was delayed for a year, what would you do to your models?

MS. KUMARANAYAKE: That's what we actually do. We would delay our predicted employment and other economic impacts. We systematically go with all our major projects and actually look at what's happening. We rely on things like the APEC inventory of major projects and other independent sources to tell us where they think these projects are on track and then we update, and we update even with every forecast.

MR. HOUSTON: Maybe to the deputy, I am interested in the various opportunities for infrastructure projects across the province and there's a whole multitude. In fact, the people in Ottawa will be swamped with requests from everywhere. So I'm wondering, as a department, has anyone come to you and said, look, we have an opportunity for these 10 infrastructure projects, can you help us rank them as to which ones would have the most positive economic impact on the province? Has anyone come to you and said, is there more economic spinoff if we do the Burnside expressway than if we twin this highway? Is there any ranking within the department?

In the absence of a ranking - the reason I'm asking the question - the absence of some kind of economic impact ranking, it's just political. I'm wondering if anyone has made any effort to go as a province with a concerted voice to Ottawa saying, these are the projects we would like and these are the reasons. Has the department done any economic impact analysis on potential infrastructure projects?

MR. GEORGE MCLELLAN: That question, as you can imagine, has not been phrased exactly that way. Again, I'm not able to speak to the exact details of that infrastructure program - I don't know who can right now - but there has been much publicly alluded to and said. As discussion seems to go on, and again I'm not - sadly for my self-esteem - critical to these discussions. There is, I say happily, a bit of a tendency right now for the discussions to go down a couple of roads. There's the usual sense of things, what you might consider political - I'll say, perhaps, local in a way, which has been often the traditional approach - but community-based, and there's a value for that. But there's an intriguing aspect of this that has been hinted at and discussed publicly and that is the bigger projects - the sustainable, nation-building infrastructure type of things and what that looks like for Nova Scotia.

So specifically to your question, we have had discussions internally about isolating those ones and trying to make sure that we are targeted with those opportunities that are going to make a difference for the economy here.



Us, relative to our region and nationally, and us relative to our own productivity here in terms of infrastructure, being able to get goods and services moving and that type of thing, we have had that discussion and that prioritization.

MR. HOUSTON: Okay, early on you said you weren't critical to those discussions, but if the Department of Finance and Treasury Board with all their analytical capabilities is not critical to understanding those things, then I don't know who would be.

I guess the question is, there have been discussions and there have been discussions about what's going to have the best impact on the province, I think I heard you say, so is that limited to subjective discussion or has there been any objective analysis that you've seen about the economic impact of certain projects?

MR. GEORGE MCLELLAN: First, Mr. Chairman, I'm going to cherish the comment about our great analytical capabilities and hold onto that part. In doing this, like we do the work, Mr. Chairman and Mr. Houston, but TIR and Business are involved as well because some of these projects would have been on a list probably for too long - you mentioned Burnside and things and how long some of these things stay there. So they get reframed in conjunction with other departments.

I'd say I wouldn't want to understate our role in it, we are clearly involved. Certainly more about looking at what the impact is economically but also financially because none of this is going - these infrastructure projects, you know, it's sweet candy in a way but it's going to cost us. This is not coming down entirely from Heaven.

MR. HOUSTON: Do you have the wish list ranked now? How close to completion is the wish list of the projects to put forward on behalf of the province?

MR. GEORGE MCLELLAN: I would say that the wish list isn't a complete ranking. I would say there is a list developed for the discussions that are taking place. You may have noticed, of course, there are discussions taking place almost across every ministry - department, in our words - Finance included but infrastructure, et cetera. A lot of the discussions that I have been involved in would be related to the finance aspect of it.

MR. HOUSTON: From the department's involvement can you share with us the top three projects that would be on that wish list?

MR. GEORGE MCLELLAN: I would not. Please understand I'm not being difficult but some of these discussions would be probably shaped more with the government to my experience, Treasury Board for example, and privy to those discussions.

MR. HOUSTON: Okay, but you haven't done much in the way of economic impact assessment on the projects.

MR. GEORGE MCLELLAN: I'd be happy to answer questions in any way on this but in those things it's not the need to really . . .

MR. HOUSTON: Is there an analysis available on the economic impact of any of the projects that you can share with us?

MR. GEORGE MCLELLAN: Not since they're privy to that discussion and there's no decision as yet. There is no decision.

MR. HOUSTON: So there are economic impact evaluations and analyses.

MR. GEORGE MCLELLAN: There are inputs from our department.

MR. HOUSTON: Inputs from your department, so it's an analysis that says this project has this economic impact on the province?

MR. GEORGE MCLELLAN: Not entirely unique to us. For instance, if you take the Burnside connector, what is the analysis that we do? Well we look at the cost of it; as with most projects, we would look at what the employment would be from building it and the inputs financially into the community for the goods and services associated with it. Exactly what that's going to do for the Burnside . . .

MR. HOUSTON: Who does that? We'll touch on that in the next section. It's a major concern that I have, there's always an analysis on what things cost but there's very little understanding of what the benefit is. It sounds like maybe with these projects we're possibly going down the same road. If somebody is looking at projects and ranking them based solely on what they cost, I don't think that's an effective way to do business. I would be more interested in people understanding the value that investment might return and the economic impact on the province. If it's not your department doing that, who could possibly be doing it?

MR. GEORGE MCLELLAN: I was pretty well through my answer. We do the cost analysis on it and we don't do that in isolation from let's say TIR. This would probably be largely built with provincial - if it's an infrastructure project - if we take this as an example, you raised the Burnside connector. If indeed that were to be subject to an infrastructure project, then that would be something that we would both contribute to financially. That would be costed out largely by the people who normally price these things out and that would be TIR. We would look at what that price and cost would do and the most immediate impact. The immediate impact is - what does that do to the financing of the province, our portion of that? What does that look like? Where do we go? Where do we get it? So to say that it's solely a cost basis is not necessarily the case, but someone has to pay for it and that's us.

In terms of the economics of it, yes, clearly we would have a sense as to what that would look like, but that wouldn't necessarily be solely done by us. Our economics people would input to that.

MR. HOUSTON: Who would be responsible for that analysis? It sounds like you guys would play a role, but somebody else would be responsible, in your mind. Who would be responsible?

MR. GEORGE MCLELLAN: In terms of the infrastructure project?

MR. HOUSTON: In terms of the economic impact on the province. What do you get for the money you spend?

MR. GEORGE MCLELLAN: Normally there's a committee - a TCA committee on most projects that would meet on a regular basis. There are more projects than we have money to complete on a regular basis. To work up from what the infrastructure projects would look like, these are - and we began to go down the road in our discussion here today, the larger projects, some of which - and you know from past infrastructure projects they've tended to want to have projects that are not on our list traditionally.

One of the things I personally would advocate for is - I wish they would consider ones on our list because it would kind of help backfill some of our costs. I wish that was a change, but that's not entirely up to me.

