Report and Recommendations

Blue Ribbon Panel on Alberta's Finances

August 2019

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Executive Summary

Alberta faces a critical financial situation that demands decisive action. At the same time, this is an opportunity for the province to look beyond just short-term quick fixes to reduce spending. It is a time to dig deeper, explore new approaches and alternatives for delivering public services, improve Alberta's competitive position, and focus on achieving a sustainable financial situation and long-term results for Albertans – all at a reasonable cost to taxpayers.

Overall, that is the conclusion of the Blue Ribbon Panel on Alberta's Finances.

The seriousness of the financial challenge is undeniable. Without decisive action, the province faces year after year of deficits and an ever-increasing debt. In order to balance the budget by 2022/23, notwithstanding the effects of both population growth and inflation, there can be no increases in government expenditures for four years and, in fact, the provincial government will actually need to reduce operating spending by at least $600 million and substantially reduce capital spending. This is a significant challenge and will require the government to rethink how and what services are delivered. Given the volatility of Alberta's revenue, this is only a starting point. A responsible government will ultimately need to develop and sustain balanced budgets, with a cushion for uncertainties that may arise.

To address this challenge, the Panel compared Alberta's spending with other provinces and examined areas where there are the biggest opportunities for reductions. The Panel found that Alberta's spending per capita is the highest in Canada and has consistently been higher than the average of the 10 provinces over the last 25 years. And this is the most startling number: Alberta's annual expenditures would be $10.4 billion less if its per capita spending simply matched the average of spending in Canada's three largest provinces: British Columbia, Ontario and Quebec – and we would not have a deficit. The Panel also found that, in some key areas, in spite of the higher levels of funding, the results achieved are no better and, in some cases, worse than in other provinces. To ensure success, government needs to develop and implement a plan to return to the per capita spending levels of Canada's largest provinces with a focus on achieving results.

The Panel believes there are ample opportunities for the government to bring spending in line with other provinces and, in the process, achieve better outcomes. The Panel's recommendations identify our thoughts on where those opportunities lie and what specific actions should be taken not only to achieve a balanced budget by 2022/23 but also to ensure a sustainable fiscal future for the province.

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Recommendations

On Health: The Panel recommends that the government should:

Recommendation 1: Empower strong, strategic leadership to transform the current health system, using other provinces as models, and engaging nurses, doctors, other health professionals, stakeholders and the public where appropriate. The goal is to establish a health system that achieves better outcomes, provides more appropriate care for Albertans, and approximates the average per capita spending of British Columbia, Ontario and Quebec.

Recommendation 2: Establish the following set of outcomes to measure Alberta's progress in transforming its health system to reflect the needs of 21st century patients and reduce costs. An external organization, independent of government, should review and report annually on Alberta's progress in closing the gap with comparator provinces on these outcomes.

TABLE 12: KEY INDICATORS FOR ALBERTA HEALTH AND ALBERTA HEALTH SERVICES

Measure of Performance	AB	BC	ON	QC	Notes
Provincial Per Capita Spending on Health Care					
Total - Nominal	$ 5,077	$ 4,267	$ 4,080	$ 4,370	CIHI data; 2018-19 forecast
Hospital	$ 1,964	$ 1,941	$ 1,471	$ 1,547	
Physician	$ 1,178	$ 943	$ 1,000	$ 966	
Drugs	$ 382	$ 221	$ 400	$ 297	
Total – Age – Gender Standardized	$ 5,312	$ 3,836	$ 3,706	$ 3,643	CIHI data; 2016 calendar year
Physicians					
APP (Alternative Payment Plans) payments as a % of total physician payments	13%	20%	36%	20%	CIHI data; National Physician Database 2016-2017
Acute Care					
Patients readmitted to Hospital	9.0%	9.7%	9.2%	8.9%	CIHI data; 2017-2018
Percentage of care in hospitals that could be provided in a more appropriate care setting (% of hospitalization days)	18.3%	13.0%	14.6%	N/A	CIHI data; Number of hospitalizations and alternate level of care (ALC) cases, and length of stay (LOS) days, by province/territory, HMDB/OMHRS, 2017–2018
Median number of days hospital stay extended until home care services or supports ready	11	7	7	N/A	CIHI data; 2017-2018
Ambulatory Care Sensitive Condition Hospitalization Rates, per 100,000	338	294	314	332	CIHI data; 2017-2018
Cost of a Standard Hospital Stay	$ 7,983	$ 6,539	$ 5,460	$ 5,839	CIHI data; 2017-2018

TABLE 12: KEY INDICATORS FOR ALBERTA HEALTH AND ALBERTA HEALTH SERVICES, CONTINUED

Measure of Performance	AB	BC	ON	QC	Notes
System Performance					
Percentage with access to a regular healthcare provider	83.7%	82.2%	90.3%	79.4%	Statistics Canada Table 13-10-0096-01; Health characteristics, annual estimates; 2018
Percentage of LPNs (Licensed Practical Nurses) relative to RNs (Registered Nurses)	38%	30%	47%	39%	CIHI data; 2018; per 100,000 population
Percentage of (Nurse Practitioners) NPs relative to Family Medicine Physicians [1]	9%	7%	19%	4%	Derived from CIHI and Scott's Medical Database data; 2017
Percentage of facility based beds in a community setting [2]	78%	N/A	N/A	N/A	AHS Annual Report, 2017-2018
Median wait (number of weeks) from referral by GP (General Practitioner) to treatment [3]	26.1	23.2	15.7	15.8	Bacchus Barua and David Jacques, with Antonia Collyer (2018). Waiting Your Turn: Wait Times for Health Care in Canada, 2018 Report. Fraser Institute. <www.fraserinstitute.org>

Recommendation 3: Make greater use of alternative service delivery for day procedures and other services that do not have to be delivered in hospitals and could be delivered in private or not-for-profit facilities. The use of alternative service delivery should be applied to other areas beyond health.

Recommendation 4: Limit the increasing cost of physician services by providing incentives for physicians to move to Alternative Payment Plans and by renegotiating the agreement with the Alberta Medical Association. Every effort should be made to achieve a negotiated agreement, but the government should also consider its legislative options.

On Education: The Panel recommends that the government should:

Recommendation 5: Work with education stakeholders to decrease the percentage of government funding that goes to administration and governance (currently 24.6%) to a level comparable to British Columbia (17%).

Recommendation 6: Completely review and revise the current education funding formula to ensure enrolment growth is addressed and to provide incentives for sharing services and achieving better education outcomes for students.

On Advanced Education: The Panel recommends that the government should:

Recommendation 7: Consult with post-secondary stakeholders to set an overall future direction and goals for the post-secondary system along with appropriate governance models.

1 Family Medicine includes the specialties of general practice, emergency family medicine and family medicine

2 Mental Health and Addictions, Continuing Care (LTC & SL) and Sub-Acute beds are considered community-based care; there is no interjurisdictionaldata accessible for this

3 As this measure is from third-party source it may not be a reliable measure for the AH / AHS due to limitations in the frequency of its measurement (i.e. based on a survey administered by the third-party)

Recommendation 8: Work with post-secondary stakeholders to achieve a revenue mix comparable to that in British Columbia and Ontario, including less reliance on government grants, more funding from tuition and alternative revenue sources, and more entrepreneurial approaches to how programs are financed and delivered. This includes lifting the current freeze on tuition fees.

Recommendation 9: Assess the financial viability of Alberta's post-secondary institutions. The government should move quickly to address the future of those post-secondary institutions that do not appear to be viable in future funding scenarios.

On Public Sector Compensation, Bargaining and Size: The Panel recommends that government should:

Recommendation 10: Establish a labour relations framework that creates long-term goals for compensation in line with comparable provinces.

Recommendation 11: End the freeze on non-bargaining staff with respect to providing merit/in range increases to ensure the equitable treatment of all Alberta public service employees (bargaining and non-bargaining) and support the attraction, engagement and retention of qualified staff.

Recommendation 12: Establish a legislative mandate that sets the salary levels for all public sector employees, including all fees and other compensation for insured medical and health services and all third parties, and applies to all negotiations and arbitrations. In the event of a strike, the mandate would form the basis for back-to-work legislation.

On Capital spending: The Panel recommends that the government should:

Recommendation 13: Bring Alberta's net public capital stock in line with the average per capita capital stock in the other provinces over the next ten years as part of its balanced budget plans and long-term fiscal sustainability.

Recommendation 14: Stabilize and rationalize the allocation of Capital Maintenance and Renewal (CMR) spending and give priority to CMR in the areas of greatest need in future capital expenditure decisions.

Recommendation 15: Examine its legislative framework for capital funding to municipalities with the goals of:

- aligning funding to provincial goals and priorities and fiscal capacity, while further considering funding formulas that require municipalities to share more in the costs of major projects;
- adjusting its allocation formulas for grants to municipalities in line with the policy of bringing Alberta's provincial and municipal per capita capital stock in line with the comparator provinces;
- establishing accountability mechanisms and performance measures to monitor the delivery of municipal programs and services and value for money spent, so citizens have the ability to constructively evaluate their local government and their use of tax dollars; and
- making better use of federal infrastructure funding, through the Investing in Canada Infrastructure Program (ICIP), as a means of more effectively managing the costs of the Capital Plan.

Recommendation 16: Redefine the government's inventory of land assets to include the broader public sector and create a definitive policy to clearly define surplus assets and a process for disposal of surplus assets. Providing an increased ability to core government and the broader public sector to dispose of surplus assets can act as an offset to the capital cost of new investments or provide revenue for the province.

Recommendation 17: Form a procurement council which would be a joint effort of government and business/industry to examine innovation and efficiency in the government's procurement methods. The intent would be to make it easier to do business with government, enable better access to procurement opportunities for small, medium and large Alberta businesses, and enhance the procurement capacity with government.

Recommendation 18: Refresh its policy on major procurements to look at how to achieve the best value for money for taxpayers. This should include exploring innovative partnerships, examining emerging innovations in other provinces, and reviewing success factors and programs that have worked well in the past.

On Program Review: The Panel recommends that the government should:

Recommendation 19: Undertake a comprehensive approach to a program review that includes all departments; agencies, boards and commissions; and the wider public sector. This should provide a principled and thoughtful cross-government approach to looking at the effectiveness and efficiency of government service delivery in the public interest.

On Enhancing Alberta's Competitiveness: The Panel recommends that the government should:

Recommendation 20: Work with industry and Albertans to set a compelling vision for Alberta's economic future combined with a deliberate strategy to foster an economy that creates jobs and wealth while rebuilding Alberta's reputation as the best and most responsible place to do business. The strategy should include specific steps to:

- develop, transform and empower the public service so it has the culture and capability to deliver on the economic vision and strategy established for the province
- make competitiveness and attraction a top priority and send an important signal to industry and investors that Alberta is putting out a "welcome mat" and tackling all the issues facing business, not just taxes
- work with industry and post-secondary institutions to develop a long-term plan to ensure Alberta has one of the best and most highly skilled workforces in the world
- set clear targets, measure results and report regularly on progress to improve competitiveness

On Keeping Alberta's Budget Balanced: The Panel recommends that government should:

Recommendation 21: Adopt a fiscal rule that limits the annual increases in total program spending to the projected rate of increase in total household incomes in Alberta.

Recommendation 22: Repeal the 1% rule on limits to in-year operating spending increases and replace it with a contingency amount, voted by the legislature and allocated to the Treasury Board and Finance Ministry. A transfer of funds from the contingency to a ministry would only be allowed for a public emergency or disaster or for an unanticipated priority that is clearly in the public interest and cannot be delayed to the next budget.

Recommendation 23: After the budget is balanced, build a formal buffer into its revenue forecasts through the use of a Revenue Forecast Allowance, initially set at 0.75% of revenue then increasing gradually to 1.25% over a three-year period.

Recommendation 24: Once the budget is balanced in 2022/23, introduce a legislated plan to eliminate Alberta's net debt by 2043/44.

Recommendation 25: Establish a fixed budget date.

Recommendation 26: Contract with a reputable independent agency to provide an assessment every four years of Alberta's fiscal policies, particularly regarding adherence to its fiscal framework and the long-term fiscal sustainability of the province's fiscal policies. The report should be made public four months before a scheduled election.

Framework for the Panel's Report

Alberta is at a critical juncture, with a large and growing debt and sizeable annual deficits. If a plan is developed and implemented to balance the budget over the next four years, challenging decisions will be required, but the future will be bright, with opportunities to reduce taxes and invest in new programs. Procrastinating will only worsen the problem, make the choices more difficult, and delay the time when Albertans can reap the benefits of balancing the budget.

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Growing deficits and debt mean more and more tax dollars are spent on interest rather than on programs. In 2018/19, 3.5% of the budget was spent on interest; if present trends continue, by 2022/23 that will nearly double to 5.9% of the budget. To provide some perspective, the payments to service the debt in 2022/23 could pay for more than 30,000 teachers or 35,000 long-term care beds.

Without bold action, the debt will continue to grow, like a snowball rolling down a hill, gaining speed and size as it descends. On March 31, 2019, the debt incurred for operating and capital spending was $60 billion, which is equivalent to $13,773 for every Albertan. Without further action, by 2022/23 the debt will be nearly $102 billion, which is $22,070 for every man, woman and child in the province.

There are many current and underlying factors driving the debt and deficits. The most obvious one is that for years governments have spent more than they have collected in taxes, spending all of the province's non-renewable natural resource revenue in boom years and leaving the province with sizeable deficits when the economy slows.

In the longer term, an aging population will mean a smaller workforce and more costs for seniors' programs and health. To offset the aging workforce and other factors affecting both costs and revenues, Alberta must continue to grow its economy to retain and attract young people and strive to enhance productivity.

Albertans should be especially concerned about the fact that the province is spending more per capita than the three other large provinces on most of its programs and services but often getting poorer results. Raising taxes to find more money for the current level of programs and services is not the answer. If a family was paying more than their neighbours for having their car serviced and getting worse results, it would not simply find more money to pay the higher costs. Instead, it would find out what others were doing to get better results at a lower cost. Learning from other provinces, and changing, even transforming current programs and services, is the way forward to a sustainable fiscal future with programs that produce excellent results.

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In facing its current challenges, Alberta has many advantages. Albertans are hard-working, resourceful and innovative and the province is a Canadian leader in entrepreneurship. Alberta has outpaced all provinces in real Gross Domestic Product (GDP) growth over last two decades, and this growth has been widespread. In nearly all industries, Alberta's growth has exceeded the national average.

Alberta's economy is also becoming more diversified. The oil and gas share of GDP was 17% in 2018, well below the 24% share averaged over last two decades. More comprehensive indicators of diversification show that Alberta's output has become more diversified over time.

Alberta has a skilled and educated workforce, excellent infrastructure, and some of the world's most beautiful scenery that makes the province a global destination for tourism. It also has an array of social programs that provide a robust social safety net to protect the most vulnerable.

These advantages will ease the task of making the challenging decisions required to balance the budget.

The approach should be strategic and focus on long-term results not short-term quick fixes.

The approach should be strategic and focus on long-term results not short-term quick fixes. To understand the scale of Alberta's spending, the Panel compared the province's spending and outcomes with the spending and outcomes of Canada's three other large provinces: Ontario, British Columbia and Quebec. As large provinces, all can benefit from economies of scale.

The Panel compared Alberta's spending patterns and outcomes to these three large provinces in key areas, including health, K-12 education, post-secondary education, capital spending and public sector compensation. Particular attention has been paid to health since it represents more than 40% of the government's spending. Also, Ontario and British Columbia have changed their health care systems significantly to address 21st century conditions and provide more appropriate and effective care for patients at a lower cost to taxpayers. Lessons learned from these provinces should be applied to Alberta. There are also excellent examples of other provinces using alternative delivery of health services to provide more appropriate and cost-effective care.

In the longer term, a strategic review of all major programs should occur to make programs more sustainable and to foster a culture that supports innovation, ideas and better outcomes. The Panel's report includes a section on how this could be undertaken in Alberta.

In the shorter term, spending should be reviewed to find administrative efficiencies. The government has promised to protect key front-line services, such as the fundamental services and programs in health, education, social programs, and justice. However, efficiencies in those areas can produce equal or better outcomes at a lower cost. Spending in all program areas should be reviewed, with a view to restructuring or eliminating lower priority programs and services, achieving greater efficiencies and effectiveness, and bringing Alberta's spending in line with other provinces. Other opportunities for alternative delivery of services should also be pursued.

Addressing spending is one component of balancing the budget. At the same time, Alberta has to look at measures that will grow and diversify the economy, create jobs and increase revenues over time. In the past, governments have focused on direct government investments in megaprojects or other programs that pick winners and losers to promote economic growth. In the 1990s, governments of all persuasions pivoted away from the direct government investment approach to the 21st century model of creating the right climate for investment. For example, the Romanow government in Saskatchewan reduced regulations and lowered income taxes to enhance the province's competitiveness and create jobs and opportunities. This entailed short-term costs but, in the longer term, produced enhanced business investment and helped balance the budget.

Establishing the right climate for business investment has to be a priority for Alberta. Over the years, governments have pursued policies that sent negative signals to the business community. These measures have become damagingly additive and include raising taxes on high income earners and large corporations and creating new and onerous regulations. Streamlining the regulatory burden and eliminating unnecessary red tape will encourage more investment. Also, while the current government's plan to reduce corporate tax rates will entail short-term costs, it will bring significant long-term benefits. Many of Alberta's current economic challenges are due to a lack of investment, with private investment still well below 2014 levels. Corporate tax cuts have been widely shown to boost investment, employment and earnings for workers.

Beyond immediate provincial government policies, the competitiveness of Alberta's economy relative to other provinces has to be considered. A section in the Panel's report outlines how Alberta has lost its competitive advantage and points to information and ideas that can help governments and industry develop a comprehensive strategy to promote economic growth and create new opportunities.

Ongoing efforts to attract investment and create new opportunities for Albertans will enhance the province's revenue which, in combination with spending reductions, will pave the way for a balanced budget.

As well as balancing the budget, the province should institute policies which prevent future governments from running consecutive deficits and accumulating debt. And the Alberta government should consider options to begin reducing and eventually eliminating the province's net debt. In the final section of our report, the Panel tackles this issue and describes approaches that will keep Alberta's budget balanced and pay down debt over the longer term.

Alberta: We have a problem.