So to the extent that there is work done in terms of prioritizing and the cost, some of the work is already done through our committee, pretty well all departments are represented, and that work goes on for months ahead of the budget and the preparation of the capital plan that goes publicly. I think it did a month or two ago. I'm not too sure about that.

Infrastructure is a little different. The terms of this program . . .

MR. CHAIRMAN: Order, please. The time has expired. We'll move to the NDP and Ms. MacDonald.

HON. MAUREEN MACDONALD: Thank you very much for being here today. I know this is a really busy time for the Department of Finance and Treasury Board as we get closer to a budget. I know the amount of activity that's going on in preparation for that budget. I know that my colleagues and I do appreciate you making yourselves available to be here today.

Just by way of making a comment at the outset, my dad used to say if you don't give yourself any credit, nobody else will, so in your opening comments you made reference to the unqualified opinion from the Auditor General. I believe, in fact, it was when I was the Finance Minister that we were able to achieve that standard for the first

time. So I'm going to pat myself on the back for that, but I'm pleased that the current government is continuing to maintain that standard. In all seriousness, it was the staff in the Department of Finance who worked really hard to meet that standard and they're to be congratulated for that.

Nova Scotia does have this unique situation in that our budgets are scrutinized by the Auditor General's Office. This doesn't happen in other provinces and for all of the debate about the accuracy of budgets and the fudging of numbers and all of that kind of stuff, we're really in a unique situation and I don't think people necessarily appreciate the scrutiny. It is a lot of scrutiny, in my brief experience, from the Auditor General's Office, and good on us, I would say, for doing that.

I want to talk a bit about Chapter 2 of the Auditor General's Report. In that chapter, the Auditor General notes the auditing difficulties that are created by errors with respect to contingencies and contractual obligations in the schedules.

On Page 20 the AG says, ". . . on identifying and measuring contingencies and contractual obligations. It is evident from our findings that more attention is needed." I think this is a really interesting point and one that I'm going to focus on. I think one of the ways maybe to bring focus to this is to look at a couple of really concrete and current issues and help me and members of the committee and the media - and through them, the public - understand these issues.

I want to start with the decommissioning of Sable, as one of the issues around contractual obligations and then estimating what those contractual obligations actually mean monetarily and how we budget for that and calculate these things. In the revenues that are characterized as other provincial revenue in December 2015 in the update, we saw that a very large chunk of the negative adjustments was related to offshore royalties. It was \$98.2 million. But when you take out the decline in royalties themselves, which was only \$2.6 million, that would mean that \$95 million was set aside for the decommissioning of Sable.

First of all, I want to ask, is that the only revenue that has been set aside? Have there been any other large - not large - any other monies or revenues set aside?

MR. MCLELLAN: Mr. Chairman, to Mr. Rafuse.

MR. CHAIRMAN: Mr. Rafuse.

MR. BYRON RAFUSE: Just to clarify on the issues of contingencies and contractual obligations, that is a kind of separate matter than the notion of revenue or decommissioning costs associated with any type of revenue stream.

Just on that item first, when we're talking about contingencies and contractual obligations, that is our note disclosure requirements about future obligations that the

province has an obligation to incur and the like. That's what the Auditor General is getting at with that, so I'm just going to set that aside for now, unless you have further questions on that.

The idea about the offshore royalties - what we have in our royalty recognition agreements is that the decommissioning costs are one of which they can deduct from their royalty payments. There is an ongoing process where they estimate the cost of those decommissioning costs because that is a future event. As they get closer to that time period or as technologies change or they actually get more defined estimates, then that estimate can be adjusted. It's actually appropriate for it to be adjusted.

Since it is a deduction from our royalties, we must recognize that as a prior event. It's kind of almost like pension accounting - we recognize the expense as the life event of the individuals, we recognize decommissioning costs during the life of the production, while we get revenues. Therefore, when it actually becomes time to clean that up and decommission it, money has been set aside for it.

To get to your last question about whether or not we have any other kind of reserve like that which we haven't recognized, I don't think we have anything of major significance. The last major one would have been the Offshore Accord money of which we received actually a lump sum payment - we actually recognized that over time through a periodic process. That would have been a similar type thing where we actually had a reserve and we recognized money.

Right now, I don't think we have anything else where we have an associated cost that is impacting our revenue streams that hit the future.

MS. MACDONALD: Thank you for that. I'm not sure that I made my question clear enough so let me try again. We have already been deducting decommissioning costs from royalties - is that not the case?

MR. RAFUSE: Yes.

MS. MACDONALD: So can you tell us how much revenue has been deducted against the decommissioning costs?

MR. RAFUSE: We would have to go talk to our colleagues at the Department of Energy. There is an issue around proprietary information associated with that, which I'm not sure of the clarity of what we can provide you on that, but there is an amount that has been deducted in the past associated with these decommissioning costs. As those costs are revised, we do adjust our share of it, but the exact amount, I'd have to get back to you. There are some issues around that being a proprietary item with our offshore partners.

MS. MACDONALD: Okay, so how is it then that \$95 million showed up in the last forecast as a prior year adjustment?

MR. RAFUSE: That showed up because the amount we had deducted in the past - the costs were upgraded and it was a past event, so we did it as a prior year adjustment. So that \$95 million was disclosed in our forecast update. That is our share of the revised costs associated with decommissioning our shares roughly a third - or the part that can be deducted.

MS. MACDONALD: So the total estimated cost of decommissioning is what?

MR. RAFUSE: The total increase at that time was around \$300 million. The total I need to get clarity about is whether or not that's proprietary.

MS. MACDONALD: Will there be future updates and revisions that could have an impact on future budgets like this Spring's budget?

MR. RAFUSE: We would hope not, but as has been in the past, as technologies change, as a better refine that cost, there is a potential that there could be a revision in that - either way actually - so that is still a possibility. What we hope as we get closer to that, that amount becomes more certain.

MS. MACDONALD: The actual decommissioning hasn't occurred and it may not even ever occur. So this potentially could become a fund of revenue that would be available for expenditures, is that the case?

MR. RAFUSE: Not likely. There is an obligation once a production stops that they must clean up the site. At some point it will be exhausted, it will have to be cleaned up. That cost will have to be incurred.

MS. MACDONALD: Right, but there is new exploration occurring that may . . .

MR. RAFUSE: That would be a separate site. Whatever the regime is at the time for royalties, that would be a separate item at that time.

MS. MACDONALD: I guess I just want to go back to the issue of what we've already paid - what has already been deducted from the royalty. This committee does have the capacity to acquire confidential information and I would request, Mr. Chairman, that we actually direct the Department of Energy to provide that information to us and we would then act accordingly with respect to the confidentiality of that information, if that's the case. It is my view that in order to understand fully the financial position of the province with respect to our revenues and accounting, we are entitled to that information.

MR. CHAIRMAN: Ms. MacDonald, you are correct, the committee does have the power to get that information. If it is considered proprietary it would of course be expected that our committee would keep it confidential, yes.