The Panel reviewed extensive information about Alberta's financial situation, not only the current situation, but trends in spending and revenue over many years. The only conclusion that can be reached is that Alberta faces a critical financial situation. There is an ongoing structural imbalance between revenues and expenses in the Alberta government that represents a serious threat to the financial health of the province. Due to the fundamental changes that have taken place in energy markets over the past decade, today's fiscal crisis is arguably far worse than faced by the Alberta government in the early 1990s.

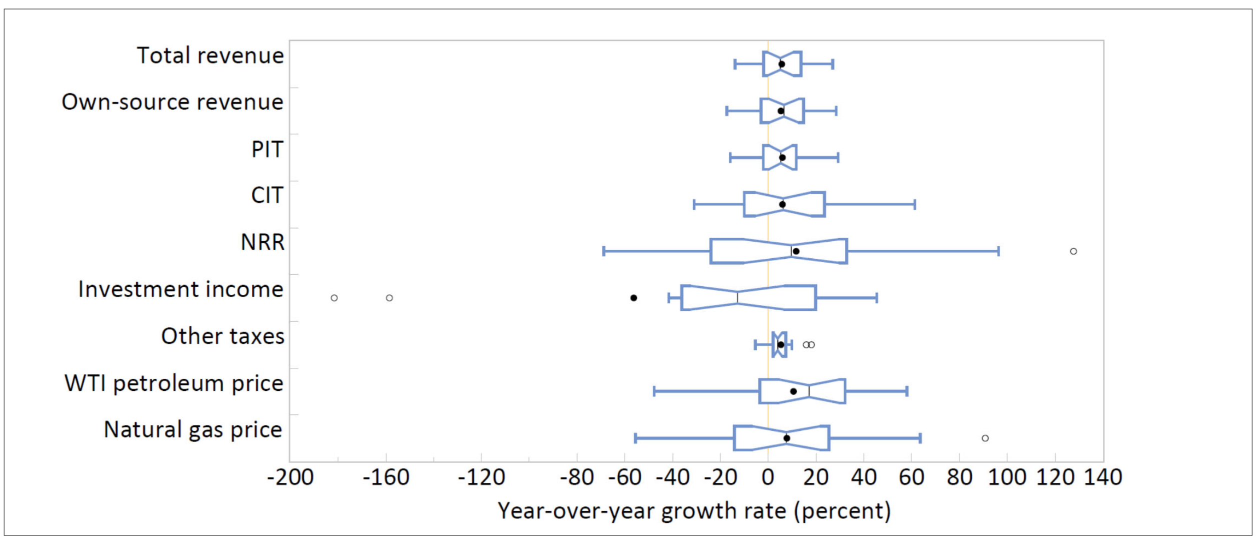
Without taking immediate and decisive action, Alberta faces year-over-year deficits for many years to come, and eventually, drastic spending cuts would be required. Left unchecked, net financial debt will grow dramatically to $66.6 billion in 2022/23 and interest on the debt could grow to over $3.7 billion.

Cuts around the edges won't get Alberta back to a sustainable balanced budget. The government needs to make a difficult but necessary fiscal course correction immediately to return the province to fiscal health over the medium to long term.

Budgeting in Alberta is challenging.

A budget is basically a plan outlining anticipated revenues and expenditures. In Alberta, two factors make the budget process far more complex than in other provinces. Figure 1 illustrates the tremendous volatility of Alberta's revenues by source. First and most importantly, resource revenues have historically been a larger proportion of Alberta government revenues than for other provinces. These revenues are highly variable. Since 1993, the percentage change in natural resource revenues from year to year on average has ranged from approximately -70% to +100%. Investment income, primarily from the Alberta Heritage Savings Trust Fund, and corporate income tax revenue also display significant volatility but not to the same degree as natural resource revenues.

FIGURE 1: ALBERTA'S REVENUES ARE HIGHLY VOLATILE, ESPECIALLY RESOURCE REVENUES (1998/99 – 2017/18)*

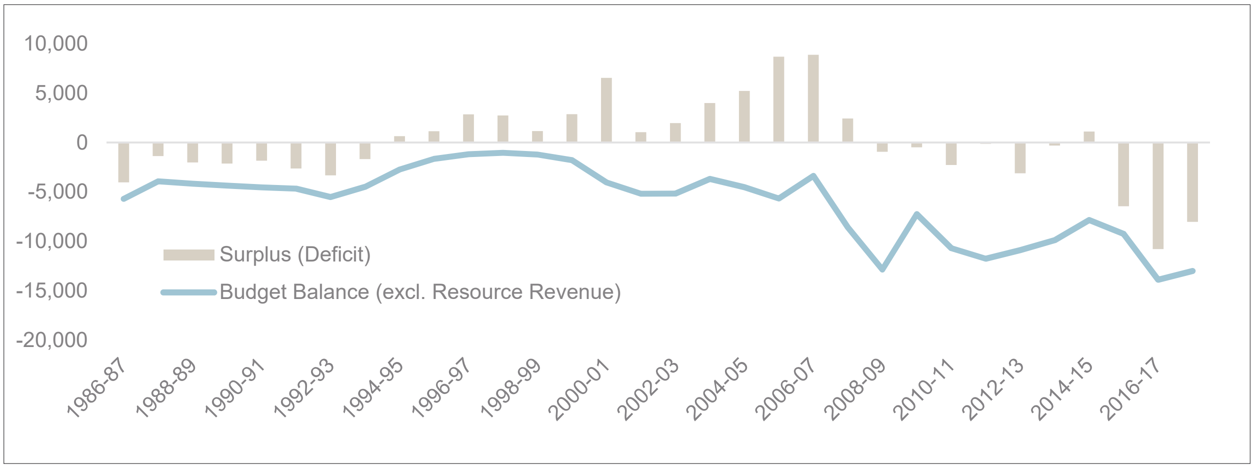


* Volatility as measured by interquartile range of percentage change in revenues.
Source: Alberta Treasury Board and Finance

Example: In 2008/09, the first quarter budget update forecast a surplus of $8.5 billion, driven by surging natural gas royalties. But by the second quarter update, the surplus forecast declined to $2.0 billion and by the third quarter update, the forecast was for a budget deficit of $1.4 billion. This $10 billion forecast budget swing was brought about in large part by a $6.2 billion decline in energy revenues and a $4 billion decline in investment income. While other jurisdictions were experiencing the significant impact of a global recession, Alberta's problem was even worse because of its heavy reliance on highly volatile oil and gas revenues.

Over the past four decades, provincial governments in Alberta have relied upon natural resource revenues to fund current demands for programs and services (Figure 2).

FIGURE 2: HISTORICALLY, ALBERTA GOVERNMENTS RELY HEAVILY ON RESOURCE REVENUES



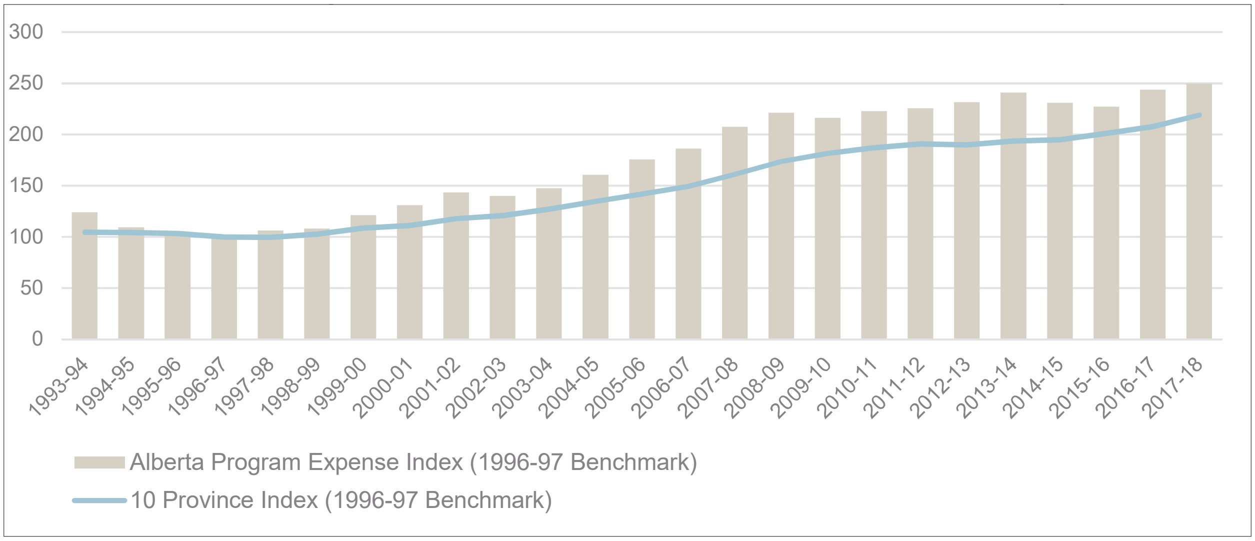
Source: Alberta Treasury Board and Finance

In the absence of natural resource revenues, budget deficits would have been the norm from 1986/87 to 2018/19. What typically happens in Alberta is that, when natural resource revenues go up, so does spending. But the reverse doesn't happen. When there are sharp declines in natural resource revenues, governments don't reduce spending to match the decline.[4] This exacerbates the structural imbalance between revenues and expenses and leads to rapid increases in the province's debt and eventually necessitates painful fiscal adjustments.

The discipline required to manage expenditures and track spending to revenues has been weak. Because spending in Alberta typically goes up when revenues go up and does not go down when revenues drop, it's not surprising that per capita expenditures in Alberta are higher than in other provinces. Alberta's level of program expense per capita has consistently been higher than the average of the 10 provinces over the last 25 years. More recently, the gap with other provinces has grown and now stands at $2,014 per capita in 2017/18. The gap is even larger ($2,586) when Alberta's (relatively low) debt servicing costs are removed from the comparison across provinces. Yet as the Panel Report notes in later sections of this report, outcomes from Alberta's expenditures are often middle of the pack relative to other provinces or, in some cases, worse.

4 A study by Ergete Ferede (Alberta's Fiscal Responses to Fluctuations in Non-Renewable Resource Revenues, September 2018) finds that a one dollar increase in natural resource revenue is associated with a 56 cent increase in program expenses the next year.

FIGURE 3: ALBERTA'S GROWTH IN PER CAPITA SPENDING EXCEEDS THE 10-PROVINCE AVERAGE

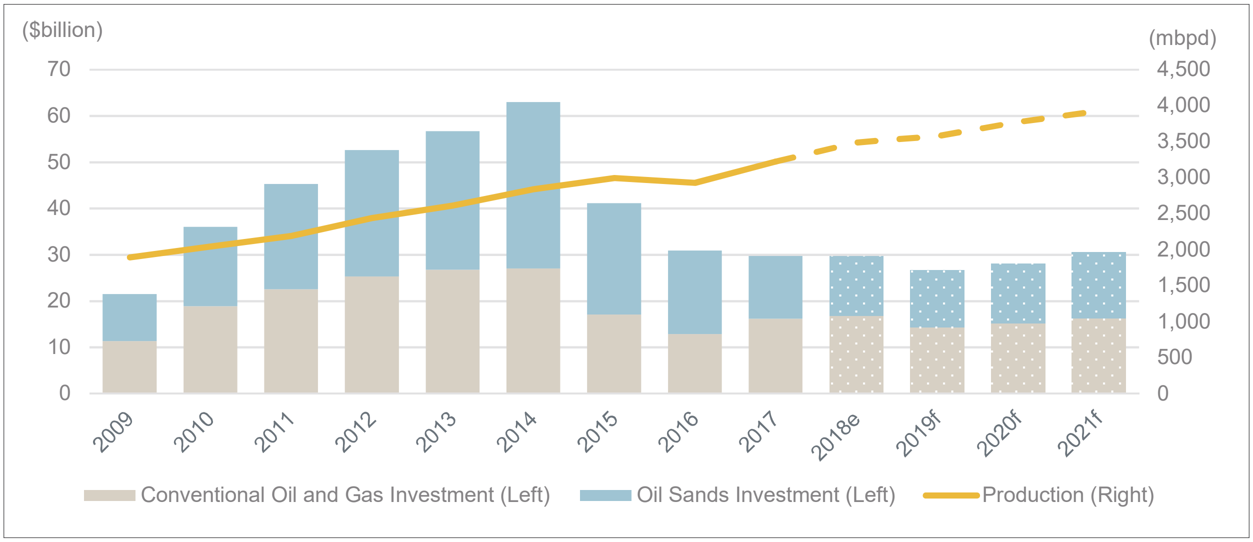


Source: Calgary School of Public Policy: Canadian Provincial Government Budget Data (Newly Updated to 2017/18) and Statistics Canada.
* Alberta is on a pre-SUCH consolidation basis.
**Adjusted where possible to ensure consistency in accounting standards through time.
*** Due to differences in accounting standards across regions, data is not strictly comparable

The variability in Alberta's finances itself is complex. Sometimes the ups and downs are driven by business cycles in the economy and the actions of major oil producers such as OPEC or the United States. Sometimes the application of new disruptive technologies such as fracking and horizontal drilling has a dramatic impact on energy supplies and prices. While business cycles usually have a short-term impact on energy prices and supply, disruptive technology changes like we've seen with fracking in the United States have significant long-term impacts on supply and price.

The collapse of oil prices in late 2014 and into 2015 arguably caused the most significant provincial revenue decline in 40 years. The impact on provincial revenues and the economy was far greater than the natural gas price decline of 2008 and 2009 for three reasons. First, it was clear that the decrease in WTI (West Texas Intermediate price of oil) was longer term in nature. Oil producers had expectations of $100 WTI during the investment boom from 2007 to 2014. The increase in shale oil production and lower oil prices led to significant declines in the expected returns from investments in the oil sector and ancillary industries. Capital investment fell dramatically as Figure 4 indicates. The fall in investment led to declines in employment and further impacted provincial revenues through falling corporate and personal income tax revenue.

FIGURE 4: ENERGY INVESTMENT DROPPED SIGNIFICANTLY IN 2015 AND HAS NOT RECOVERED



Source: Alberta Treasury Board and Finance

Second, concerns emerged regarding access to pipelines and export markets. Oilsands production increased but pipeline capacity failed to keep pace. A complex regulatory process combined with lawsuits from environmental groups hindered further pipeline investment. Legislation introduced by the federal government (Bill 69 – setting new rules for approval of future projects and Bill 48 – restricting tanker traffic on the west coast) has brought into question the future of new energy projects and introduced even more frustration and uncertainty in the industry. The increase in bitumen production put downward pressure on the price of Western Canada Select (WCS), the benchmark price for oilsands production, and widened the price differential between WTI and the price Alberta gets for its oil (WCS). The widening differential in price put further downward pressure on returns to capital invested in the oilsands and further depressed investment.

Third, we've seen much greater hostility by interest groups to energy developments generally, and targeted to those in Alberta specifically. The added uncertainty about public acceptance of energy projects combined with longer regulatory lags further depressed returns to capital in Alberta's energy sector and ancillary industries.

Clearly, the task of preparing Alberta budgets in the midst of this degree of uncertainty and volatility is complex and challenging and not likely to get any simpler in the near future.

Clearly, the task of preparing Alberta budgets in the midst of this degree of uncertainty and volatility is complex and challenging and not likely to get any simpler in the near future.

Forecasting Alberta's revenues: A continuing challenge

As noted in the previous section, budgeting in Alberta is challenging, given the volatility on the revenue side. This begs the question: How good is the province at forecasting its revenues for budgeting purposes?

The government has a robust process for forecasting the Alberta economy and maintains a sophisticated macroeconomic model covering all sectors. It also maintains detailed models for each major revenue stream, including personal income tax, corporate tax, and resource revenue, which are updated regularly with actuals. Forecasts are based on regular consultation with the private sector and forecasts for oil prices are based on forecasts by private sector organizations with a strong understanding of oil markets. Other specific revenues are forecast by various departments and agencies.

As a result of these processes, the Alberta government is good at forecasting. Over the last 10 years, the government has ranked either #1 or #2 (out of the 13 professional forecasting organizations covering Alberta) on forecasting the core indicators of real GDP, employment growth and the unemployment rate. In fact, the government's mean forecast error on revenue has fallen to 6.6% over the last five years, literally half of what it was previously.

The elephant in the room, however, is forecasting non-renewable resource revenues (25.8% forecast error) and investment income (24.4% forecast error). Challenges with accurately forecasting these two revenue sources are not due to lack of expertise or methodology. It's because both are highly volatile and subject to a wide range of factors, many of which are beyond the province's control. In fact, the Panel found that Alberta's revenues are between three and five times more volatile than other major provinces.

While the Panel's mandate is not to opine on the make-up of revenues, to successfully manage the province's finances, steps need to be taken to increase stable sources of revenue and decrease the reliance on the volatile non-renewable resource revenues.

Status Quo Revenue Scenario

To avoid using dated information, yet wanting to provide a consistent jump off point to future periods, the Panel has taken the government's last set of medium-term fiscal estimates (2018/19 Third Quarter Update) and updated them for changes in resource pricing, exchange rates, and price differentials as well as economic factors of GDP and employment. We also have included the impact of decisions already made by the United Conservative Party (UCP) government that have an impact on revenues – specifically the reduction in the corporate income tax rate, elimination of the carbon tax and a potential Crude-by-Rail divestiture.

The Panel found that since the 2018/19 Third Quarter Update, the outlook for Alberta's economy has weakened. Real GDP growth is now projected at 1% in 2019, compared to 1.6% at Third Quarter. Canadian and global economic growth has also been revised lower.

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In spite of some hopeful signs on pipeline approvals, access to markets continues to negatively impact the resource sector and the price Alberta gets for its oil.

Employment growth is expected to slow below the Third Quarter forecast in 2018/19, and the unemployment rate is forecast to edge up. The weakness in the labour market will translate to a slowdown in housing activity and dampen growth in consumer spending.

Crude oil prices are now expected to stay lower for longer, remaining below $70.00 US per barrel over the forecast period. Energy investment is projected to remain well below 2014 levels, while production continues to grow.

With that context and those factors considered, the Panel's revised Status Quo Outlook for Alberta's revenues is outlined below.

TABLE 1: REVISED REVENUE FORECAST ($ MILLIONS)

Fiscal Year	2018/19 3Q	Revised Status Quo Outlook	Difference
2019/20	51,600	49,900	-1,700
2020/21	56,500	49,700	-6,800
2021/22	61,100	53,300	-7,900
2022/23	63,500	57,100	-6,400

Source: Alberta Treasury Board and Finance

Appendix 2 provides more detailed information on the assumptions built in to this revenue forecast and their impact on various sources of revenues.

Forecast Risk

A forecast, by its very nature, involves risks – factors often beyond the control of government that can have a substantial impact on whether forecasts turn out to be accurate or not. To provide some context on the potential risks to the revenue forecast, the Panel looked back at how Alberta's revenues have varied from forecasts to see if there were consistent patterns. We also developed two alternative scenarios that would have a substantial impact on Alberta's revenues.

Historically, since 2000, Alberta's actual annual revenues have been roughly 10% higher or lower than forecast. This average of a 10% deviation per year represents $5-$6 billion of revenues in any given year and underscores how volatile Alberta's revenues are.

To illustrate the volatility from the revised status quo case, the Panel considered two potential risk scenarios that would have a significantly negative impact on Alberta's revenues: a global recession and continued constrained market access. These scenarios are intended to show the downside risks to the current forecasts; there is always the possibility that the province's financial situation will be better than forecast if the economy and investment in Alberta grows over the next four years.

GLOBAL RECESSION SCENARIO

The impact of a global recession is estimated to reduce provincial revenues from the status quo case by $2.8 billion in 2019/20 rising to $4.4 billion in 2022/23.

TABLE 2: TOTAL REVENUES ($ MILLIONS) – GLOBAL RECESSION SCENARIO

Fiscal Year	Revised status quo, base outlook	Global Recession Scenario	Difference
2019/20	49,900	47,100	-2,800
2020/21	49,700	43,900	-5,800
2021/22	53,200	47,200	-6,000
2022/23	57,100	52,700	-4,400

Source: Alberta Treasury Board and Finance

CONTINUED CONSTRAINED MARKET ACCESS SCENARIO

The second scenario – continued constrained market access – is estimated to reduce provincial revenues from the status quo case by $100 million in 2019/20, rising to $4.1 billion in 2022/23. While there are some hopeful signs on approval of a pipeline, there continues to be uncertainty around future projects that affect Alberta's ability to get our products to market, particularly Bills 69 and 48 introduced and approved by the federal government.

TABLE 3: TOTAL REVENUES ($ MILLIONS) - CONSTRAINED MARKET ACCESS SCENARIO

Fiscal Year	Revised status quo, base outlook	Constrained Market Access	Difference
2019/20	49,900	49,800	-100
2020/21	49,700	49,400	-300
2021/22	53,200	51,900	-1,300
2022/23	57,100	53,000	-4,100

Source: Alberta Treasury Board and Finance

(See Appendix 2 for assumptions underlying both of the risk scenarios.)

In summary

From the Panel's review, it's clear that forecasting per se is not the problem. The problem is the province's reliance on highly volatile revenues – particularly non-renewable resource revenues – in order to set budgets and determine how much the government can afford to spend.

The final section of the Panel's report contains further recommendations on steps the government should take to address the continuing challenge of forecasting volatile revenues and minimizing the impact on budget decisions. These steps are essential in order for Alberta to sustain a balanced budget once it is achieved.

Balancing the budget by 2022-23: What will it take?

The status quo picture today

As part of its Terms of Reference, the Panel was asked to develop and provide an assessment of the Government of Alberta's business-as-usual or status quo fiscal outlook for the current year (2019/20) and the subsequent three fiscal years based on the current economic and fiscal conditions. This status quo case provides the foundation for future fiscal planning. The status quo case developed by the Panel reflects the current financial situation, updated information from the Third Quarter 2018/19 report, and decisions made by the government since the election which affect either spending or revenues.

Under the status quo projection, unless specific actions are taken, multi-billion deficits will continue through 2022/23.

Specifically, the status quo case shows that:

- The **budget deficit** in 2019/20 is estimated at $7.7 billion, increasing to $9.1 billion in 2020/21, before falling to $8.1 billion in 2021/22 and $6.2 billion in 2022/23.
- The province's **net financial debt** will continue to increase and ongoing deficits will be financed by borrowing, adding further to the net financial debt. By March 31st 2023, the status quo net financial debt is projected to reach $66.6 billion or $14,400 per person. This sum is $9.7 billion higher than forecast in Third Quarter 2018-19 report.
- Consequently, annual **debt servicing charges** (the interest the province pays on its debt) are projected to almost double over the next fiscal four years, rising from $2.0 billion in 2018/19 to $3.7 billion, or $800 per person in 2022/23. To put that in perspective, debt servicing costs would be higher than the operating expenses of all but four ministries: Health, Education, Advanced Education, and Community and Social Services.

TABLE 4: STATUS QUO CASE 2022/23 (IN BILLIONS) ASSUMING NO CORRECTIVE ACTIONS TAKEN

Spending	Revenues	Deficit	Net Debt	Debt Servicing
$63.3	$57.1	$6.2	$66.6	$3.7

Given this status quo scenario, there is no question that the province faces a very significant fiscal challenge that has been developing over many years. Balancing Alberta's budget – and keeping it that way – will require difficult choices and decisions.

As the Panel's review of past experience notes, Alberta has a structural budget problem, driven primarily by the volatility of resource revenues. That said, 2016 was a watershed year. All indicators pointed to a longer-term impact on Alberta's financial situation, particularly on the revenue side. Taking action then to address continuing spending pressures would have lessened the severity of the fiscal challenge the province faces today. For example, if the government had frozen spending at $53.1 billion in 2016/17, the budget deficit would have been $3.2 billion lower than it was in 2018/19.

If the government had frozen spending at $53.1 billion in 2016/17, the budget deficit would have been $3.2 billion lower than it was in 2018/19.

The information the Panel reviewed is based on what we know today. There certainly are pressures the province will face that could drive the need to spend more. Emergencies like fires and floods happen. Alberta's population is aging, and that will inevitably put pressure on the health care budget. We have a growing population of school-aged children. These pressures and others we can't even anticipate today will make the choices the government must make even more difficult in the coming years. And as the previous section notes, there are serious risks that Alberta's revenue forecasts may not materialize given what's happening here in Canada and around the world.

Getting to balance

While it will be challenging, based on the Panel's review of the province's current fiscal situation and the opportunities for reducing spending outlined in the next section of the Panel's report, the Panel has concluded that the government can balance the budget by 2022/23.

Unlike the status quo case scenario described above where no corrective action is taken, the Panel's combined recommendations present a plan for eliminating deficits and setting a path towards a sustainable future.

Under a balanced budget plan, shown below in Table 5:

- **Total expense** is $6.3 billion lower in 2022/23 than in the status quo case.
- **Operating expense** is reduced by at least $600 million over the next four years, from $48.4 billion in 2018/19 to $47.8 billion in 2022/23. This is a significant challenge because it will require government not only to accommodate the effects of both population growth and inflation but also reduce spending substantially below current levels. By 2022/23, operating expense will be $5.5 billion below what it would have grown to under the status quo case (Table 4).
- **Capital grants** (largely grants to municipalities for local capital projects) will increase moderately from 2018/19 to 2021/22. Capital grants in 2021/22 and 2022/23 are each $500 million lower than in the current budget plan. This reduces borrowing, debt and government's deficit in 2021/22 and 2022/23.
- **Capital investment** (in buildings, highways, roads, etc.) will increase moderately from 2018/19 to 2020/21 then drop by $500 million in each of 2021/22 and 2022/23 relative to current budget plans. This reduces borrowing and debt as government returns to a balanced budget.
- By 2022/23 when the budget is balanced, **net financial debt** is $50.9 billion. For every Albertan, their share of net debt increases from $6,300 in 2018/19 to $11,000 in 2022/23.
- **Interest** charges on the debt increase from nearly $2 billion in 2018/19, or 4.0% of total revenues, to $3.2 billion, or 5.6% of total revenues, in 2022/23.

TABLE 5: BALANCED BUDGET PLAN SCENARIO: FISCAL SUMMARY

($ millions, except where noted)	2018-19 actual	2019-20	2020-21	2021-22	2022-23
Revenues	49,600	49,900	49,700	53,200	57,100
Operating Expense	48,400	48,500	48,300	48,000	47,800
Capital grants	2,000	2,100	2,200	2,300	2,000
Amortization/Inventory Consumption/ Pension Provisions	3,500	3,100	3,400	3,500	3,600
Voted Contingency (Disasters and Emergent Priorities)	500	500	500	500	500
Debt servicing costs	2,000	2,300	2,600	2,800	3,200
Total Expense	56,300	56,600	57,000	57,100	57,000
Surplus/(Deficit)	(6,700)	(6,700)	(7,200)	(3,900)	100
Capital Investment	4,200	4,300	4,600	3,800	3,200
Cash Surplus/(Deficit)	(7,500)	(7,800)	(8,500)	(4,200)	500
Primary Surplus/(Deficit)	(5,500)	(5,500)	(5,900)	(1,400)	3,700
Fiscal/Capital Plan Debt	60,000	63,100	74,400	82,200	86,100
Net Financial Debt	27,500	36,700	45,100	50,100	50,900
Net Financial Debt Per Capita	6,300	8,300	10,100	11,000	11,000
Debt Servicing Costs to Total Revenues (%)	4.0	4.7	5.2	5.2	5.6

In the starkest terms, this is the fiscal challenge the province faces. The following sections outline the Panel's views on how that challenge can be addressed.

Addressing the spending challenge

The Panel was asked to provide advice to the government on plans to balance the provincial budget by 2022/23 without raising taxes. To state the obvious, this cannot be done without addressing how much the province spends to deliver programs and services to Albertans.

As noted in the previous section, if Alberta had the average per capita spending of Canada's three largest provinces, British Columbia, Ontario and Quebec, total annual spending would have been $10.4 billion less and Alberta would not have a deficit.

TABLE 6: COMPARISON OF ALBERTA'S PER CAPITA SPENDING

	AB	BC	ON	QC	Avg (excl. AB)
Per capita spending (2017)	$ 13,819	$ 10,285	$ 10,281	$ 13,539	$ 11,368
Difference (versus average)	$ 2,451	$ (1,083)	$ (1,088)	$ 2,171	
Population (in millions)	4.24	4.92	14.07	8.30	
Total spending difference from average (in billions)	**$ 10.40**	**$ (5.33)**	**$ (15.31)**	**$ 18.02**	

Note: Based on 2017 data.

Source: Statistics Canada. Table 10-10-0017-01 Canadian government finance statistics for the provincial and territorial governments (x 1,000,000). Statistics Canada. Table 17-10-0005-01 Population Estimates on July 1st by Age and Sex

The significant gap in spending compared with the three comparison provinces can't be justified based on a higher cost of living in Alberta. In fact, Alberta's overall cost of living – measured by a comparison of provincial taxes and utilities in key cities in each of the provinces – is lower than the comparison provinces.

TABLE 7: 2019 INTERCITY COMPARISON OF TAXES AND UTILITIES, FAMILY @ $75,000 TOTAL INCOME

	Calgary, AB	Vancouver, BC	Toronto, ON	Montreal, QC
Provincial Taxes				
Provincial Income Tax	$ 2,858	$ 2,230	$ 1,719	$ 4,483
Tax Credits and Rebates	(846)	-	-	(3,168)
Health Premiums	-	900	750	1,232
Sales Tax	-	1,811	2,865	3,604
Gasoline Tax	394	666	294	444
Total Provincial Taxes	**$ 2,406**	**$ 5,607**	**$ 5,628**	**$ 6,595**
Household Utility Costs				
Home Heating	$ 735	$ 860	968	1,577
Electricity	1,156	821	1,283	625
Telephone	361	362	378	378
Auto Insurance	3,015	2,225	5,203	1,899
Total Household Utility Cost	**$ 5,267**	**$ 4,298**	**$ 7,832**	**4,479**
Total Taxes and Utilities	**$ 7,673**	**$ 9,905**	**$ 13,460**	**$ 11,074**

Note: Figures are also available at $40,000, $100,000 and 125,000 levels of total income
Source: Saskatchewan Provincial Budget 2019–20m pages 59 to 62

To address the spending gap and bring Alberta's spending more in line with the three comparator provinces, the Panel focused on the key areas where government spends the largest percentage of its budget. Currently, government spends more than 70% of its total operating budget in three areas: health, education and post-secondary education. In health alone, the gap between what Alberta spends and the average of the three comparator provinces is $3.6 billion. Through a review of extensive information provided by the Government of Alberta and KPMG, the Panel focused not only on the differences in overall funding levels but also on the factors that drive costs. For example, in the case of health, that includes the cost of treating people in hospitals rather than alternative settings and the costs of physician services. In education, the funding model drives spending but does not reward outcomes or ensure that more money ends up in the classroom. In advanced education, per student costs are higher but Alberta's participation rates continue to be significantly lower than the comparison provinces.

In health alone, the gap between what Alberta spends and the average of the three comparator provinces is $3.6 billion.

In all three of these areas, the Panel believes there are opportunities for restructuring in order to achieve significant savings.

The Panel also reviewed overall compensation for people working in the public sector in Alberta, primarily because these costs make up the largest percentage of spending across all areas of the public service. Finally, the Panel examined spending on capital projects including capital grants to municipalities and funding for other capital projects including buildings, roads and highways.

In terms of other aspects of provincial spending, there certainly is room for efficiencies and reductions in spending in many areas across government. As a benchmark, the government should review spending in all ministries with a view to bringing per capita spending levels in line with those of the three comparator provinces. The Panel also recommends the government undertake a comprehensive program review not only to identify savings and efficiencies but also to address bigger questions about whether programs are achieving their intended outcomes and whether there are alternative ways of delivering programs and services more effectively and at a lower cost to taxpayers.

The Panel believes that, through the approach outlined in the following sections of this report, the government can achieve a balanced budget. And it can do so in a way that actually encourages innovation, improves programs and achieves even better outcomes for Albertans.

As a benchmark, the government should review spending in all ministries with a view to bringing per capita spending levels in line with those of the three comparator provinces.

Health

In 2018/19, the Alberta government spent $20.4 billion on health care, which represents 42% of the province's operating budget. Between 2008 and 2018, spending on health care increased at a faster pace than government revenue. Between 2008/09 and 2018/19 government revenue increased by 26% while health spending increased by 60% which means that health spending is taking up an ever bigger slice of total government revenues. It should be noted, however, that in the past two years, the rate of increases in spending has moderated to an average of 3.2% per year, bringing it closer to spending levels in other provinces.

In light of the size of health spending and the fact that it is increasing at a much faster rate than government revenue, balancing the budget will require restraining spending on health care and finding alternative ways of achieving better outcomes.

It should be noted that Alberta Health is responsible for policy and strategic planning and direction while Alberta Health Services (AHS) oversees the delivery and administration of health services. The Alberta government has engaged Ernst & Young to conduct a review of AHS, examining its structure and organization, evaluating its programs and services, identifying potential areas to reduce costs and improve performance, identifying opportunities to make AHS operations more responsive to front lines and Albertans, and comparing AHS to other provinces and best practices. Therefore, this report will not cover AHS.

Relative to other comparable provinces, Alberta spends more per capita on health care. Alberta spends $5,077 per capita, while Ontario spends $4,080, British Columbia spends $4,267 and Quebec spends $4,370. If Alberta spent the per capita average of Canada's three other large provinces, it would spend $3.6 billion a year less than it currently spends on health care.

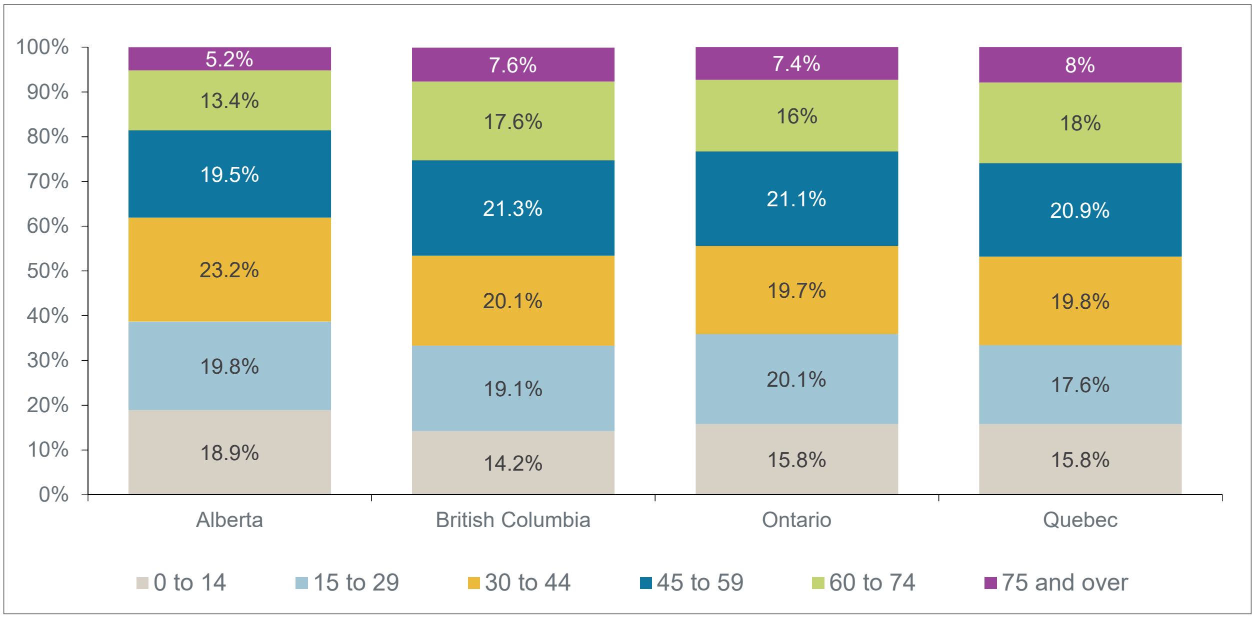
TABLE 8: ALBERTA HEALTH CARE SPENDING PER CAPITA VS OTHER PROVINCES

	AB	BC	ON	QC	Avg (excl. AB)
Health per capita spending (2018)	$ 5,077	$ 4,267	$ 4,080	$ 4,370	$ 4,239
Difference (versus average)	$ 838	$ 28	$ (159)	$ 131	
Population (in millions)	4.31	4.99	14.32	8.39	
Total health spending difference from average (in billions)	**$ 3.61**	**$ 0.14**	**$ (2.28)**	**$ 1.10**	

Source: CIHI National Expenditure Database; values for 2018 are forecast. Statistics Canada. Table 17-10-0005-01 Population Estimates on July 1st by Age and Sex

An aging population is one factor that drives increasing health care costs; however, compared to the other big provinces, Alberta has the youngest population, with fewer people over 65. Consequently, Alberta's health care costs should be lower, not higher, than other comparable provinces.