MS. MACDONALD: I want to look at contingencies. The Auditor General also raised some questions not only about our contractual obligations and how accurate, I guess, our analysis and assessment is around the potential impacts of those contractual obligations but also contingencies.

I want to ask you a few questions about the registries because the registries, as we know, are undergoing this process now of potentially outsourcing or whatever - there's kind of a new term for it - alternate service provider idea, I guess.

Those registries are revenue-generators for the province. Although the minister has indicated that no decisions have been made, almost \$1 million has been spent in developing a business case for outsourcing those registries, I guess I would say, which causes me some concern in terms of the impact on our revenue and the potential for revenue generation from those registries to be impacted.

I want to ask, as the Department of Finance and Treasury Board, are you concerned that any changes to the registries could negatively impact the long-term revenue of the province?

MR. MCLELLAN: We are certainly concerned if it were to negatively affect them, so our job, I guess, has been to look at exactly what the predictive model for any new service delivery would be.

You're right, it's alternative service delivery or whatever this is - three different registries with different issues underlying the need. Of course this is all in knowledge of the fact that there's money to be spent in fixing them and leaving them the way they are. So taking that into account and looking at the different models, as near as we can tell, you know how it goes with the private sector, the more latitude to shape it going forward, then the more return there is potentially back. The more you prescribe it, the less the return is.

There are various gradients of what that would look like going forward and you can get to a gradient whereby it's not worth it, but you can get to a gradient where it is feasible, if it's safe and the public feels it's safe. That analysis is going on now, I understand, in another department. Again, we'd like to have total control over everything, but they're not getting back to me on that.

MS. MACDONALD: Thank you for that response. I almost didn't understand a single thing you said but that's okay. The analysis, I think, is probably some of the polling that my constituents have told me they have experienced lately about their satisfaction with the registries . . .

MR. MCLELLAN: It's not from our department.

MS. MACDONALD: . . . but it's probably not your department. Let me be really clear, the registries currently bring in \$150 million a year. The AG in Chapter 4 talks about

the importance of having sustainable revenue streams for the province, given our fiscal situation which I fully support and agree with. Have you done projections on how much revenue a year the province would be receiving and giving up if we went the alternative service delivery route? Has that analysis been done?

MR. GEORGE MCLELLAN: Yes, and maybe to clarify my earlier comments on the gradient part - I've kind of been down this road. There are different levels of intersection. You can have a perfectly pure outsourcing whereby you turn it over to the private sector as in some places like Ontario or, I think, Manitoba and things, they take responsibility, to be very clear, with the data and things. These are issues worth thinking about, do you want that? What's the money? What's the return? So there are different gradients as to how we interpret our fiduciary responsibility as well as our financial responsibility that affects the return.

So there are different points of intersection whereby you would say that, no, the shape of this if we're going to do it is not going to allow you to do this or it is going to allow you to do that. So there are different points of intersection, but yes, the analysis is underway.

MS. MACDONALD: I fully agree that there are more than financial implications with respect to going that route, but for the purposes of today, my concerns are mostly around revenue and revenue streams and that specific piece of revenue that we can currently count on. We had Service Nova Scotia in front of us last week or the week before - it's all a blur - but I think the deputy minister told us that the cost of upgrading the registry is \$27 million, which is quite different from what the minister had been saying, which was like \$40 million; and \$27 million in a budget of \$9-plus billion is chump change. To be considering giving up revenue from a secure guaranteed business centre in government kind of defies logic to me and you really have to be able to make a strong business case for doing that.

I have one or two other questions that I would like to ask about other aspects of the AG's Report.

MR. CHAIRMAN: Order, the time has just expired. We'll now move to the Liberal caucus and Mr. Rankin.

MR. IAIN RANKIN: Just a question on the provincial revenue that is garnered from the federal government - I think that's around one-third. How do you measure that externality? I know it is declining. Do you have any quantifying statistics on how that's declining year over year going forward? Is that able to be measured?

MR. GEORGE MCLELLAN: I'm going to ask Byron and Lilani if they want to add some specifics, but if you look at a couple of key areas, like everybody knows the definition of our share under the Canadian health transfers and what that means relative to demographics as it intersects with acuity and increasing comorbidities of aging and stuff,



so we're on the wrong part of the intersection there. Community Services is another area whereby there's already notice served. We've seen some slow ebbing there.

You're right - part of the challenge in the last number of years has been - going back to Ms. MacDonald's questions about energy, it's to try to replace hundreds of millions of dollars that used to be here and to look at that and say, how do you replace that?

Mr. Houston's initial question having to do with the shipyard - very difficult questions to either condemn or defend in ways, and to positively reflect on that too is that, like here we are, over one-third of all economic activity - plus one-third of our revenue - but over one-third of all economic activity in the province is based on what governments wake up and decide to do that day. We have to wean ourselves in a different direction, clearly. Yes, that's an issue, but maybe Byron or Lilani want to add something to that.

MS. KUMARANAYAKE: For the specific transfer payments and the question of whether we project that, a number of them, like our equalization payments, Canada Health Transfer, Canada Social Transfer, they're subject to formulas. We get actuals and then the federal government also provides us out-year estimates and we do some modelling as well.

It's a three-year moving average so there will be some changes, but we do model that in as well.

MR. RANKIN: Okay, thanks. I was just wondering if there was a percentage that we knew. I know it sounds like it's hard to do, and for us to try to reach a sustainable financial outlook is a challenge, I think, because we have so much reliance on that so even if we were to control expenditures to the extreme, it's still kind of an unknown without that revenue projection being a certainty.

As it relates to the infrastructure projects, I was just wondering, has there been an established criteria? I haven't heard of one coming from the federal government so I guess it's kind of hard to have a specific wish list of projects coming if there is no specific criteria, if it's going to be hospitals, roads or various projects like that.

MR. GEORGE MCLELLAN: Yes, hospitals, roads, in previous ones, I'm not that familiar with all the ins and outs of previous programs but for instance, hospitals, we're going down that road. A number of things that would be evident that we're going down that road we'd like to see qualify but normally wouldn't. Those definitions haven't been clarified as yet. What the specific lens is going to be, you've heard a lot of discussion publicly about it. One that I mentioned in response to an earlier question had to do with nation-building, I guess my phrase in a way, which is big infrastructure projects. The other one that hasn't come up as yet, but clearly I get the sense personally that the federal government is prioritizing, is the environment and things. So what are the specific lenses? I think that and then we look at what criteria cascade from those priorities that they would stipulate for qualification.

MR. RANKIN: I was alluding to the previous question from Mr. Houston about the analytical evidence of economic spinoffs. I think it's important to have value that's not just empirical value. I would think the hospital would be priority number one for us, regardless of jobs or anything like that.