FIGURE 5: ALBERTA'S POPULATION IS YOUNGER THAN COMPARABLE PROVINCES



Source: Population Estimates on July 1st by Age and Sex data from Statistics Canada, 2018, Table 17-10-0005-01.

A key question is: does the higher spending on health care in Alberta produce better outcomes? Various indicators of health outcomes show that while Alberta spends more on health care, its outcomes are no better and are often worse than comparable provinces.

Health indicators are a series of measures that can gauge the overall health of the population. Considering that Alberta has a younger population and spends more on health, it is striking that its health indicators are not better and sometimes worse than for comparable provinces.

TABLE 9: COMPARING HEALTH INDICATORS

	AB	BC	ON	QC
Number of family medicine physicians per 100,000 population	**128**	131	112	122
Number of specialists physicians per 100,000 population	**119**	112	112	127
Life expectancy at age 0	**81.5**	82.5	82.5	82.4
Infant (under 1 year old) mortality rates per 1,000 population	**4.9**	3.1	4.7	4.0
General mortality rates per 1,000 population	**6.0**	8.0	7.3	7.7
Deaths from major cardiovascular diseases per 1000,000 population	**195.2**	174.5	163.0	150.1
Deaths from intentional self-harm (suicide) per 1000,000 population	**15.2**	9.7	10.0	10.4
Incidence of end-stage renal disease patients per 1,000,000 population	**136**	207	218	n/a
Patients readmitted to hospital (percentage) within 30 days	**9.0**	9.7	9.2	8.9
In hospital sepsis per 1,000 population	**3.8**	3.2	4.3	3.2
Hospitalized heart attacks per 100,000 population	**227**	197	217	309

Legend: **Red** – higher than average for negative indicator and lower than average for positive indicator. **Yellow** – middle value(s) for indicator. **Green** – lower than average for negative indicator and higher than average for positive indicator. Source: CIHI data (2017 - number of physicians, in-hospital sepsis, hospitalized heart attacks, and Statistics Canada (Tables 13-10-0713-01, 13-10-0114-01, 13-10-0800-01) and Alberta population data. Fraser Institute. CIHI Scott's Medical Database 2017: Table 3.0, Table 4.0. Alberta Health completed analysis of actual spending on physicians. CIHI National Physician Database, Historical Payments and HEF Calculation

Another outcomes measure is wait times for treatment. Table 10 shows the average number of weeks that patients wait from referral by a General Practitioner (GP) until they receive treatment. Note that Albertans wait an average of 26 weeks, more than 10 weeks longer than in Ontario which has the shortest wait times.

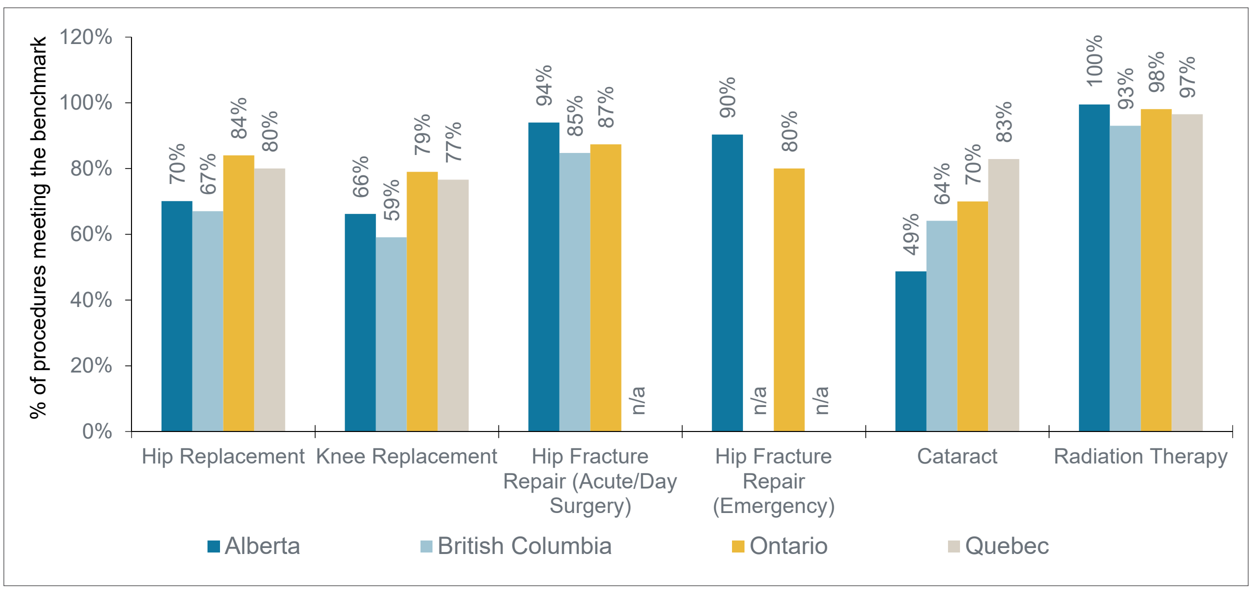
TABLE 10: WAIT TIMES FROM GP REFERRAL TO TREATMENT

	AB	BC	ON	QC
Median wait (number of weeks) from referral by GP to treatment	26.1	23.2	15.7	15.8

Source: Bacchus Barua and David Jacques, with Antonia Collyer (2018). Waiting Your Turn: Wait Times for Health Care in Canada, 2018 Report. Fraser Institute. http://www.fraserinstitute.org

Figure 6 shows wait times for Canada's four largest provinces as measured against benchmarks which reflect medically accepted wait times for various procedures. For radiation therapy, 100% of Alberta patients are treated within the medically accepted wait times and for hip fracture, more than 90% are treated according to benchmarks. However, for the other procedures – hip replacement, knee replacement and cataract surgery – Alberta's wait times are longer than in Ontario and Quebec, and for cataracts only 49% are treated within medically acceptable times.

FIGURE 6: ALBERTA HAS LONGER WAIT TIMES FOR SOME PROCEDURES



Note: The metrics are the percentage of time the province met with the benchmark for the procedures listed. British Columbia and Quebec had no values recorded for Hip Fracture Repair (Emergency). Quebec also had no values recorded for Hip Fracture Repair (Acute/Day Surgery.)

Source: CIHI data for wait time for procedures in Canada 2018

A major reason why Alberta spends more per person on health care than comparable provinces without getting better results is that Ontario and British Columbia have made more progress in transforming their health care systems from a 20th to a 21st century model. When Medicare was created in the 1960s and 1970s, the emphasis was on treatment and the focus was on hospitals and doctors, who were the gatekeepers to accessing services and were paid on a fee-for-service basis. Since that time, alternative and more appropriate ways to care for patients have emerged, from facilities specifically designed for chronic conditions, to home care and more emphasis has been placed on preventing illness. Similarly, many health care problems can be more appropriately treated at less cost by other health professionals, like Nurse Practitioners. Also, other provinces have moved more quickly than Alberta to find more cost-effective ways than fee for service to compensate physicians.

A major reason why Alberta spends more per person on health care than comparable provinces without getting better results is that Ontario and British Columbia have made more progress in transforming their health care systems from a 20th to a 21st century model.

Hospitals are the biggest expense in the health care system and the costliest place to treat and care for patients. In 2018/19, Alberta spent $8.7 billion on hospitals, which represents 42.6% of Health's operating expense.

In many cases, patients can be more appropriately treated in community-based facilities, such as long-term care facilities or in their homes using home care, options which are significantly less costly than care in hospitals.

Relative to Ontario and British Columbia, Alberta hospitalizes more patients who could be cared for more appropriately in other settings. In Ontario, 14.6% of care in hospitals could have been provided in a more appropriate care setting, in British Columbia the number is 13%, while in Alberta the number is 18.3%.

Patients who could receive more appropriate care in another facility or setting often remain in hospitals because of a shortage of alternative care options. For instance, in Ontario and British Columbia, the median number of days hospital stays are extended until home care services or supports are ready is seven, while in Alberta the number of days is 11. British Columbia spends 6.2% of its budget on home care while Alberta spends only 2.8% of its budget on home care.

COMPARING COSTS:

The average daily cost of a hospital bed: over $1,000. (CIHI national average, 2016)

The average daily cost of a bed in a long-term care facility: $203 (Alberta Health Services)

The average daily cost of home care: less than $50 (Alberta Health Services)

As well as hospitalizing more people who could be more appropriately cared for elsewhere, Alberta keeps acute care patients in hospital longer than Ontario and British Columbia. The Age-Standardized average length of stay for acute inpatient hospitalization in days (2016/17) in Alberta was 7.7 days. By comparison, it was 7.1 days in British Columbia and 6.2 days in Ontario.

Considering that Alberta hospitalizes more people on a per capita basis who could be cared for more appropriately elsewhere and keeps acute care patients in hospital longer, it is not surprising that the cost of hospital stays is higher in Alberta. In 2017/18, the average cost of a standard hospital stay, after adjusting for the types of patients in hospital, was $7,983 in Alberta, $6,539 in British Columbia and $5,460 in Ontario.

Many procedures which are performed in hospitals could be performed more appropriately and more cost effectively in other setting like private clinics. Many OECD countries that have better health outcomes than Canada rely on private clinics to deliver publicly-funded services. Clinics focus on specific procedures that can be performed more effectively and at less cost than in hospitals, which are expensive, complex and have health-care unions and associations whose contracts impose constraints on the capacity to manage hospitals efficiently and to innovate.

Clinics have been used by several provinces in Canada and, in one instance, the cost savings resulting from performing day surgeries in clinics rather than in hospitals has been quantified. Saskatchewan moved 34 day procedures from hospitals to private clinics as part of its strategy to reduce wait times, with strict conditions about quality, cost of services and standards, and in complete compliance with the Canada Health Act. A detailed costing showed that it was 26% cheaper to perform these surgeries in the clinics rather than in hospitals.

Thus, the government should increase the use of private clinics to deliver day surgeries and other procedures that do not have to be delivered in hospitals. The government should also increase the use of alternative service delivery – using not-for-profit or private facilities - for delivering other services and programs in health care and in other areas.

Saskatchewan moved 34 day procedures from hospitals to private clinics as part of its strategy to reduce wait times, with strict conditions about quality, cost of services and standards, and in complete compliance with the Canada Health Act. A detailed costing showed that it was 26% cheaper to perform these surgeries in the clinics rather than in hospitals.

Not all medical services need to be performed in hospitals and not all patients need to be treated by doctors or registered nurses. Ontario, whose health care system is low cost, with good outcomes and short wait times, has reduced the cost of delivering services by fully utilizing the scope of practice of health professionals (scope of practice means the responsibilities that a professional's training equips them to undertake).

The average annual salary (2018) of a Registered Nurse (RN) in Alberta is $80,129, while the average annual salary of a Licensed Practical Nurse (LPN) is $53,371. The scope of practice of LPNs allows them to perform some duties currently assigned to RNs. In Ontario, there are 625 RNs per 100,000 population and 304 LPNS. Alberta, which has the highest number of RNS per 100,000 population across the comparator provinces, has 744 RNs and 261 LPNs. (Table 11)

Ontario, whose health care system is low cost, with good outcomes and short wait times, has reduced the cost of delivering services by fully utilizing the scope of practice of health professionals.

TABLE 11: NUMBER OF RNS AND LPNS PER 100,000 POPULATION

	RNs	LPNs
Alberta	744	261
Ontario	625	304

Source: CIHI Health Workforce Data

Similarly, many of the duties performed by doctors can be assigned to Nurse Practitioners (highly qualified nurses) if their scope of practice is fully utilized. The average annual salary of a Family Medicine Physician is $391,539 while the average salary of a Nurse Practitioner is $92,569. The percentage of Nurse Practitioners relative to Family Medicine Physicians in Ontario is 19% while the same ratio for Alberta is only 9%. Ontario also funds Nurse Practitioners to operate their own clinics.

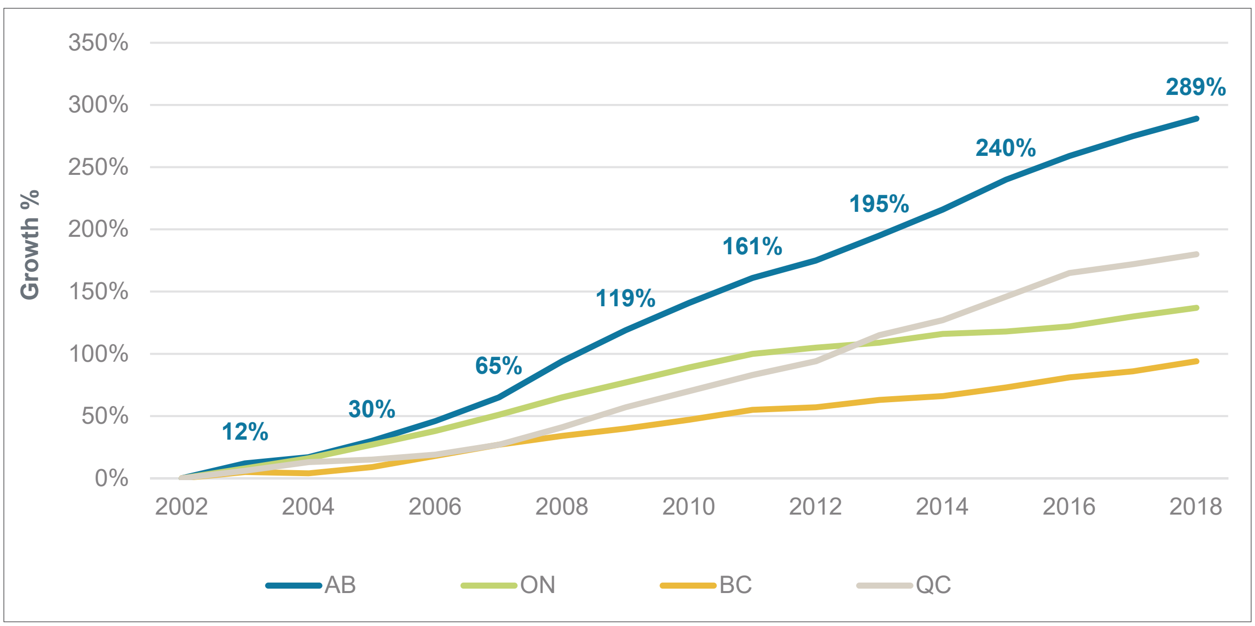
Significant savings can be achieved without affecting the quality of health care if Alberta follows the example of Ontario and allows LPNS and Nurse Practitioners to perform duties consistent with their scope of practice.

As noted in the later section on collective bargaining, the Panel also noted several constraints in the nurses' contract that limit flexibility; however, the contract does not appear to be as significant a cost driver as the agreement with Alberta's physicians.

Physician costs are the second highest expense in health care. In 2018/19, physician costs were $5.2 billion which represented 23.3% of the health care budget.

Physician expenditure has also grown more rapidly than in other provinces. In Alberta, the growth since 2002 was close to 300% while the average of comparator provinces was 200%.

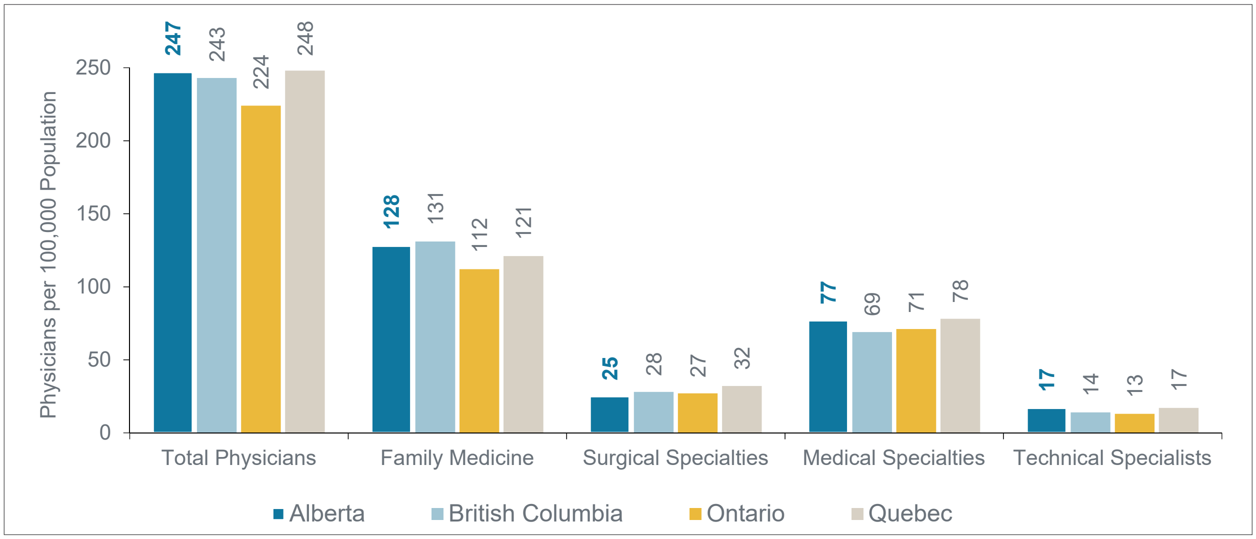
FIGURE 7: PHYSICIAN EXPENDITURES HAVE GROWN RAPIDLY SINCE 2002



Note: Values used for 2017 & 2018 are forecasts. Comparator Average excludes Alberta.
Source: Alberta Health completed analysis of the CIHI National Health Expenditure Database.

Alberta also has one of the highest numbers of physicians per 100,000 population.

FIGURE 8: NUMBER OF PHYSICIANS IS COMPARABLE TO OR HIGHER THAN OTHER PROVINCES

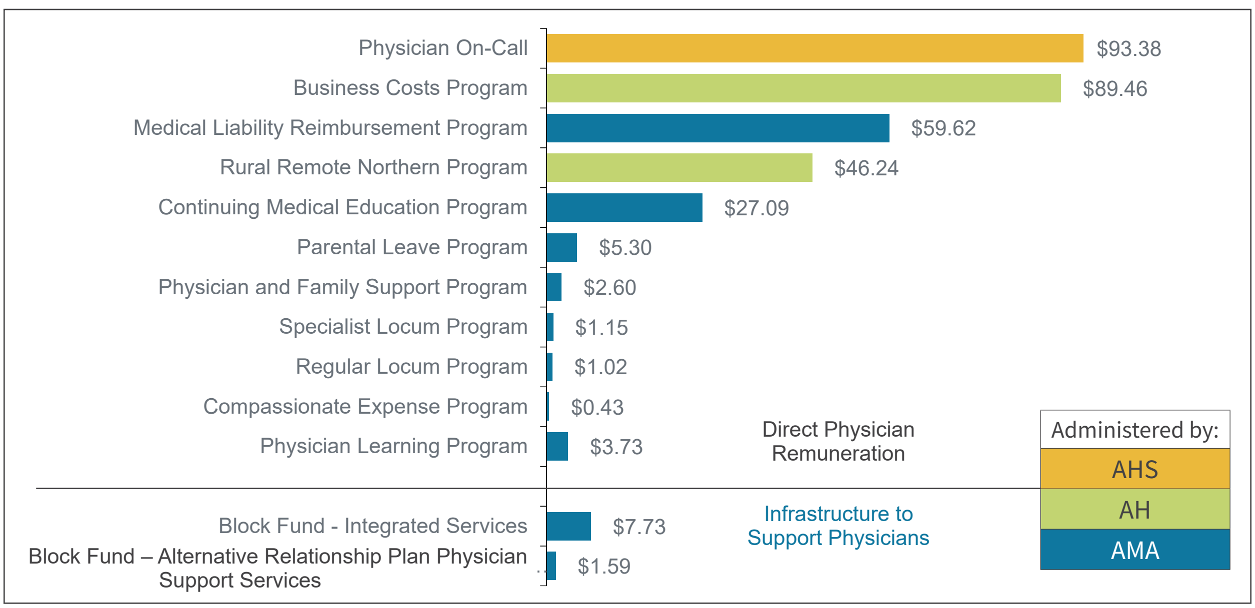


Note: Technical Specialists include Nuclear medicine, Diagnostic Radiology, Radiation Oncology and Laboratory Specialists. Medical Specialists exclude Nuclear medicine, Diagnostic Radiology, Radiation Oncology.

Source: Alberta Health completed analysis of CIHI Scott's Medical Database 2017, Table 3.0.

Alberta also has extensive physician benefit programs which total an estimated $336.6 million in 2019/20.

FIGURE 9: PHYSICIAN BENEFIT PROGRAMS ARE EXTENSIVE ($ MILLIONS)



Note: All figures are in 2019-20 projected expenditures as of June 20, 2019.
Source: Alberta Health completed analysis of financial results.

A key factor driving physician costs is how physicians are paid. In Alberta, the majority of physicians are paid on a fee-for-service basis. Fee-for-service works well in clinical settings, like emergency rooms or in surgical settings, but it does not work well for an aging population with chronic conditions. Also, it is not suited to the primary health care model, where a team of health professionals – from mental health professionals to physiotherapists to nutritionists – is available to address the underlying conditions causing health problems. It is also a very expensive way to pay doctors.

In 2016/17 the average fee-for-service earning for all Alberta physicians was $413,000. That is $107,000 or 35% higher than the average in comparator provinces.

Alternative Payment Plans (APP) in Canada have been on the rise since 2001/02, but adoption in Alberta has been the slowest. Alberta has the lowest percentage of doctors being paid through APPs in Canada. Alberta's total APP payments as a percentage of total clinical payments grew by a modest 1.6% between 2006/07 and 2016/17. APPs as a percentage of all clinical payments is a modest 13.2% in Alberta while in Ontario, 35.7% of doctors are on APPs. It should also be noted that 92% of Ontarians have a regular family doctor, compared with 84% of Albertans who have a regular family doctor.

The higher compensation for physicians in Alberta also means that physicians from other parts of Canada migrate to Alberta and it is more difficult to move physicians to Alternative Payment Plans.

A major impediment to reducing the cost of physician services is the terms and decision-making process in the agreement between the government and the Alberta Medical Association.

The Panel learned that a number of contractual factors make it difficult to make significant changes in how physicians are paid and to effectively control increasing costs. Specifically, the Panel observed that:

- Physician payments are governed through an agreement between the Alberta Medical Association (AMA) and the Government of Alberta.
- Fee-for-service payments are determined by a Schedule of Medical Benefits, a complex and detailed listing of each and every service a physician can provide, with a fee attached. The AMA's position is that any reductions in fees paid for one type of service must be offset by increases in other areas so the total amount paid to physicians remains the same. What this means in practice is that there is no way of achieving overall savings in payments to physicians.
- A Physician Compensation Committee with membership from the AMA, Alberta Health, Alberta Health Services, and an independent chair has jurisdiction over rates paid in the Schedule of Medical Benefits, but because of the voting structure, it is very difficult to make changes unless the AMA agrees.
- A number of proposals have been brought forward (e.g. removing overhead charges for services physicians provide in hospitals, putting a daily cap on the number of physician services, or adjusting the time required to be eligible for additional funding for treating patients with complex needs) but agreement has not been achieved.
- There aren't effective incentives in place to encourage more physicians to choose Alternative Payment Plans which would not only reduce costs but also improve care for many types of patients. There also aren't effective ways of encouraging physicians to locate in places outside of the major urban centres.

In 2016/17 the average fee-for-service earning for all Alberta physicians was $413,000. That is $107,000 or 35% higher than the average in comparator provinces.

Balancing the budget requires addressing health care spending.

At 42% of Alberta's budget and with increasing costs, there is no choice but to bring spending on health in line with other provinces in order to balance the budget.

In Canada, health care spending is often reduced by controlling supply, for example, by limiting the number of health care professionals or hospital beds – a practice the Mazankowski Report on Alberta's health system called rationing. However, rationing is merely a short-term measure that leads to longer wait times. What is required in Alberta is transformational change in the way health care services are delivered and health care professionals are compensated.

To achieve fundamental change in health care the Panel recommends the following.

- **Recommendation 1:** The government should empower strong, strategic leadership to transform the current health system, using other provinces as models, and engaging nurses, doctors, other health professionals, stakeholders and the public where appropriate. The goal is to establish a health system that achieves better outcomes, provides more appropriate care for Albertans, and approximates the average per capita spending of British Columbia, Ontario and Quebec.

There are no quick fixes to curb increasing costs in health care. The system needs a major transformation, learning from other provinces and countries, implementing new and innovative approaches, and removing barriers and obstacles to change. Strong leadership and decisive action will be required but, in the longer term, the benefits to Albertans will far outweigh the short-term challenges.

- **Recommendation 2:** The following set of outcomes should be established to measure Alberta's progress in transforming its health system to reflect the needs of 21st century patients and reduce costs. An external organization, independent of government, should review and report annually on Alberta's progress in closing the gap with comparator provinces on these outcomes.

TABLE 12: KEY INDICATORS FOR ALBERTA HEALTH AND ALBERTA HEALTH SERVICES[5]

Measure of Performance	AB	BC	ON	QC	Notes
Provincial Per Capita Spending on Health Care					
Total - Nominal	$ 5,077	$ 4,267	$ 4,080	$ 4,370	CIHI data; 2018-19 forecast
Hospital	$ 1,964	$ 1,941	$ 1,471	$ 1,547	
Physician	$ 1,178	$ 943	$ 1,000	$ 966	
Drugs	$ 382	$ 221	$ 400	$ 297	
Total – Age – Gender Standardized	$ 5,312	$ 3,836	$ 3,706	$ 3,643	CIHI data; 2016 calendar year
Physicians					
APP (Alternative Payment Plans) payments as a % of total physician payments	13%	20%	36%	20%	CIHI data; National Physician Database 2016-2017
Acute Care					
Patients readmitted to Hospital	9.0%	9.7%	9.2%	8.9%	CIHI data; 2017-2018
Percentage of care in hospitals that could be provided in a more appropriate care setting (% of hospitalization days)	18.3%	13.0%	14.6%	N/A	CIHI data; Number of hospitalizations and alternate level of care (ALC) cases, and length of stay (LOS) days, by province/territory, HMDB/OMHRS, 2017–2018
Median number of days hospital stay extended until home care services or supports ready	11	7	7	N/A	CIHI data; 2017-2018

TABLE 12: KEY INDICATORS FOR ALBERTA HEALTH AND ALBERTA HEALTH SERVICES, CONTINUED

Measure of Performance	AB	BC	ON	QC	Notes
Ambulatory Care Sensitive Condition Hospitalization Rates, per 100,000	338	294	314	332	CIHI data; 2017-2018
Cost of a Standard Hospital Stay	$ 7,983	$ 6,539	$ 5,460	$ 5,839	CIHI data; 2017-2018
System Performance					
Percentage with access to a regular healthcare provider	83.7%	82.2%	90.3%	79.4%	Statistics Canada Table 13-10-0096-01; Health characteristics, annual estimates; 2018
Percentage of LPNs (Licensed Practical Nurses) relative to RNs (Registered Nurses)	38%	30%	47%	39%	CIHI data; 2018; per 100,000 population
Percentage of (Nurse Practitioners) NPs relative to Family Medicine Physicians[6]	9%	7%	19%	4%	Derived from CIHI and Scott's Medical Database data; 2017
Percentage of facility based beds in a community setting[7]	78%	N/A	N/A	N/A	AHS Annual Report, 2017-2018
Median wait (number of weeks) from referral by GP (General Practitioner) to treatment[8]	26.1	23.2	15.7	15.8	Bacchus Barua and David Jacques, with Antonia Collyer (2018). Waiting Your Turn: Wait Times for Health Care in Canada, 2018 Report. Fraser Institute. <www.fraserinstitute.org>

Recommendation 3: The Panel recommends that the government make greater use of alternative service delivery for day procedures and other services that do not have to be delivered in hospitals and could be delivered in private or not-for-profit facilities. The use of alternative service delivery should be applied to other areas beyond health.

There are very good examples from other provinces and countries that can be used as a model. As outlined in the section on compensation in the public sector, considering alternative ways of delivering services should not be limited only to health care. If clear criteria are put in place (see page 53), we can ensure that quality services are provided and at an affordable price.

Recommendation 4: The government should limit the increasing cost of physician services by providing incentives for physicians to move to Alternative Payment Plans and by renegotiating the agreement with the Alberta Medical Association. Every effort should be made to achieve a negotiated agreement, but the government should also consider its legislative options.

> What is required in Alberta is transformational change in the way health care services are delivered and health care professionals are compensated.

5 Notes:
(1) Age/gender-standardized rates are used to account for the differences in the age and gender structure of the populations being compared. The population is mathematically adjusted to have the same age and gender structure as the comparator populations.
(2) Family Medicine includes the specialties of general practice, emergency family medicine and family medicine.
(3) Mental Health and Addictions, Continuing Care (LTC & SL) and Sub-Acute beds are considered community-based care; there is no interjurisdictional data accessible for this.
(4) The 'median wait (number of weeks) from a referral by a GP to treatment' is based on a 2018 Fraser Institute report. In discussions with AH / AHS this measure may not be readily available in the future as the data source is based on a survey administered by the Fraser Institute.

6 Family Medicine includes the specialties of general practice, emergency family medicine and family medicine.

7 Mental Health and Addictions, Continuing Care (LTC & SL) and Sub-Acute beds are considered community-based care; there is no interjurisdictional data accessible for this.

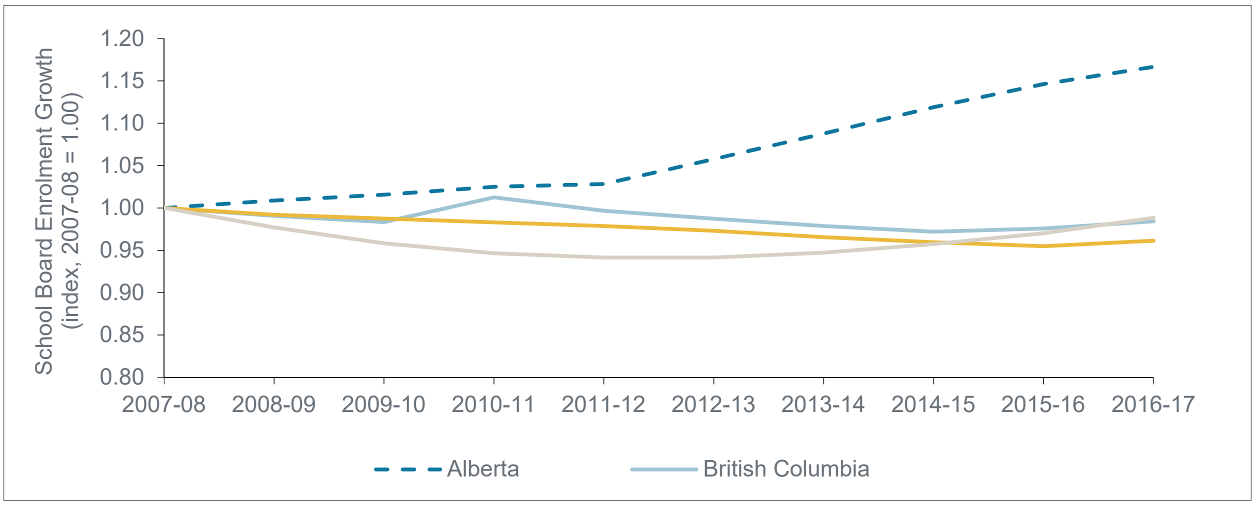
8 As this measure is from third-party source it may not be a reliable measure for the AH / AHS due to limitations in the frequency of its measurement (i.e. based on a survey administered by the third-party).

Education – K – 12

The provincial government spends over $8 billion on education for children in grades K – 12. This makes education the second largest ministry expense (after Health) and accounts for close to 17% of the province's operating budget.

Over the last 10 years, Alberta Education expenditures have grown by an average of 3.5% per year while the relevant school age population (0 - 19) in the province has grown by 1.5%. Since 2007/08, enrolment in Alberta has risen by 16.7% while it has declined in the comparator provinces. In Ontario, enrolment declined by 3.9% while it dropped by 1.6% in British Columbia and 1.2% in Quebec.

FIGURE 10: ALBERTA'S SCHOOL ENROLMENT HAS GROWN MORE THAN COMPARABLE PROVINCES (INDEX, 2007/08 = 1.00)



Note: A caveat to note with Quebec enrolments is that their secondary school technically ends after Grade 11.
Source: Provincial enrolments from Statistics Canada Table 37-10-0007-01.

Alberta spends $11,121 per student. British Columbia spends $9,681 per student, the lowest among our comparator group, while Ontario spends $17,077 and Quebec spends $12,325 per student.

A review of Alberta Education expenditures indicates that 75.4 cents of every dollar spent on education is used to deliver K-12 programming while 24.6 cents is spent on supporting and administering the operations of school boards and the system. By comparison, British Columbia spends 83 cents, Ontario spends 73 cents and Quebec (K-11) spends 76 cents to deliver programs to students.

TABLE 13: EDUCATION BUDGET ESTIMATES 2018/19

% of Total Expenses / Per Student FTE Expense	AB		BC		ON		QC	
Deliver K-12 Programming	75.4%	$8,381	83.1%	$8,040	72.9%	$12,444	75.8%	$9,349
Primary to Secondary Ed	47.7%	$5,300	65.3%	$6,316	47.9%	$8,174	46.8%	$5,769
Supports for Students	15.8%	$1,752	2.4%	$230	12.4%	$2,118	12.2%	$1,509
Supports for Teachers	12.0%	$1,330	15.4%	$1,494	12.6%	$2,152	16.8%	$2,071
Supporting and Administering School Board Operations and the System	24.6%	$2,740	16.91%	$1,639	27.1%	$4,632	24.18%	$2,976
Enterprise Strategy	1.9%	$209	0.01%	$1	0.3%	$50	0.08%	$9
System Management	7.2%	$804	1.2%	$116	0.2%	$39	0.5%	$66
Enterprise Operations	15.5%	$1,727	15.7%	$1,522	26.3%	$4,491	23.2%	$2,857
Enterprise Technology	-	-	-	-	0.3%	$52	0.4%	$44
Total Expenditures per Student	**$11,121**		**$9,681**		**$17,077**		**$12,325**	

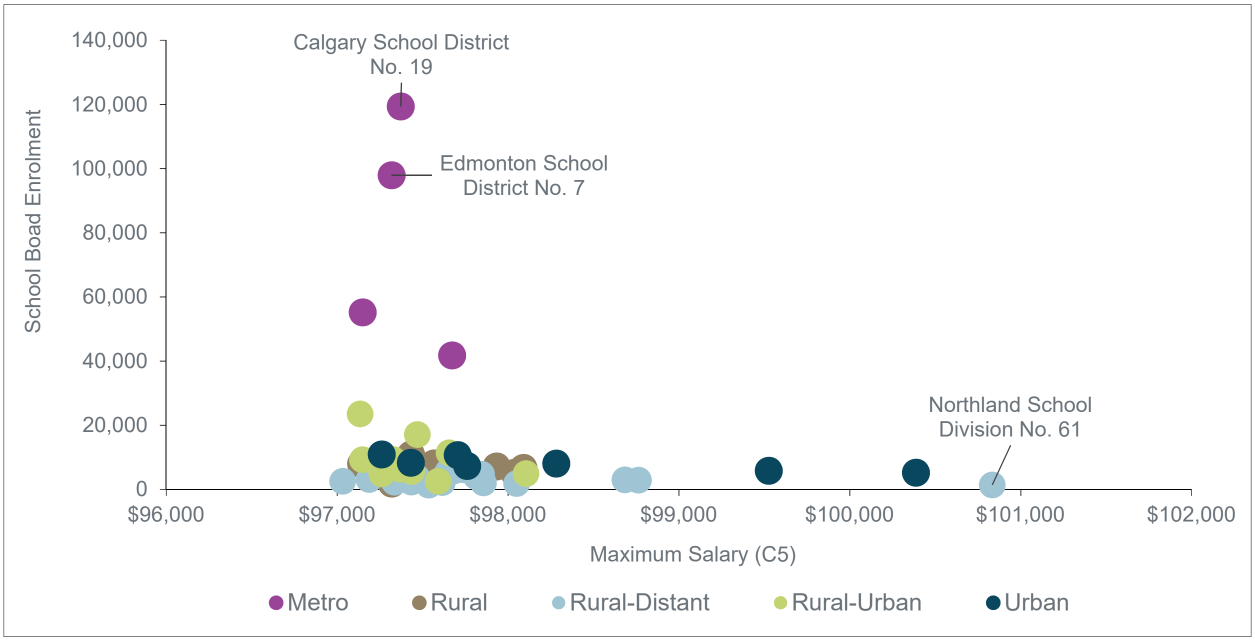
Note: Totals may not add up due to rounding. Consolidated views for British Columbia and Ontario do not exist; expenditures by school boards for these provinces were included using estimating assumptions. Quebec's total represents K to 11 programming.