MR. GEORGE MCLELLAN: If I may, Mr. Chairman, the hospital is a very good example but Mr. Houston's questions were very good questions and I pause on them. We're Finance and Treasury Board but in many respects as well, to go back to the discussion we had with Ms. MacDonald, there's a public policy element to what we do, right? I suspect most of what your life is is the public taking you off our criteria towards that criteria, and that happens regularly.

When we talk about infrastructure and economic value, let's be very honest here, I can be asked many times about what the clear economic justifications are for anything but you'd really have to be under a rock to think that's the sole criteria for what happens in the public sector. That's not a bad thing, it's just that the public - the needs of the public sometimes aren't something that people are that interested in my quantifying, frankly, in terms of a decision criteria.

MR. RANKIN: I think that's the point I wanted to make. Just one more question before I move to my colleagues, I was just wondering how the impact of this, the practice of the forgivable loans that took place under the previous government, is there any update? I think the last update we had to this committee was roughly \$800 million all told. So we have the DSME Trenton closure, what impact would that have? Does that escalate that cost and does it benefit just the capital side or is it impacting the operating side as well?

MR. GEORGE MCLELLAN: Some of that work is being done now. There have been some appropriations, let's say, on the operating side. One aspect of it would be whatever responsibilities may be determined we have on the cleanup of the site, for example, so some appropriations have been made. We haven't quite finalized that yet because we really haven't had that close a look at it at that point. That's my understanding from other departments. I don't know if Byron or Geoff would have any additional comments on the site.

MR. CHAIRMAN: Mr. Gatién.

MR. GEOFF GATIEN: With that DSME trend or DSTN, what I've received from the Department of Business recently was just sort of an update on what we had advanced and what had been provided for through our loan valuation adjustments, so a provision for loan loss. So the province had advanced just over \$56 million; \$47.9 million had been written off, so there remains an \$8.3 million balance that has not been provided for yet, so that would be the province's exposure to loans previously outstanding.

MR. RANKIN: Since you seem to have some numbers, do you have any other numbers of what's forecasted within the next couple of years from any of the other previous deals that involved forgivable loans or equity interest in any of the companies?

MR. GATIEN: I don't have any of that information on hand.

MR. CHAIRMAN: Mr. Stroink.

MR. JOACHIM STROINK: Thank you for coming in today and doing your presentation. I have a few questions and I'll definitely let you finish answering those questions before we go on to the next one. Some other people have an issue with that.

I guess what I kind of want to talk about is that we are undergoing a large demographic shift and baby boomers continue to retire and that's going to have a bit of an impact on us and the province's finances, particularly on the revenue side. Can we just kind of address some of those? We kind of touched on them with Mr. Rankin's comments, but maybe if you can expand on those challenges that we have coming forward.

MR. GEORGE MCLELLAN: What happens, of course, is there are so many facets to the movement of our population - so many facets to it that we see across the whole mosaic of our department services - just yesterday I was up in Education having a conversation and was thinking, unless we get some new population dynamics, or more importantly to the point of it, new workplace dynamics, potentially, that generate taxable income, then we've got an issue. But it's like watching a snake swallow a rabbit - watching guys like me go through the whole system and so now we've got contractions in our education system that we've had for many years. We're now seeing contractions in our university system. We're seeking to replace those with foreign students and things, and now guys like me are showing up in the health care system. It's just sure as shooting.

We're all stretching out a little longer. So that comes at a cost because it's government services and increasing demand for government services. Meanwhile, you've got to kind of backfill that contracted part - education, universities, and things like that because the contraction is not pretty either. They built a lot of buildings and hired a lot of people and now they're all kind of out on a limb a bit with this and so how do you soft-land those parts of the snake?

I don't want to get too abstract on this, but this is an issue because we're not really managing - not seeing that contraction cleanly in terms of preserving cost capacity and we're not really being able to move the money to where the new demand is; for example, health care. At the same time, as people progress into that range of old age, not only do we see health care demands and things go up, but also their incomes. They move from employment income to retirement income - a lot lower. So we tax on that basis. That's where we personally tax people on that basis. We see this contraction, too, in terms of our revenue basis.

So how you move off of a negatively predictable revenue base to something more secure so you can soft land the parts that aren't as relevant, I guess, or as impactful right now on the core lives of all Nova Scotians and move it towards where you damn well need it, right? It's a very difficult equation to manage. Everybody in here has experienced that, I'm sure. That's the tough thing.

MR. STROINK: Thank you for that answer. I guess it is a challenge for government. If we all had a crystal ball we would find lives a lot easier and we could predict things in the future.

I guess what I'm trying to also get at is that I think it's government's responsibility and foundation, especially in the Department of Finance and Treasury Board, to ensure that we have a stable foundation where businesses can succeed and economic growth can occur. I think we're seeing some of that happening in a positive light, I mean the dollar is definitely helping with investment into Nova Scotia.

I guess I kind of want to touch on that, on the infrastructure side of things, too, that as the VG is a huge component of the future of Nova Scotia. I think also the purchase of COVE and that aspect of creating a foundation where entrepreneurs and young Nova Scotians who are going to help fill that demographic, of the older demographic - they're going to come and invest if we build the correct infrastructure. That's kind of going back to Mr. Houston's comments about the analysis of creating stability within the province on economic investments.

I guess I kind of want to touch on and if you yourself could touch on that - our export market is increasing specifically in ocean sciences, in ocean tech. How does that impact investments like COVE, how hopefully that will impact the future of Nova Scotia?

MR. GEORGE MCLELLAN: There's some compelling information there. If you look at, well so many provinces in Canada are having their difficulties because of what has happened. The dollar I guess overall it would be a beneficial thing but it's that oil price and how people perceived Canada up to this point that gives us a beneficial dollar. There's a dark lining in the good lining.

Nova Scotia has been - like a lot of these provinces, they are a ball that bounces really high, right? We're a ball that doesn't bounce, we kind of roll and it's getting a little tiresome rolling uphill but we roll.

Our total exports are now, I guess you'd view them as down a bit but a lot of that has to do with that offshore curtailment, I guess - Lelani, would you agree with that? No need to get too far into that, I know where you're going. (Interruption) Yes, down? Up without it. Some of our sectors have actually done quite well because of the dollar. Our investments in things like COVE and I think I understand that Halifax had the most number of IT start-ups in the country last year, I believe. Nova Scotia itself had one-third of them in Canada, I think we're the second in the country, behind Ontario. So there is some

germination of some pretty neat stuff that's starting to happen, definitely, that we'd want to see encouraged because it also involves largely youth and retaining the right demographic.

MR. CHAIRMAN: Thank you. Mr. Farrell.

MR. TERRY FARRELL: Good morning. I want to just get back for a couple of minutes to the discussion about registries. There were a couple of figures mentioned there, one of them was the projected cost to do necessary upgrades to the registries at \$27 million. I think the previous questioner referred to that as chump change. I guess I had some suspicions about some spending decisions that I witnessed over the last many years and that may have confirmed some of them, that statement itself.