Source: Analysis of Budget Estimates for 2018-19 for Alberta, British Columbia, Ontario and Quebec; Per student expenditures based on student data for 2017-18.

A significant component of education spending is teachers' salaries. The Panel found that the maximum teacher salaries in Alberta are comparable to those in Ontario but higher than those in British Columbia. (See page 50 for comparisons of teachers' salaries and benefits.) As Figure 11 indicates, most maximum salaries for teachers in Alberta are clustered between $97,000 and $98,000, with school boards in northern Alberta being outliers. There appears to be no pattern between teacher maximum salaries and enrolment.

The level of spending by a school board is not the key factor that drives better outcomes.

FIGURE 11: TEACHER MAXIMUM SALARIES SIMILAR ACROSS THE PROVINCE

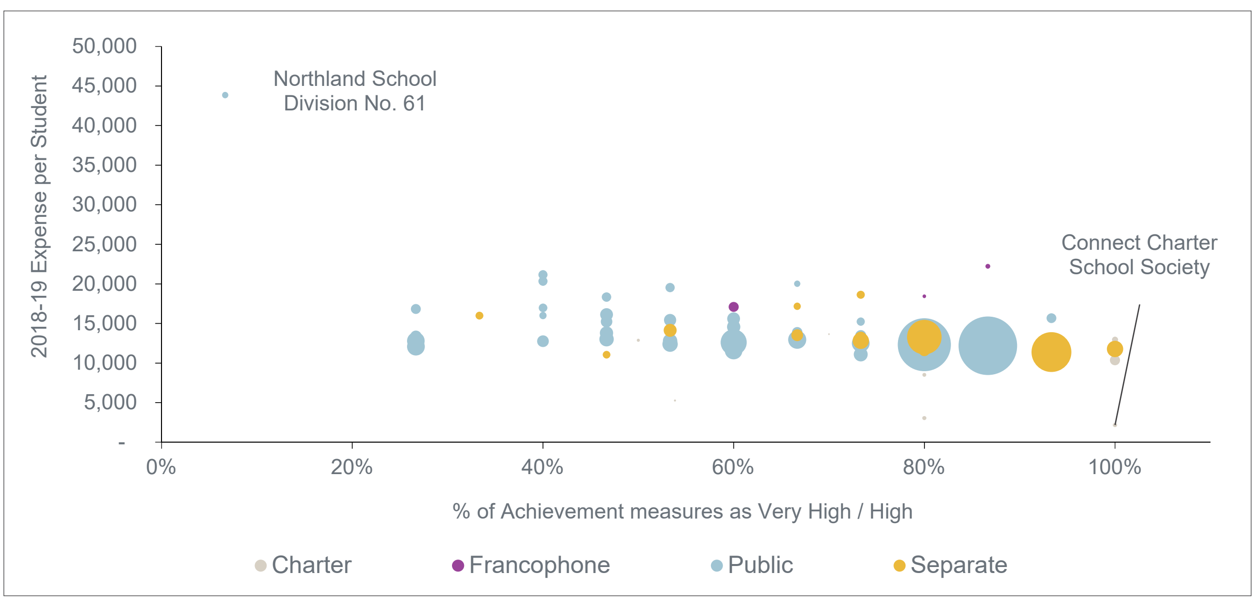


Note: Figures are based on C5 maximum salary.

Source: Teacher Salary Grids and School Board Enrolments from the Ministry of Education; School Board Enrolment from the Ministry of Education.

There are significant differences in school board performance across the province. Alberta Education uses 16 measures that make up their accountability structure. As Figure 12 indicates, the level of spending by a school board is not the key factor that drives better outcomes. A number of school boards that have very high to high expenses per student have student achievement outcomes that are below 50%.

FIGURE 12: LEVEL OF SPENDING IN SCHOOLS DOES NOT DRIVE OUTCOMES



Note: Bubble size relates to 2018-19 Enrolment. 2018-19 Expense per student is forecasted due to availability of data.

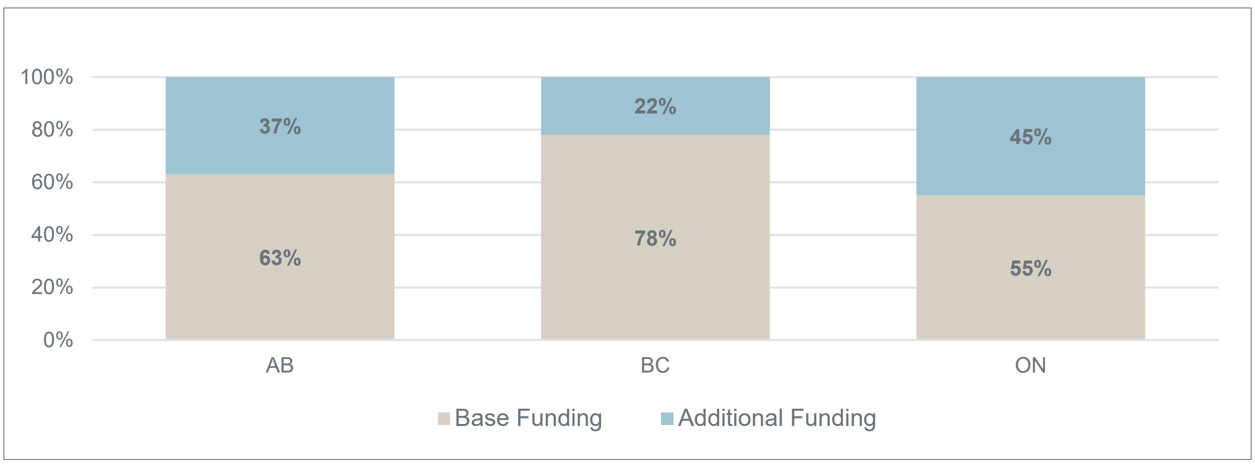
Source: Accountability Pillar Results for Annual Education Results Report (AERR) from the Ministry of Education; School Authorities Audited Financial Statements; School Board Enrolment from the Ministry of Education.

Education funding is provided to school boards through a funding formula. The current funding formula is based primarily on per student funding provided through a base grant based on enrolment. There are also a number of additional grants that provide incremental funding based on the attributes of students (e.g. grants for students with special needs).

Funding formulas based purely on numbers of students as opposed to the outcomes achieved have a number of shortcomings. Perhaps the most significant drawback of enrolment-based funding is that it incents competition between boards at the expense of collaboration in key areas where greater efficiencies could be achieved. This includes areas such as shared procurement using the purchasing power of several boards, sharing expenses for busing, and sharing expensive infrastructure such as high schools. Another shortcoming of the current funding formula is that it is not linked to boards achieving the strategic goals of the ministry, for example, as they might relate to anticipating changes in the labour market or understanding diversity. Hence linking some portion of funding to school boards achieving the strategic outcomes desired by the ministry might create more alignment across districts, promote greater collaboration and lower school board administrative costs.

Perhaps the most significant drawback of enrolment-based funding is that it incents competition between boards at the expense of collaboration in key areas where greater efficiencies could be achieved.

FIGURE 13: SCHOOL BOARDS RECEIVE HIGHER PERCENTAGE OF FUNDING FROM SPECIAL GRANTS (2018-19 ESTIMATES)



Note: Quebec information is not available.

Source: Alberta Operational Funding to School Boards from the Ministry of Education; British Columbia Operational Funding to School Boards from BC Government Operating Grants Table; Ontario Operational Funding to School Boards from Ontario: A Guide to the Grants for Student Needs.

Many school boards across Alberta and in the rest of Canada run sizeable operating reserves arising from government funding not expended in the year it was received. As of August 31, 2018, the total amount held in operating reserves by Alberta school boards was $318 million. However, reserves held by Alberta school boards do not seem to be out of line with other jurisdictions. Many of the Alberta school boards in the sample have reserves of less than a $1,000 per student, less than that held by some comparator school boards in other provinces.

Based on what the Panel heard and learned during our review, the Panel believes there is a significant opportunity to achieve greater efficiency and ensure that a greater percentage of funding goes to the classroom.

- **Recommendation 5:** The Panel recommends that government work with education stakeholders to decrease the percentage of government funding that goes to administration and governance (currently 24.6%) to a level comparable to British Columbia (17%).

From the Panel's review, the total amount of funding government spends on education is not out of line with comparable provinces. We do, however, believe there is scope for reducing administrative expenses to the level achieved in British Columbia. We found there is limited sharing of services and expertise among school boards and this likely contributes to higher costs in delivering services such as busing.

- **Recommendation 6:** The Panel recommends that government completely review and revise its current education funding formula to ensure enrolment growth is addressed and to provide incentives for sharing services and achieving better outcomes for students.

While the formula has some strengths in terms of funding growth in the student population, it does not incent efficiency or reward innovation, performance and outcomes. There is also a complex array of special purpose grants which should be examined to determine whether they are achieving the intended results.

> The Panel believes there is a significant opportunity to achieve greater efficiency and ensure that a greater percentage of funding goes to the classroom.

Advanced Education

The province spent over $5.6 billion on post-secondary education in 2018/19 – nearly 11% of provincial operational expenditures. Over the last decade, funding for post-secondary institutions in Alberta has grown at 4% on average per year while the population of post-secondary-aged people (15 - 39) has grown by 1.3%.

There are 26 post-secondary institutions in the province, including four comprehensive academic and research universities, three undergraduate universities, 11 comprehensive community colleges, two polytechnical institutions, five independent academic institutions, and one specialized arts and culture institution.

Almost half of the 167,500 full learning equivalents (FLEs: the measure of student enrolment) attended comprehensive academic and research universities. The ratio of provincial population per post-secondary institution in Alberta is 205,000 persons, slightly higher than British Columbia at 199,000 persons per post-secondary institution, but significantly lower than Ontario at 325,000 and Quebec at 442,000. The proportion of foreign full learning equivalents attending Alberta post-secondary institutions ranged from 13% at comprehensive academic and research universities to 5% at undergraduate universities.

Alberta spends significantly more per student full-time equivalent (FTE) than the three comparator provinces. Alberta spends $36,500 per FTE while British Columbia spends $31,300 ($5,200 less), Ontario spends $21,500 ($15,000 less), and Quebec spends $25,800 ($10,700 less).

For Alberta, 77 cents of each dollar is used to deliver post-secondary programming. By comparison, British Columbia spends 87 cents, Ontario spends 77 cents and Quebec spends 67 cents on post-secondary programming. However, the big differences are in the amounts spent on administration. Alberta's spending on administration at $8,372 per FTE is slightly lower than Quebec but significantly higher than British Columbia at $4,233 and Ontario at $4,910.

TABLE 14: POST-SECONDARY FUNDING COMPARISONS

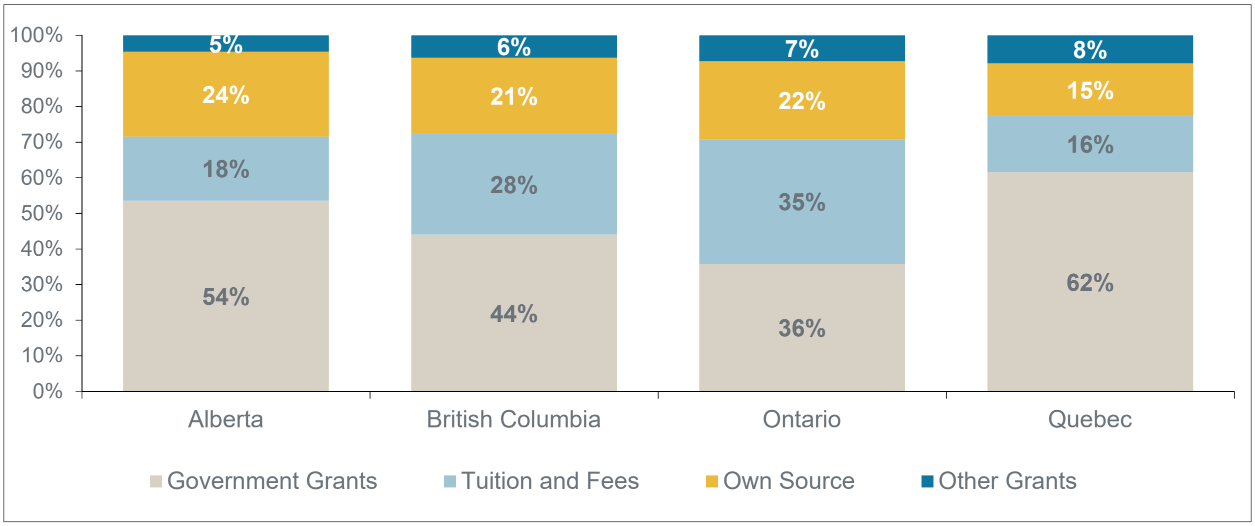
% of Total Expenses // Per Student FTE Expense	AB		BC		ON		QC	
Deliver Post-Secondary Programming	77.1%	$28,137	86.6%	$27,068	77.2%	$16,626	66.6%	$17,222
Adult Learning	51.80%	$18,914	59.4%	$18,584	48.6%	$10,461	52.6%	$13,588
Supports for Students	12.3%	$4,479	13.3%	$4,151	21.4%	$4,610	10.3%	$2,660
Stakeholder Management	0.2%	$59	1.6%	$495	1.6%	$342	0.1%	$35
Research	12.8%	$4,685	12.3%	$3,838	5.6%	$1,213	3.6%	$939
Supporting and Administering Post-Secondary Operations and the System	22.85%	$8,372	13.51%	$4,233	22.8%	$4,910	33.20%	$8,599
System Management	0.8%	$304	0.3%	$95	0.8%	$173	3.00%	$770
Enterprise Strategy	0.05%	$17	0.01%	$4	0.1%	$10	0.3%	$90
Enterprise Operations	21.6%	$7,894	13.2%	$4,134	21.8%	$4,705	29.70%	$7,678
Enterprise Technology	0.4%	$157	-	-	0.1%	$22	0.2%	$61
Total Expenditures per Student FTE	**$36,510**		**$31,299**		**$21,536**		**$25,822**	

Note: Totals may not add up due to rounding. Consolidated views for British Columbia do not exist and for Ontario are limited and not detailed; expenditures by post-secondary institutions for these provinces were included using budgets and prior year actuals and estimating assumptions to allocate expenditures across the Connected Enterprise model.

Source: Analysis of Budget Estimates for 2018-19 for Alberta, British Columbia, Ontario, and Quebec; Student enrolment data to inform per student FTE expenditures from Statistics Canada for 2016-17.

Alberta universities and colleges depend far more on government grants and rely far less on tuition as a share of revenue compared to their British Columbia and Ontario counterparts while Quebec provides more in grant support. Alberta research universities are comparable to their counterparts in the rest of Canada with own-source revenues accounting for approximately 25% of total revenues.

FIGURE 14: ALBERTA UNIVERSITIES DEPEND MORE ON GOVERNMENT GRANTS AND LESS ON TUITION



Note: Based on data availability/granularity, Own Source revenue is inclusive of Investment Income, Donations, Sales of Services and Products and Miscellaneous Income.

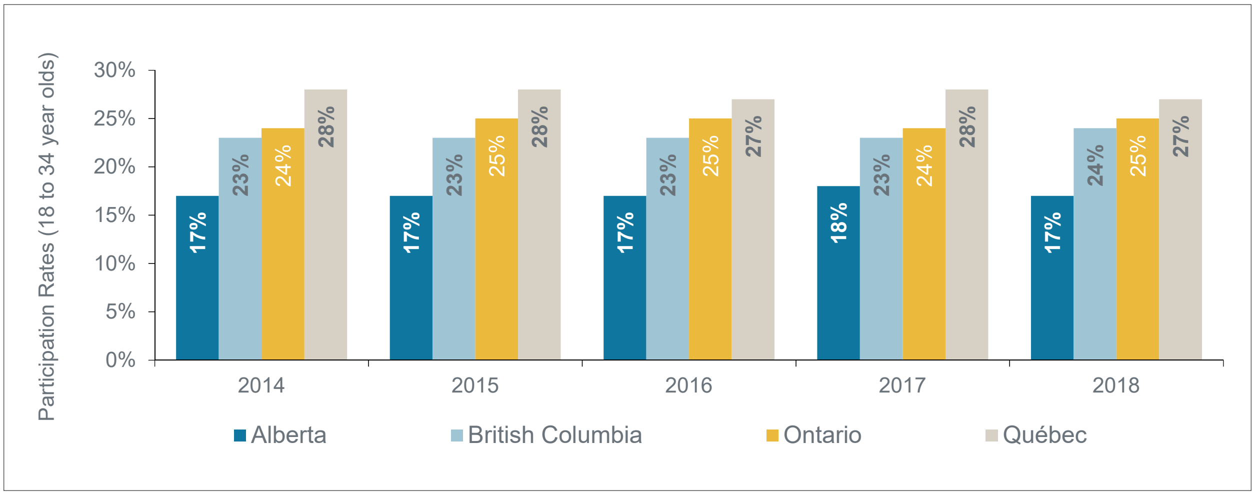
Source: 2016-17 Revenue from Canadian Association of University Business Officers FIUC database.

Notwithstanding the level of funding, not all Alberta's post-secondary institutions are successful at getting students to complete their studies and graduate over a seven-year period subsequent to beginning their course of study. Nine of twenty-six institutions fell below an average completion rate of 60% and one institution had a completion rate of 40%.

Alberta's relatively low post-secondary participation rate has historically been explained by the lure of high-paying jobs in the energy sector for post-secondary-aged individuals. However, since 2015, high-paying energy jobs have become scarce and unemployment has risen, yet the participation rate remains at 17%. In most provinces, post-secondary participation rates rise with rising unemployment and fall with a booming economy – not so for Alberta.

In most provinces, post-secondary participation rates rise with rising unemployment and fall with a booming economy – not so for Alberta.