The revenue statement of \$150 million sounds like a lot as a standalone figure but there must be some - the costs of production, if you will, into bringing that revenue in. What is the actual effect of the registries on the bottom line when you take into account the infrastructure costs and the day-to-day operating costs that go into generating that \$150 million revenue?

MR. GEORGE MCLELLAN: We would have to probably get those specific numbers back to you, but those are the estimates that we have and we'd be ramping up to that because there is - whether we do it here or whether this alternative service delivery solution prevails after analysis, then there's the same period of reinvestment.

MR. FARRELL: So the \$150 million is a general overall revenue figure from the three registries in question? Is that an accurate figure?

MR. GEORGE MCLELLAN: Yes, that's the gross revenue as anticipated.

MR. FARRELL: I guess from my point of view, I would say that it's not really helpful to just talk about that figure in terms of how that affects the books of the province because there are what I'll call costs of production that go into producing that revenue. So there's the infrastructure, the day-to-day operational and the upkeep, as well as any projected costs like the necessary upgrades, the \$27 million figure.

MR. GEORGE MCLELLAN: Yes, that's correct, to get to the net position.

MR. CHAIRMAN: Mr. Farrell, you have just about a minute left.

MR. FARRELL: I'm going to pass it on, then, under those circumstances.

MR. CHAIRMAN: Ms. Lohnes-Croft, do you have a quick question?

MS. SUZANNE LOHNES-CROFT: I'm always left with the short question, aren't I? The net debt really concerns me. I'm a parent and a grandparent, and I look at what the

future holds for my children and my grandchildren. The net debt is a key indicator for our financial future. How does this large debt impact us in Nova Scotia for planning?

MR. GEORGE MACLELLAN: Well, it's interesting, it has been here so long that it's hard to illustrate when we had a difference. It's \$850 million worth of capacity that you're spending every year, servicing it right now, and the tail is down a little bit. We issue longer term debt and we do it fairly efficiently, but the overall complexion of the carrying cost of our debt kind of doesn't move with the rate - it kind of moves with the new maturities and things, so there's a bit of a mix there.

Right now I'd say overall the rates - new issues and things - over the last several years have been down a bit. So when rates start to go back up a bit, I suspect if we leave our debt relatively where it is, you'll start to see that tail move and that \$850 million probably go up because, indeed, even because the debt is still going up.

Right now you're talking about - you're getting upwards towards - now this is fanciful to use that number because we'll never get rid of it all probably, but that does represent darn near a billion dollars' worth of capacity that we could be putting into . . .

MR. CHAIRMAN: Order, time has expired. We'll move back to Mr. Houston.

MR. HOUSTON: I think much of the revenue forecasting for the province is done off of those GDP numbers we talked a bit about earlier. Those are provided by Statistics Canada, I believe. Those GDP estimates are out now, so the main inputs into your revenue projections are available to you, is that correct?

MR. GEORGE MCLELLAN: That would be correct.

MR. HOUSTON: What happened to the GDP estimates for Nova Scotia that you're basing your revenue projections on for this year's budget? They went down, correct?

MR. GEORGE MCLELLAN: That would be correct.

MR. HOUSTON: So the GDP is going down - that means your revenue forecasts will be down this year - is it as simple as that? Okay, we get some head-nodding that it's not. Okay, we're going to come back to that then, because I guess the thing that's troubling me is that even if you looked at the chart of the GDP estimates by province, Nova Scotia would be towards the bottom, I'm sure, right? Even still, our actual revenue numbers are, at least for this year, coming in much less.

So Statistics Canada expects less from Nova Scotia, and Nova Scotia even delivers less than that. These are the reasons that I'm asking the questions about - how do we start to make better decisions with the projects we're doing and how do we stimulate economic growth? That's why I was asking about economic impact assessments - I've got to be honest, I didn't get very clear answers on that. I'm not comfortable as I sit here today that

decisions are being based on economic impact estimates. I think there's still a lot of backroom decisions being made in there. That hasn't been productive for this province and it hasn't changed, which is a concern to me, and that's what I took away from our earlier discussion.

I do want to focus on something that the deputy minister said because he asked - I don't know if it was a rhetorical question or not but he asked how do we change things around this negative impact where we're relying on the federal government for one-third of our income and how do we change it? I guess what I'm trying to find out is, is there anyone in the department who starts to have some answers to that question? Do we have any ideas how we can improve the economic outcome and the future of this province? I haven't seen any of this, a lot of focus on cutting and cutting things and that type of stuff but I've seen very little in the way of, this is the way we're going to grow our economy.

I don't think the snake is swallowing the rabbit yet, to use your analogy, but I'd like for you to use this opportunity to maybe give some comfort that - can you give us one thing that we're doing to try to stimulate economic activity?

MR. GEORGE MCLELLAN: There's a whole bunch there. Revenues are actually increasing because of our growth. The GDP could be down but yet the province is still seeing positive numbers which means growth is not quite the same . . .

MR. HOUSTON: The actual revenue numbers for this year were well below the budgeted numbers at the update, I believe - were they not?

MR. GEORGE MCLELLAN: Yes, because we had to recalibrate back, that's correct, because we had a . . .

MR. HOUSTON: A multitude of explanations but the fact of the matter is the . . .

MR. GEORGE MCLELLAN: Not a multitude of explanations, there's one explanation. We had one higher number that we based our estimates on at the time of the fiscal plan. Then we had to recalibrate that back because of the new information.

MR. HOUSTON: Which was it? Which number was that?

MR. GEORGE MCLELLAN: The GDP assumption.

MR. HOUSTON: So the GDP number that you based most of it on, you had to change it. Why? Because Statistics Canada told you to change it?

MR. GEORGE MCLELLAN: Yes, the economy did not measure up to not only our expectations but probably that of most other economic forecasters in the country.

MR. HOUSTON: Okay, so if you look at the provinces and you look at the GDP estimates and if we agree that we're towards the bottom, how do we change that? I know my colleague says that it's becoming a good place to do business. He might see some evidence of that but I don't.

He have the highest taxes, are any of these things that you're trying to look at to say well how do we move ourselves from where Statistics Canada says we're going to have amongst the lowest growth to a point where Statistics Canada says there's some good things happening down there, they may actually have some better results.

MR. GEORGE MCLELLAN: First of all, one context is that going into this year I actually think we're not as close to the bottom as we were, because of how other provinces have been dealt more of an impact on the oil price. I think there's actually two provinces in the negative territory in the country right now. Sorry to walk away from the microphone, just clarifying with Lelani that there are some in negative territory.

To your question, how do we work our way out of it? Well quite evidently not easily because this has been going on for a very long time. In terms of my speculation about how we wean ourselves off what government does, that's a difficult question and I think it would start to be candid with expectations in many regards. This is a very difficult environment whereby we've created a bit of a need for us that makes it very difficult to amend our cost curve. How do we then affect our revenues, how do we affect our revenue curve?

Repeated efforts to go back and have a dialogue, whether it has been well done or not well done - I'm not going to comment on some things there, I guess, but with regard to the effect of trying to recover more of the cost of our services, trying to induce the economy, and we're always in a hurry for years to do this. We just spoke about some examples that may not have worked out all that well with this dynamic in place. This is not unique to now, but it is going to require a fundamental understanding of the cause and effect of the problem.

I think we can become a more productive place to work when our cost factors, cost of labour, the education level and skills and productivity of our workforce, our ability to move goods and services effectively, the factors that associate us as an attractive place to be in terms of education, lifestyle and culture - when all of those things start to align, we've created a culture whereby we can begin to work ourselves forward using somebody else's money and ideas.

MR. HOUSTON: But I think the thing that concerns me the most - and it's a continuous theme that I see across a number of - it just manifests itself all the time. You kind of hit the nail on the head. You said, well as soon as we try to recover more for our services - well we're obviously talking about the Pharmacare thing. Recovering more money from Nova Scotians will increase the revenue of the province, but it will not grow our economy. It will do the exact opposite.



I would absolutely advocate for finding a way to leave more money in the hands of businesses so they can spend it, as opposed to what seems to be the way things have operated, which is - let's collect more in taxes; let's collect more in fees; let's collect more from them so that government can spend it. I don't agree with that. So maybe we have a fundamental disagreement because when I heard you say that as soon as we try to collect more from people - and in this case, seniors - people get upset. Well of course they do. Government has plenty of money to spend in the ways that it should spend it, and to go and look for more from Nova Scotians is not the answer. I'll give you an opportunity to comment on that.

MR. GEORGE MCLELLAN: My recollection of my comments included probably about 28 variables - one of which you've focused on, and to focus . . .

MR. HOUSTON: Because it is the focus of everything that this government seems to do.

MR. GEORGE MCLELLAN: That's for a discussion with different people in the same room. If I thought anything I was going to say would lead me to having to justify Pharmacare, I would never have opened my indiscreet mouth. There is a discussion there, I suspect, but probably not with me.

MR. HOUSTON: You made a statement about increasing more for the services that government provides. If that wasn't the example you were thinking about, maybe I'll give you an opportunity to - did you have an example of that?

MR. GEORGE MCLELLAN: We are looking across the spectrum at fee revenues and different things of that nature. I wasn't specifically thinking of Pharmacare when I said that. I was thinking of the fact of government probably having a variety of services where we don't recover our costs, frankly. I don't know how we approach that because, as I say, it's nobody's fault. I think we've got people in a place where they have expectations of us, rightfully, and how do we now move in a different direction and not make it their problem? It's very difficult, and that's the challenge all of us have every day. I didn't mean anything beyond that.

MR. HOUSTON: Okay. I was hoping somebody would have some ideas, but it's not in your ballpark, I guess, even as the Deputy Minister of Finance and Treasury Board, but hopefully it's in somebody's ballpark.

I do want to wrap up. I made an assumption that if the Statistics Canada GDP numbers were decreasing, that that would have the impact of decreasing the province's revenue estimates. I saw a bit of head-shaking. Maybe I'll give you an opportunity to clarify. Is it possible that the GDP estimates that are an input in the province's revenue modelling could be decreasing, but your revenue that we'll see in the budget could be increasing? Is there a scenario where that happens?

MR. GEORGE MCLELLAN: Yes, I guess I'll turn it over to the expert here, but because the GDP number may be smaller it's still positive, and as long as it's positive it's still growth per se, if you catch my drift. With that, I'll bail out and turn it over to Ms. Kumaranayake.

MS. KUMARANAYAKE: My deputy answered correctly. Essentially the change was an historical revision to the last 20 years of our GDP, but part of what we do - and we actually have six different models that we use in terms of revenue; one is the economic model which then feeds into our different revenue models.

So with our GDP going forward, we use our past data to also project our likely GDP growth. That takes into account what we think about what's going to happen to exports, what's going to happen to employment - all the different factors. The past GDP sets the base, the future GDP is based on growth which is affected by a range of factors. That is then taken into account in the revenue models.

MR. CHAIRMAN: Thank you. Order, we've just come to the conclusion of the time. We'll move to Ms. MacDonald and the NDP caucus.

MS. MACDONALD: I'm wondering if you are familiar with an organization called the Canadian Media Producers Association. Is anybody familiar with this organization?

MR. GEORGE MCLELLAN: Byron tells me that's a group that the film industry has commissioned a study through. So there, I know.

MS. MACDONALD: I have this profile from 2015, an economic report on the screen-based media production industry in Canada. This profile looks at the industry across the country, it gives a lot of statistical information with respect to each province and the activity in each province over a period of time - it's actually quite thorough in its detail. The data sources are from Statistics Canada and provincial Departments of Finance, I guess.

Now one of the things in this report that I find quite curious is what is reported to be the amount of the volume of film and television production in Nova Scotia for the year 2014-15. I'll provide a copy of this to my colleagues and the clerk can circulate it.

Nova Scotia, let's say in the year 2013-14, two years ago, it's reported that the total volume of film and television production in this province was valued at \$121 million. However for 2014-15 it is \$67 million, which is very curious, given that we have heard from the Department of Finance and Treasury Board that there was this extraordinary rush from the industry to get in under the old system which generated a lot of activity and what have you.

It would appear that for 2014-15, there is a significant drop in activity and value of the industry in Nova Scotia. However, when you drill down, what you find out is that what

is reported here does not represent any of the foreign investment, any of the activity that reflected investment that came into the province for the first time.

I'm told that for the first time in our statistical reporting, external investment from outside the province is not reflected in these statistics. My question is, why is that? Can anybody provide me with an explanation for why that was the way the information was handled this year?

MR. GEORGE MCLELLAN: Mr. Chairman, I'm at a bit of a disadvantage - I haven't seen the report. Byron just mentioned to me that we did not provide inputs to the report. That doesn't mean they're not using information that didn't come from us. If I may just ask if there is better information.

MS. KUMARANAYAKE: My understanding is that report is produced by the CMPA with the Department of Canadian Heritage, and a couple of other folks like Telefilm Canada. I do know that they typically do a survey of provinces.

My understanding was in the past that that survey was completed by Film and Creative Industries Nova Scotia. Our department hasn't participated. We make use of the report only in terms of looking at the results, but I think what I'd suggest is we can follow up having read the report.

MS. MACDONALD: I'd be very happy to provide you with what I have. So in other words, because Film and Creative Industries Nova Scotia has been shut down - they were the source of statistical information into this report, and no statistical information was provided. How would it be then that \$67 million was reflected here for 2014-15 rather than zero if no statistical information came from Nova Scotia?

MR. GEORGE MCLELLAN: The trouble here, trying to get myself in trouble for trying to be helpful, but I haven't read it - I don't know, but the numbers both kind of resonate with me a bit. As I did mention, Mr. Chairman - to Ms. MacDonald - even though we didn't participate in it, it doesn't mean that they're not using information that we've made publicly available so that may be.