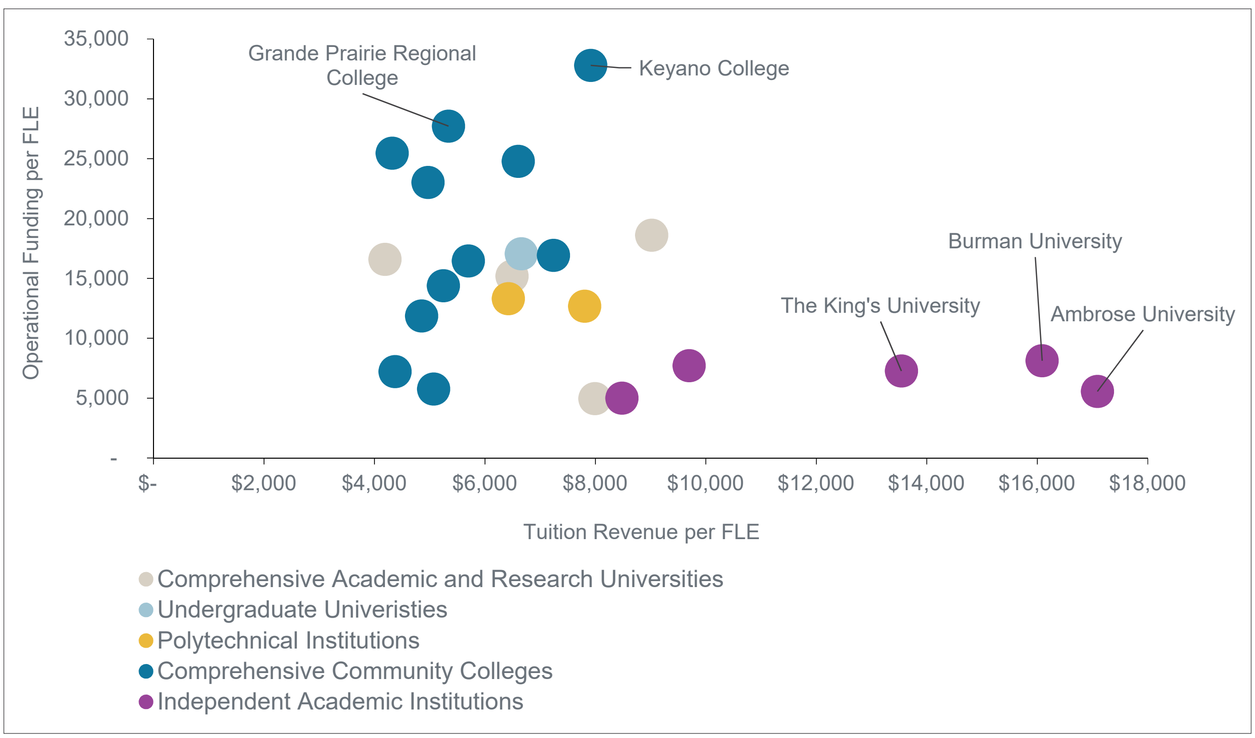
FIGURE 15: ALBERTANS' PARTICIPATION IN POST-SECONDARY EDUCATION LAGS OTHER PROVINCES



Source: Alberta Ministry of Advanced Education

The funding formula for post-secondary institutions in Alberta has historically been through block grants adjusted by some percentage year after year. Campus Alberta grants are provided on a historical basis and previous alignment to enrolment or program offerings has been eroded over time. The result is grants that are no longer linked to enrolment or program offerings. The two figures below show that Alberta has a combination of a number of high-grant, low-tuition institutions and a number of high-cost, low-enrolment institutions.

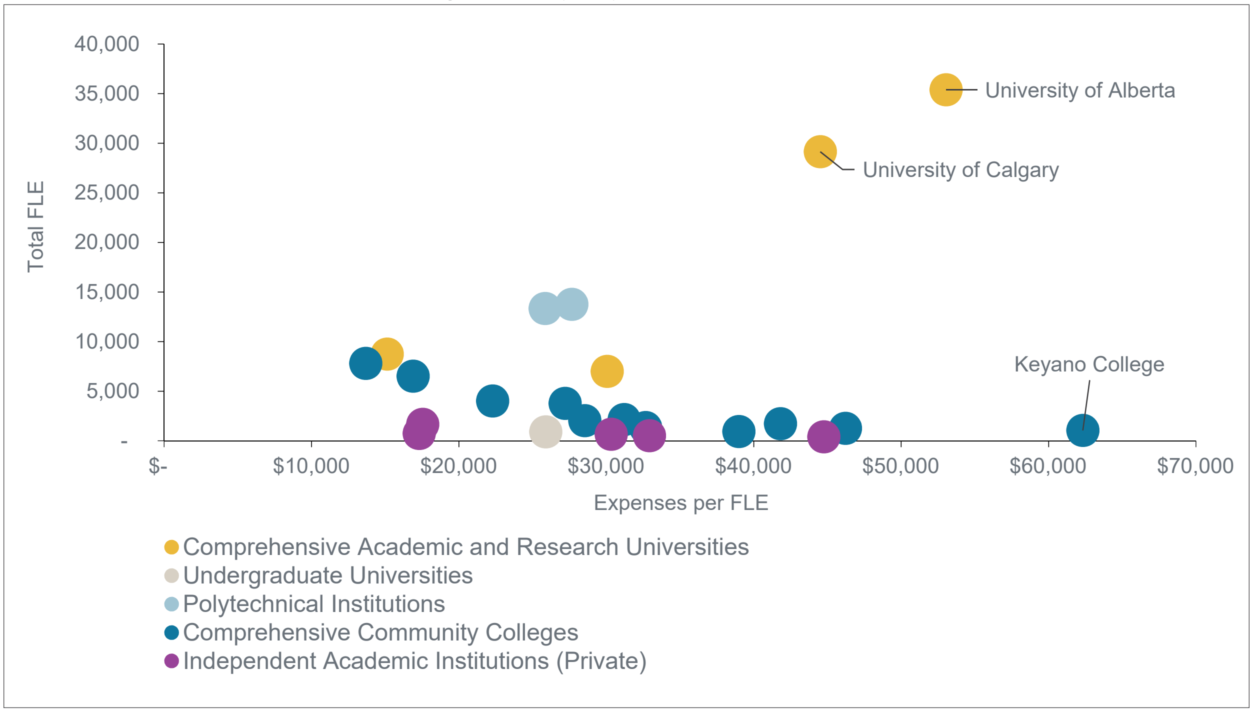
FIGURE 16: COMPARING OPERATIONAL FUNDING AND TUITION REVENUES (2017/18)



Note: Data is for Alberta Post-Secondary Institutions; SACI has been excluded due to lack of FLE data.

Source: FLE counts and Operational Funding from Ministry of Advanced Education; Tuition Revenue from 2017-18 Institution Audited Financial Statements.

FIGURE 17: COMPARING TOTAL FULL LEARNER EQUIVALENTS (FLES) WITH EXPENSES PER FLE



Note: Data is for Alberta Post-Secondary Institutions; SACI has been excluded due to lack of FLE data.
Source: FLE counts from Ministry of Advanced Education; PSI Expenses from 2017-18 Institution Audited Financial Statements.

Most significantly, the Panel found that there does not appear to be an overall direction for Alberta's post-secondary system. The current funding structure doesn't link funding to the achievement of specific goals or priorities for the province such as ensuring the required skills for the current and future labour market, expanding research and technology commercialization, or achieving broader societal and economic goals. There also continues to be extensive overlap and duplication among post-secondary institutions, each operating with their own boards of governors and with what appears to be only limited collaboration.

Recommendation 7: The Panel recommends that the government consult with post-secondary stakeholders to set an overall future direction and goals for the post-secondary system along with appropriate governance models.

Alberta's future depends on having one of the most highly skilled and well-educated populations in the world. To achieve that, a clear direction is needed along with new approaches to ensure the necessary innovation and coordination occurs. The Panel suggests that the future funding model ensure a link between provincial macro goals and outcomes to be achieved by post-secondary institutions. The government should assess whether the current governance model can address the challenges facing post-secondary institutions in Alberta by exploring alternative models used in the rest of Canada and in other jurisdictions.

Recommendation 8: The Panel recommends that the government work with post-secondary stakeholders to achieve a revenue mix comparable to that in British Columbia and Ontario, including less reliance on government grants, more funding from tuition and alternative revenue sources, and more entrepreneurial approaches to how programs are financed and delivered. This includes lifting the current freeze on tuition fees.

Alberta's post-secondary institutions should be encouraged to expand revenues from sources other than provincial grants. As costs increase and limits on government grants are inevitable, government needs to untie the hands of post-secondary institutions, encourage them to be more entrepreneurial and innovative, and allow them to implement responsible adjustments to tuition fees.

- **Recommendation 9:** The Panel recommends that government should assess the financial viability of Alberta's post-secondary institutions. The government should move quickly to address the future of those post-secondary institutions that do not appear to be viable in future funding scenarios.

As noted, Alberta has a substantial number of post-secondary institutions, some of which are more financially viable than others. While addressing this issue is difficult and must be approached in a careful and thoughtful way, concentrating funding to some institutions rather than spreading limited provincial funding over the large number of institutions may be a more effective way of delivering post-secondary education and achieving better results.

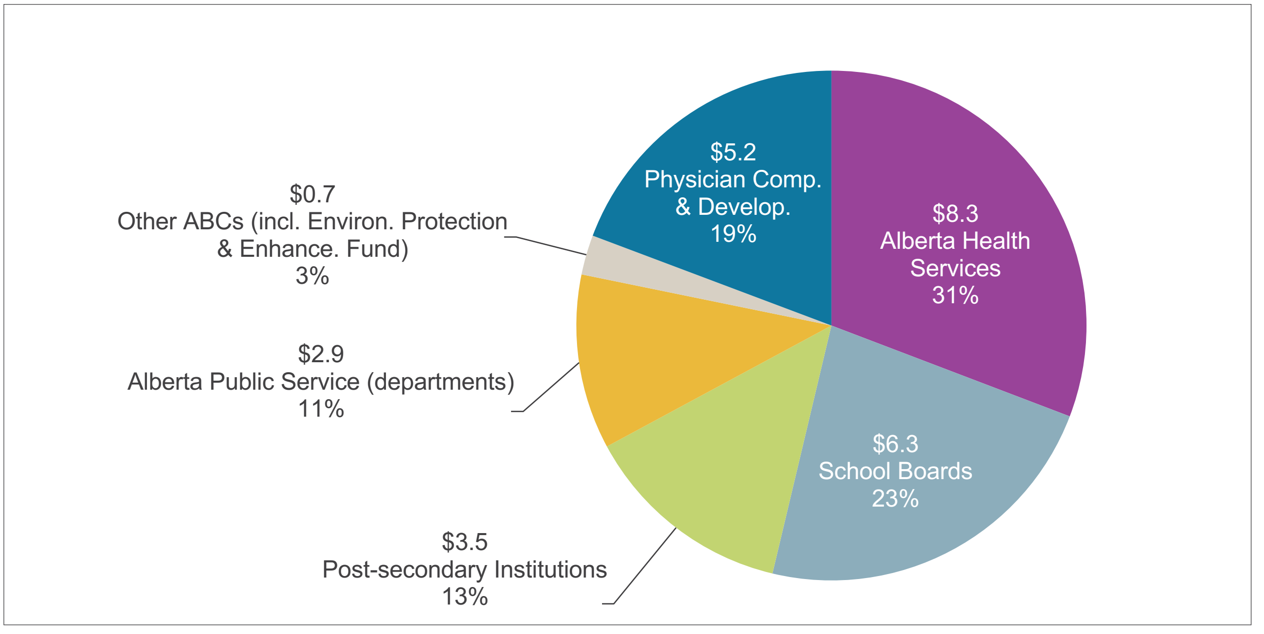
> Most significantly, the Panel found that there does not appear to be an overall direction for Alberta's post-secondary system.

Public Sector Compensation, Bargaining and Size

In 2018/19, Alberta spent $26.9 billion on public sector compensation. This represents 55% of the Alberta government's operating budget and is the largest single expense in that budget. Hence, successful spending restraint has to involve restraint in the compensation and size of the public sector.

Figure 18 shows the employees included in Alberta public compensation, the total spent on each of those components and the percentage each grouping makes up of total spending on compensation in the public sector.

FIGURE 18: BREAKING DOWN ALBERTA'S PUBLIC SECTOR COMPENSATION ($ BILLIONS)



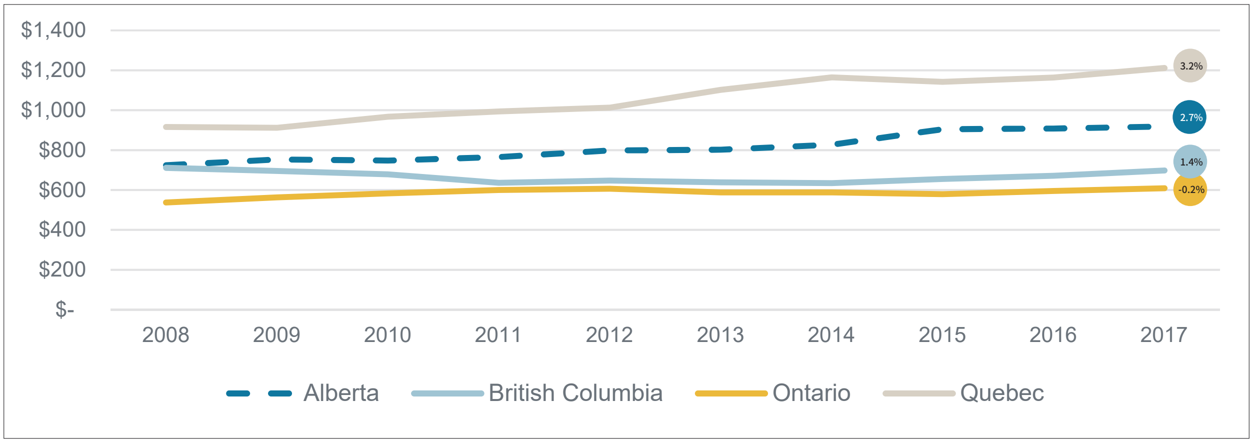
Source: Alberta Treasury Board and Finance

From 2008 to 2018, the total provincial core government employment (including only those employed in Alberta government ministries) grew by 14% (or 1.3% compounded annual growth rate (CAGR)), which was comparable to Ontario's growth but less than growth in British Columbia.

In total, the Alberta government has 680 employees per 100,000 population compared with 678 in British Columbia, 591 in Ontario and 935 in Quebec. In other words, per capita employment in Alberta and British Columbia is very similar, higher than in Ontario but much lower than in Quebec.

Relative to British Columbia and Ontario, Alberta has higher salaries and benefits. From 2008 to 2017, the total provincial core government compensation expenses grew by 49% (or 4.6% CAGR), which was the highest across all of the comparator provinces. Relative to other provinces, Alberta's total wage and salary expenses per capita (2018) were $918 compared to $698 in British Columbia, $609 in Ontario and $1,211 in Quebec.

FIGURE 19: COMPENSATION FOR ALBERTA GOVERNMENT EMPLOYEES HIGHER THAN ONTARIO AND BRITISH COLUMBIA BUT LOWER THAN QUEBEC



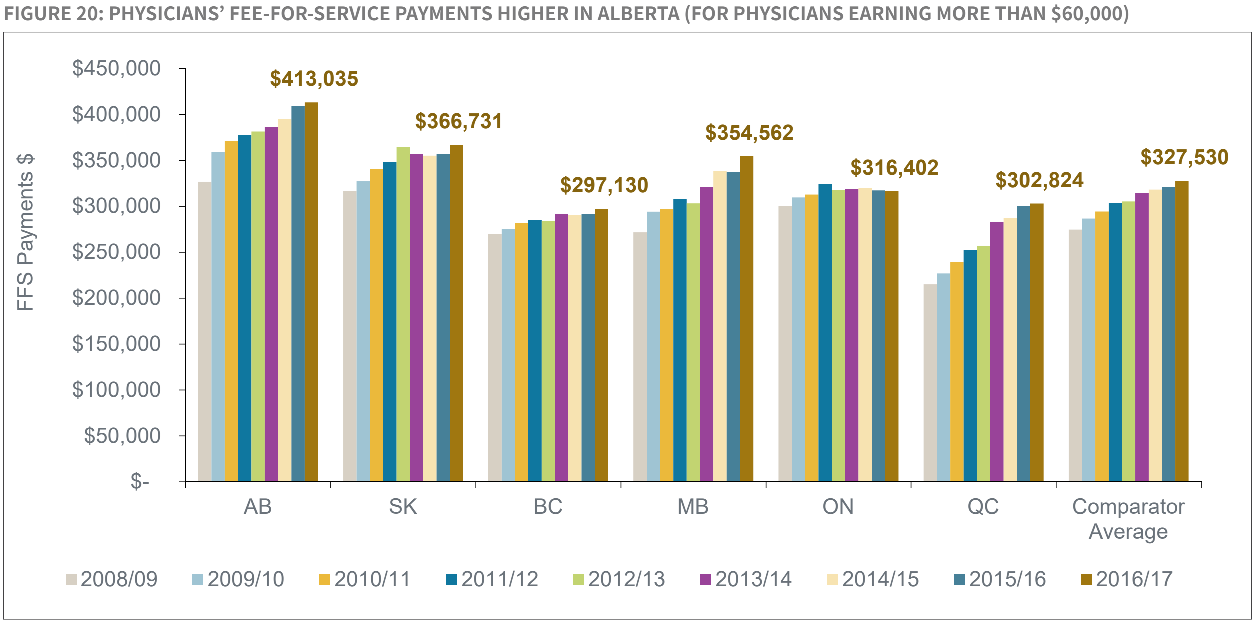
Note: This data includes employment expenses by the Departments; employment expenses for external agencies, boards and commissions are excluded from the analysis (e.g. AHS expenses are not included) due to limitations in comparable available data.

Source: Canadian government finance statistics for the provincial and territorial governments (x 1,000,000) data fro Statistics Canada Table 10-10-0017-01.

The salaries and benefits of doctors, nurses and teachers illustrate the extent to which Alberta compensation rates and benefits are higher than comparator provinces.

Doctors' fee-for-service earnings are significantly higher than those in comparator provinces. The average fee-for-service earnings in Alberta are the highest among the comparator provinces. Over the past nine years, the average fee-for-service earnings for physicians in Alberta have grown faster than the average in the comparator provinces. Doctors also have other benefits that are described more fully in the section of the Panel's report on health care.