In terms of the numbers resonating to me, I remember when I had discussions with the industry back awhile, there was a difference of opinion in terms of the breadth of impact, I guess. One of the things, when you were introducing it, you mentioned film and TV and things, and I think - it has been said before, rightly or wrongly, that part of the base of what we're using has been a function of I guess what was then a credit spend between digital and film. Now of course, film is on a separate track, but that would be my recollection. That \$67 million would be my recollection of a number that would have represented that at that time. I may have the year wrong, but I think that number (Interruption) The \$121 million might have been the industry's number as opposed to our number that was more encompassing because it did have TV and all production value in

the province, and our number never pretended to have all production value included. Is that of any use, Lilani?

MS. KUMARANAYAKE: I think we will need to follow up. As you recall, we've tabled twice in the Public Accounts Committee the analysis of our direct returns from the Film Tax Credit and we did have a number, \$66.8 million, which seems to be like \$67 million, but that was for 2013-14. In the information we publicly released, we were pretty clear that this was 2013-14, and the only information the Department of Finance and Treasury Board has is related to the Nova Scotia production costs. So that's where that \$67 million would be.

I know that the CMPA report is much broader, as the deputy just said, which includes all of the broadcasting, foreign language, et cetera. So it sounds like because this number was in the public domain, someone may have inadvertently taken that and put it in. So there is a little bit of an apples and oranges comparison. I think Nordicity is a leading consultant company that provides the data, so I'm surprised that they didn't approach the province. NSBI is now the lead and actually has that kind of information.

I think it would be worthwhile for folks to kind of follow up a little bit. Clearly we have a number that was out there, but that wasn't the intent to put it in. It might be worth having conversations with the Department of Canadian Heritage.

MS. MACDONALD: So I guess I would say, Mr. Chairman, could we pursue that so that we get some clarification about where these numbers came from and what they actually reflect? My read of this is that this number for 2014-15 doesn't capture the changes that have been made - the changes came into effect the first of April. Something seems quite odd about these numbers and I'd ask for the department to help us get clarity around that, perhaps from Nova Scotia Business Inc. or whoever provided them.

MR. CHAIRMAN: Ms. MacDonald, just for clarification, so is this to get clarification numbers that are in this report that you are referencing?

MS. MACDONALD: Yes, I would like to know who provided any numbers to the consulting firm that did this report and what they actually reflected, particularly in comparison to what had been reported previously, in previous years. If you look at the report, it would appear that this was this dramatic decline in film activity in the province in the year prior to the changes that were made with the elimination of the Film Tax Credit.

MR. CHAIRMAN: Ms. MacDonald, we can certainly ask the question to the relevant departments.

Just a note for all members, when we are discussing a document you are referencing, it would be good if you can - and not to pick on you, Ms. MacDonald, it's not my intention - if there is something that you are referencing and asking a department or a

witness questions about, if you could provide that perhaps in advance, if possible. It may even assist our witnesses in answering the questions.

Please continue, Ms. MacDonald.

MS. MACDONALD: Absolutely, thank you. I'd like to go back to a couple of other issues - I think I have probably a limited amount of time. My colleague, Mr. Houston, had been pursuing questions around the accuracy of the economic assumptions and concerns about some of that. I note that in the 2015 budget update, ordinary revenue had been overestimated by \$135 million and other provincial revenues were overestimated by \$85.6 million, which is 24.4 per cent, which is pretty significant.

We've had a bit of a discussion about the challenges, looking for revenue streams and sources. Obviously the increases in Seniors' Pharmacare were one opportunity to increase revenue and that now has been put on hold. I'm wondering if the department is looking inside the Department of Health and Wellness at other user fees. Specifically I want to know if home care and the user fees that are associated with home care will remain where they are, or if that is a source of increased revenue that is being considered?

MR. GEORGE MCLELLAN: Home care - I can't say, Mr. Chairman. If I say yes or I say no, that does a disservice to the process whereby all things would be in front of Treasury Board regarding the budget at this point in time. By not saying yes or no, I'm not suggesting yes or no.

MS. MACDONALD: Maybe yes or maybe no?

MR. GEORGE MCLELLAN: I'm sorry, this is the second time I've used this Treasury Board thing but it is real, it is an issue as you know and it is there. I'm not really in the best position to speak to that at the moment.

MS. MACDONALD: I don't think people necessarily realize that there are fees associated with home care and home care is a priority if we're going to keep people out of expensive, acute care beds but . . .

MR. CHAIRMAN: Order, I do apologize. I have to interrupt there and we'll move back to the Liberal caucus. Ms. Lohnes-Croft.

MS. LOHNES-CROFT: I will continue on my line of questioning with the net debt because, as I said before, it concerns me. One of the big facts is that it's our number four expenditure in the budget. We pay so much in debt payments and yet it's not providing any benefit to our citizens in the fact that it doesn't improve their lives. It doesn't feed anyone, educate, or keep anyone healthy. Do you see our debt changing as it has in other provinces in the way they've increased?

MR. GEORGE MCLELLAN: The recent reviews by the rating agencies in Nova Scotia - and I actually think it's written in one or two of them - they might have better comments about one other province, but that's about it in Canada. Strangely enough, in this one issue we see the debt increase because of two things, and that's the way it goes - because of the deficit and because of the capital program. I don't know if people realize it or not, but the capital program is funded by debt as well, and that's the way it has been. There are all kinds of weigh points in that statement whereby you look at the age of some assets that you are ultimately funding with a 30-year bond, et cetera.

So it's not good by any stretch but, comparatively speaking, I would say that the growth of our debt because largely we are on a certain track with regard to our infrastructure spending - small "i" infrastructure, not the federal kind - and the deficits are in a range, good news or bad news. I say that because some provinces, their deficits aren't in a range because of the sudden shock that they've had to go through because of the contraction in their energy revenues.

I'd say our problem has a contained growth. That's not good, but it's better than some, as you probably may have witnessed in the last several months, but it is not in any way, until we begin to turn the corner and begin to have surpluses that will rival - and have pay-downs, the schedule of retirements of the debt coming due - the size of our capital program will we actually see the thing safely start to go down on a systemic basis.

MR. CHAIRMAN: Mr. Maguire.

MR. BRENDAN MAGUIRE: Good morning. It's good to see everyone here today. If I may, can I direct a question toward the Auditor General's Office for some clarification?

MR. CHAIRMAN: Certainly.

MR. MAGUIRE: One of the comments that was made is, "No written procedures to identify contaminated sites across the province". Could I get an expansion on what you mean by that?

MS. DANA JASPER: Essentially there was just no documented process that they had done in advance. There was a process they followed. It was just not documented identifying roles and responsibilities.

MR. MAGUIRE: So there is a process, but just nothing on paper. So you're recommending that there is actually a paper process that all departments would follow that would be involved in contaminated sites - that's the recommendation?

MS. JASPER: Yes.

MR. MAGUIRE: Thank you. So along those lines, can you discuss the contaminated site liability as it relates to the OAG's recommendations? What is the responsibility of public versus private when it comes to the liability cost of these sites?

MR. GEORGE MCLELLAN: Happily defer to Mr. Rafuse.

MR. RAFUSE: Slightly different perspective from a public perspective that it would be from a private perspective. In our world, what is important are two things: our contaminated site standard, which is a Department of Environment standard, which drives how we record expenditures under our Public Sector Accounting Standards around contaminated sites. Recently - I think it was about two years ago - our contaminated site law, which applies to everybody, not just to the provincial government, did come into force, which led to a requirement to go out and review all our sites. It was not a documented process, as the Auditor General did, but I would say a systematic approach, led by TIR which has most of our land holdings, but also involved the Department of Natural Resources and others, where we did go out and look at our sites and see whether or not, according to the environmental standard, action had to be taken to bring them up to a certain standard.

The way this impacts the province - and Sysco would have been a prime example - is that once we make a commitment to clean or to mitigate a containment at site, we record the cost at that moment. It's not when we incur the cost because the contamination has already occurred. So the Sysco contamination - that liability would have been booked several years ago even though it is just winding up now.

Last year we would have done something with Boat Harbour where we have obligations there. We went out and re-evaluated from an engineering perspective what it would take to bring that site to a certain standard under the environmental standard and we adjusted our liability at that time.

What the Auditor General is getting at - and something that we're working with other departments - is that on an ongoing basis, we should be going out and looking at our sites to see whether or not anything has changed. What would be changed would be the potential use of our sites. If we're going to have a site that we're going to keep at a commercial standard, contamination only has to be kept at that commercial standard. If we were to decide we were going to put a school on that site, then obviously we've created a liability for us to bring it to a certain environmental standard that would be suitable for a school. That's where we need to keep an ongoing thing on all our land holdings - if there is a change in the contamination, for whatever reason, what are we using or what are we going to use that site for, and what we have stated we are going to do.

That is what kind of drives us. It's somewhat different than it would be in the private sector although the environmental standard does apply to both public and private. If you have a contamination, there are certain processes you need to follow to bring that back, to remediate it to a certain standard.

MR. MAGUIRE: Is the rule of thumb not to revert the contaminated site back to its original form?

MR. RAFUSE: It's to bring it back to a form that is appropriate for the use of the land. So if you have an industrial site, it can maybe have certain contaminations but it might be okay for an industrial site. If you're going to continue to use it for an industrial site, you really don't have an environmental liability, but if you are saying you are going to use it for something else, the standard would say you must clean it to that set and the accounting standards would say that you must do an appropriate estimate and bring that on your books at the time of the decision.

MR. MAGUIRE: How many of these sites do you know are in Nova Scotia and what's the potential cost to government to clean it or contain or to revert them back to a standard that's acceptable?

MR. RAFUSE: I don't have the number of sites. I do know that TIR has a listing of all their sites and Natural Resources. What we know of today to bring them back to the standards of which they're used, we have brought that on our books. As I said, it does need to be monitored on an ongoing basis and whether or not that will mean anything for the current year, we're still working with departments on that process. They did systematically go out and look at all the sites that they are aware of. I said they did that with their partners primarily with Natural Resources but I believe also NSBI has a couple of commercial parks as well which would have been involved in our process as well.

MR. GEORGE MCLELLAN: It would be around this time of year that for our involvement in this, we would go out to the other departments and ask them to report into us those that might have potential financial activity or need to appropriate for in the statements. It would be around now, I think we've done it. So they exist out there. Our knowledge of them is largely driven by that need, to find out exactly what ones we need to appropriate for, so we could certainly try and find out by going around the department as to what ones they may have flagged, what that would look like.

MR. MAGUIRE: With what we know around environmental impacts, I would say the information that's at hand now and actually the public will, in perception of these sites, have changed considerably since the 1950s, 1960s, 1970s, 1980s, even 1990s. Are we seeing more or less of these sites, the contaminated sites? I have a follow-up question on that also. I'm not saying that you've been around since the 1950s.

MR. GEORGE MCLELLAN: Guilty. (Laughter) I think we're on a steady track now. I think the point has been made about the importance of this and the reporting of it over the last several years. When these things happen I think it's pretty quick to people's minds as to not just what, let's say in the case of the one we're talking about up in Trenton, not just what the financial loss might be but pretty quickly our minds go to what the implications might be environmentally over and above that, which is also a financial implication directly to the statements.



I think we're probably on track now, that what you're seeing is a pretty high state of awareness on the issue. I can't say that it's new to us. I get the sense that the province has been on this for some time, watching this carefully.

MR. MAGUIRE: One of the last questions I have is, when it comes to these contaminated sites, especially the private sector sites, how often are we able to recoup some of the costs around clean-up, or all of the costs, more importantly? How many of these sites are left in the hands of the provincial government and how often - because a lot of times with these sites there's multiple levels of government involved in permits and zoning and other things, funding - how often do we see multiple levels of government work towards when the private . . .

MR. CHAIRMAN: Order. I do apologize, but we have run out of time. The time has expired. I would like to now offer Mr. McLellan an opportunity to provide some closing comments.

MR. GEORGE MCLELLAN: Thank you, Mr. Chairman, and all members of the committee for the opportunity to speak to those two chapters in the Auditor General's Report. Anyway, if there are, and there seem to be some situations where we need to get more information, we commit to get back to you on that. If there are any follow-up questions for myself or my colleagues, please don't hesitate to get in touch with us directly. Thank you very much for the opportunity to discuss today.

MR. CHAIRMAN: Thank you for being with us today. We have a couple of items of committee business. There was correspondence received from the Department of Health and Wellness from our January 27<sup>th</sup> meeting and there was correspondence from the Department of Internal Services related to our January 20<sup>th</sup> meeting.

One thing that jumped out at me on the correspondence from Internal Services, the question was, "How much unused office space is the province currently leasing?" The response was somewhat unclear. The first statement said that the province does not lease any unused office space but the second line, the next line would suggest that that might negate that statement because it says, ". . . we do not have the ability to determine whether a portion of space within a particular lease is unused."

That is not a very clear answer. I don't know if committee members feel the same way but I know if questions are asked, we do aim to get an answer. Perhaps if I have agreement from committee members, we will ask that question again just to clarify what the answer indeed is. I am seeing agreement from members so we will ask our clerk to re-ask the question.

The next meeting that we have is on March 2<sup>nd</sup>, and it is with the Department of Business and Tourism Nova Scotia to discuss advertising agency procurement process. There is a new deputy minister for that department. It is Murray Coolican. In the past we had a couple of other individuals who were going to come in as witnesses. If members of

the committee are satisfied, we will bring in the current deputy minister. I think that would be most appropriate.

I'm seeing agreement from members, so we will be bringing Mr. Coolican in for that.

If there is no further business - seeing none - this meeting is adjourned.

[The committee adjourned at 10:50 a.m.]