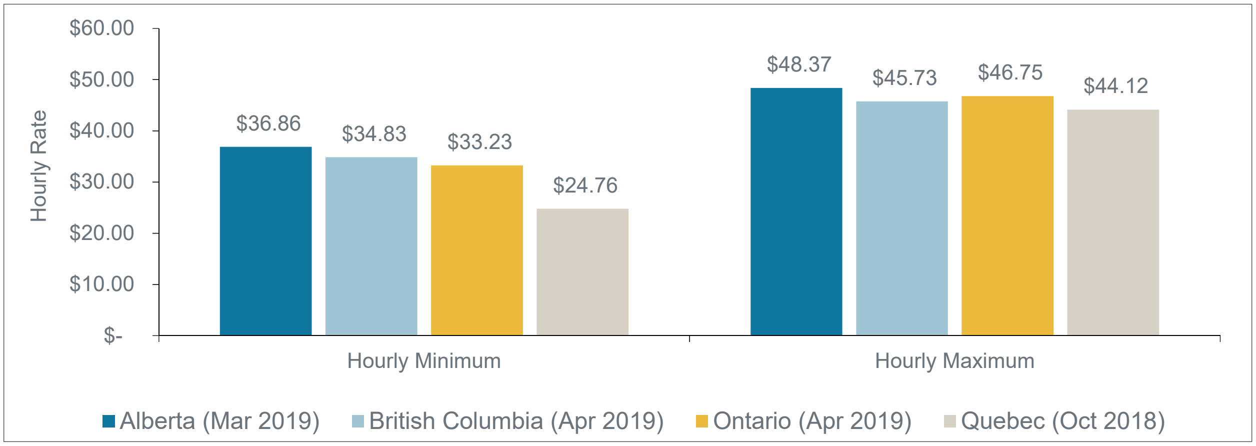
FIGURE 20: PHYSICIANS' FEE-FOR-SERVICE PAYMENTS HIGHER IN ALBERTA (FOR PHYSICIANS EARNING MORE THAN $60,000)



Source: Alberta Health completed Analysis of CIHI National Health Expenditure Database.

Salaries for registered nurses are also higher than in comparator provinces.

FIGURE 21: REGISTERED NURSES' HOURLY RATES HIGHER IN ALBERTA



Source: Alberta Health completed Analysis of CIHI National Health Expenditure Database.

Nurses also have provisions in their contract that are more generous than in comparator provinces. Full- and part-time nurses have Designated Days of Rest (DDOR) that are protected days that trigger payment at twice the basic hourly rate of pay (or applicable overtime), even if the part-time employee has not worked full-time hours. Registered nurses also have overtime provisions in their contracts that are more generous than in comparator provinces.

TABLE 15: OVERTIME RATES FOR REGISTERED NURSES IN ALBERTA

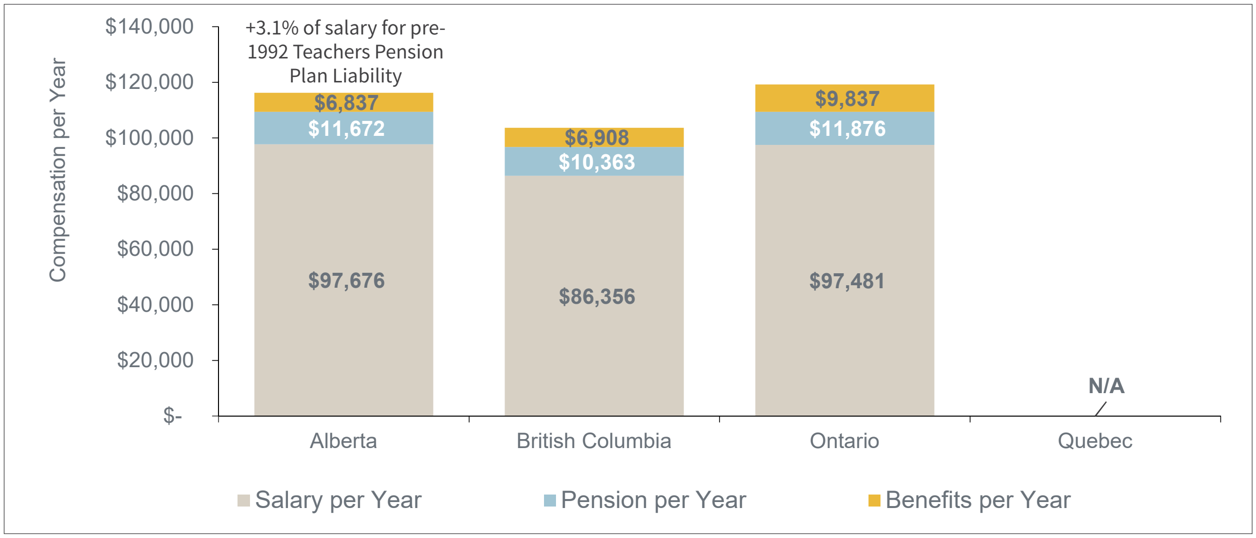
Contract Provisions		AB	BC	ON
Overtime Rate	Regular	2X	1.5X	1.5X
	Special (Stat, other)	2.5X named holidays; 3X August Civic & Christmas Day	2X named; 2.5X Christmas day, Labour Day, Good Friday	2X

Source: Alberta Health Services

Alberta teacher salary levels are higher than in British Columbia but lower than in Ontario; however, Alberta teachers have other special benefits and, when these are included, their compensation is the highest across the comparator provinces.

In 2008 the Government of Alberta and the Alberta Teachers Association struck the first provincial collective agreement. As part of this agreement the government assumed 100% of the pre-1992 Teachers Pension Plan liability, which was valued at $7.7 billion in the 2018/19 Government of Alberta annual report. As a result of government taking on funding of the liability, teachers' take-home pay was 3.1% higher.

FIGURE 22: TEACHERS' TOTAL MAXIMUM COMPENSATION HIGHER IN ALBERTA



Note: Figures are based on C5 maximum salary and the equivalents across the comparator provinces. The per teacher amount in Alberta for the pre-1992 teacher's pension liability is based on the 3.1% contribution of teacher's salary, or $3,028 per teacher based on the C5 maximum salary in Alberta, that was assumed by Government, per the Ministry of Education.

Source: Teacher Maximum Total Compensation: Cross-Jurisdictional Analysis, 2017-18 from the Ministry of Education. Teacher Pension Plan liability history provided by Government of Alberta

Since 2015, despite the recession and growing deficits and debt, the size of the public sector has grown. Table 16 shows the increase in Full Time Equivalent Employees since 2014-15.

TABLE 16: GROWTH OF ALBERTA PUBLIC SECTOR FTES

	2014–15 Budget	2015–16 Budget	2016–17 Budget	2017–18 Budget	2018–19 Budget
Alberta Public Service (Departments)	27,180	27,240	27,525	27,637	27,808
Change compared to previous year		0.2%	1.0%	0.4%	0.6%
Other government Agencies:					
Alberta Health Services	76,101	76,798	77,950	79,450	80,570
School Boards	58,593	59,125	61,869	62,317	63,346
Post-secondary Institutions	33,517	33,517	33,588	33,588	33,588
Other Government Agencies	3,952	3,963	3,925	4,712	4,792
Sub-total Other Government Agencies	172,163	173,403	177,332	180,067	182,296
Change compared to previous year		0.7%	2.3%	1.5%	1.2%
Total Public Sector FTEs	199,343	200,643	204,857	207,704	210,104
Change compared to previous year		0.7%	2.1%	1.4%	1.2%

Source: Alberta Treasury Board and Finance

Public sector compensation has also increased.

TABLE 17: GROWTH IN ALBERTA PUBLIC SECTOR COMPENSATION FROM 2014-15 TO 2018-19

Billions of $	2014-15	2015-16	2016-17	2017-18	2018-19	Average growth
Public Sector Compensation in Alberta	24.0	24.8	25.6	26.0	26.9	2.3%

Source: Alberta Treasury Board and Finance

Since 2017, unionized employees in the Alberta public service have experienced some salary restraint. In 2016/17, they had a salary increase of 2.5%, followed by no increase in their salary levels in 2017/18 and 2018/19. That agreement also included a guarantee that there would be no layoffs or job losses. However, overall compensation did not remain flat. Even when salary increases remain at zero, unionized employees are eligible to receive annual merit/in-range increases as they move through the grid, which means that they are eligible for increases as high as 16% over four years.

The situation is very different for non-bargaining employees who have experienced a complete freeze in their compensation since April 1, 2016. There are 6,600 non-bargaining employees, which represents 24% of the Alberta public service. Their ranks include managers and professionals but also some administrative support staff whose salary levels are at the lower end of the salary scale. A legislated freeze (through the Salary Restraint Regulation) on general increases, cost of living increases, merit increases, performance increases, and any kind of grid movement was applied to non-bargaining unit staff in public agencies. This freeze is set to expire on September 30, 2019.

The difference in treatment between bargaining and non-bargaining staff has led to equity issues and problems attracting and retaining talented mangers. For some occupations, such as Administrative Support, some employees are in the bargaining unit while others are exempt. Those in the bargaining unit had a 2.5 % salary increase and potentially up to 14% increase in merit pay over four years, while those who were exempt had no increases in compensation. The salary freeze also disproportionately impacts non-bargaining unit employees who are younger and earlier in their careers. Lifting the freeze with respect to providing merit/in-range increases would ensure the equitable treatment of all Alberta public service employees (bargaining and non-bargaining). It would also support the attraction, engagement and retention of qualified staff.

Public servants work hard to provide services and deliver programs. At the same time, they have benefited from generous compensation and other benefits including during the recent recession and they need to participate in the government's restraint plan.

Supreme Court of Canada decisions on collective bargaining have limited the power of governments to set aside or impose collective agreements. Nonetheless, governments have legislated wage restraint where respect for employees' constitutional right to bargain has been shown.

Public servants work hard to provide services and deliver programs. At the same time, they have benefited from generous compensation and other benefits including during the recent recession and they need to participate in the government's restraint plan.

Legislative mandates can be used, not as an ongoing way to conduct collective bargaining, but as a tool to be used in exceptional circumstances, such as the current situation in Alberta where the government has committed to balance the budget by 2022/23.

Manitoba provides an example of how legislative mandates work. The government creates a framework for future increases to salaries for public sector employees and to fees for insured medical and health services that reflects the fiscal situation of the province. Manitoba established a salary mandate that was zero for year one, zero for year two, 0.75% for year three, and 1% for year four. The mandate applies to all third parties (e.g. universities), and although the government may not have the power to impose the mandate on third parties, grants or transfers to third parties will be based on the assumption that the third parties abided by the mandate in negotiations with their own employees. The mandate would apply to all negotiations and arbitrations and, in the event of a strike, the legislated salary mandate would form the basis for subsequent back to work legislation.

Legislative mandates can be flexible and accommodate the collective bargaining process. For instance, if salary increases were frozen at zero, the government could be open to negotiate other ways in which ongoing savings could be found to achieve the same end result. Also, collective bargaining would occur on other issues. And legislative mandates would be time limited; that is, they would cover a four-year period but not be continued into the future.

Looking to the future, the Alberta government should consider more strategic and creative ways to conduct public sector bargaining. For instance, salary increases could be tied to salary levels in comparator provinces. The Panel found that Alberta's bargaining is often out of sync with other provinces. Public sector bargaining in Alberta has been focused on comparing compensation of public sector employees to compensation paid in the private sector. A more appropriate comparison would be to look at what public sector employees, including nurses, doctors, teachers and government employees, are paid in other provinces. There's also a misconception that public sector salaries in Alberta should be higher because our cost of living is higher. That may have been true at different times in Alberta but is not the case today. Also, other provinces provide examples of strategic, innovative approaches to bargaining that achieve compensation restraint but also are flexible and enhance productivity. Alberta needs to consider an overall framework for public sector bargaining that balances the need for recruitment and retention but also achieves compensation levels that are comparable to other provinces.

Another issue is the size of the public service.

Governments across Canada have taken steps to reduce or constrain the growth of the public service; however, it is important to note that measures like hiring freezes or specific limits on the number of public servants are arbitrary measures that can limit the capacity of the government to manage effectively. For example, spending reviews can lead to reductions in full-time equivalents (FTEs) in some areas, but there will be other areas which require additional FTEs to meet growing demands for services.

There are more strategic and effective ways of reducing the size of the public service.

Within the Alberta government, attrition is almost 7% per year; that amounts to a turnover of some 1,800 permanent staff. Thus, not replacing all staff who leave is one way to reduce the size of the public sector.

Implementing a comprehensive program review (see the Panel's section on program review) is a strategic approach that will result in administrative efficiencies and the elimination of some lower priority services and programs, which, in turn, will result in a reduction of FTEs.

The government should also consider alternative delivery options for programs and services.

Recent Supreme Court decisions have resulted in litigation across Canada. The Alberta government has been taken to court by unions and the same is true of other provinces like Nova Scotia and Manitoba, and Saskatchewan has used the notwithstanding clause to overturn a court decision on labor relations.

Moreover, current collective agreements contain provisions that make it very difficult for the government to have the flexibility to manage program and service delivery efficiently and improve productivity. Also, the problematic provisions of these agreements can only be changed with the agreement of the beneficiaries.

The Alberta government's responsibility is to provide quality timely services at a reasonable cost to taxpayers. All options to meet this mandate should be considered, including not-for-profit or private sector delivery of programs and services.

Alternative service delivery should be approached cautiously with strict and transparent guidelines, such as the following:

- The programs or services should be appropriately regulated (as is the case in the public sector) and the standards and quality should be equal to or better than in the public sector.
- There should be a transparent, competitive process for choosing alternative service/program providers and measurable accountability for the outcomes.
- There should be quantifiable cost savings to taxpayers.
- The government needs experienced, highly qualified staff to oversee such a process since the success of alternative service delivery depends on having the right contract with service providers.

In conclusion, based on its review and findings, the Panel recommends that the following steps be taken.

Recommendation 10: The Panel recommends that the government should establish a labour relations framework that creates long-term goals for compensation in line with other comparable provinces.

Recommendation 11: The Panel recommends that the government end the freeze on non-bargaining staff with respect to providing merit/in range increases to ensure the equitable treatment of all Alberta public service employees (bargaining and non-bargaining) and support the attraction, engagement and retention of qualified staff.

Recommendation 12: The Panel recommends that the government establish a legislative mandate that sets the salary levels for all public sector employees, including all fees and other compensation for insured medical and health services and all third parties, and applies to all negotiations and arbitrations. In the event of a strike, the mandate would form the basis for back to work legislation.

The Alberta government's responsibility is to provide quality timely services at a reasonable cost to taxpayers. All options to meet this mandate should be considered, including not-for-profit or private sector delivery of programs and services.

Capital Spending

Capital spending on infrastructure—the transportation, environmental, educational, health and recreational facilities that are provided by provincial and municipal governments—contributes to both the quality of life and the productive capacity of Albertans.

Capital spending on infrastructure in Alberta has averaged $7 billion per year over the past decade and is projected to average $6.6 billion per year over the next four years. With such a large annual spending commitment, it is critical to have a rigorous capital spending framework in place in order to manage costs and mitigate risks.

Putting Alberta's Capital Spending in Perspective

To provide perspective for a renewed framework to guide capital spending in the future, the Panel examined trends in capital spending and capital stock in Alberta versus other Canadian provinces over the past three decades, based on standardized data.[9]

Capital investment as a percentage of GDP is the conventional way of measuring capital spending trends in Canada and internationally. When Alberta's capital spending is calculated that way, our spending appears low in comparison with other provinces. However, this is misleading because Alberta's economy is much more capital intensive (over three and half times than that of Ontario) and has a much higher GDP per capita than comparator provinces of Ontario, British Columbia and Quebec.

The Panel believes a better approach is to compare Alberta's capital spending on a per capita basis, and that is the basis for the comparisons we've used in this report.[10]

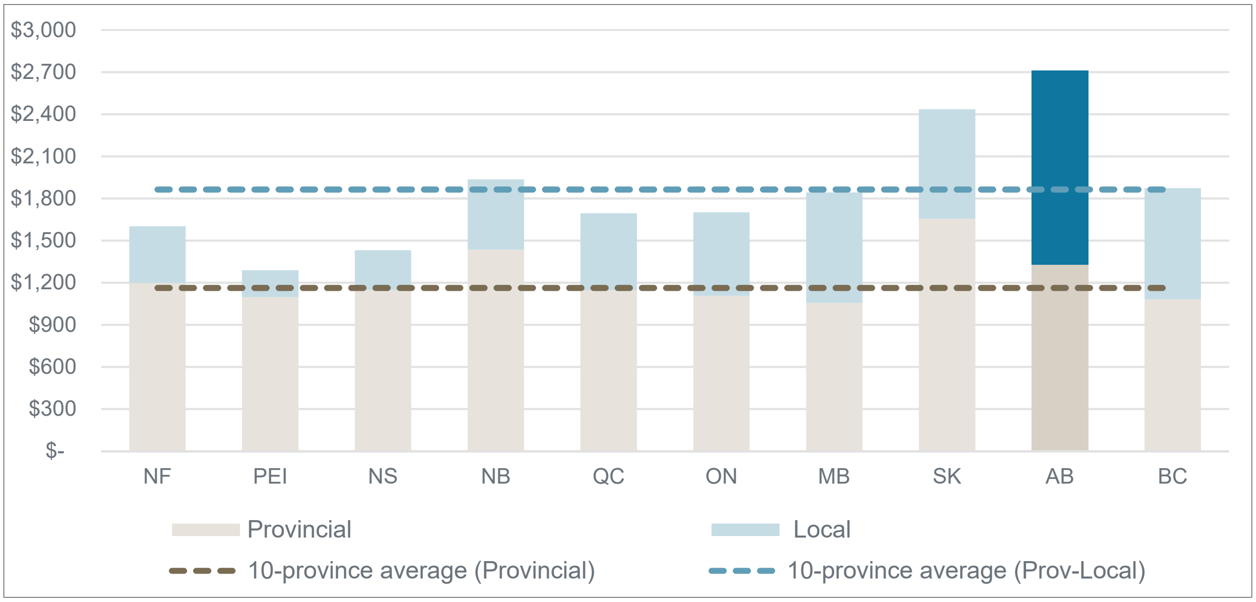
9 Statistics Canada Table 36-10-0096-01 and 36-10-0611-01

10 For contrasting opinions on this approach, see the Dodge Report (2005) and Dr. Melville McMillan (2019).

CAPITAL INVESTMENT

The Alberta government's capital investment per capita has been above average over the past 20 years.

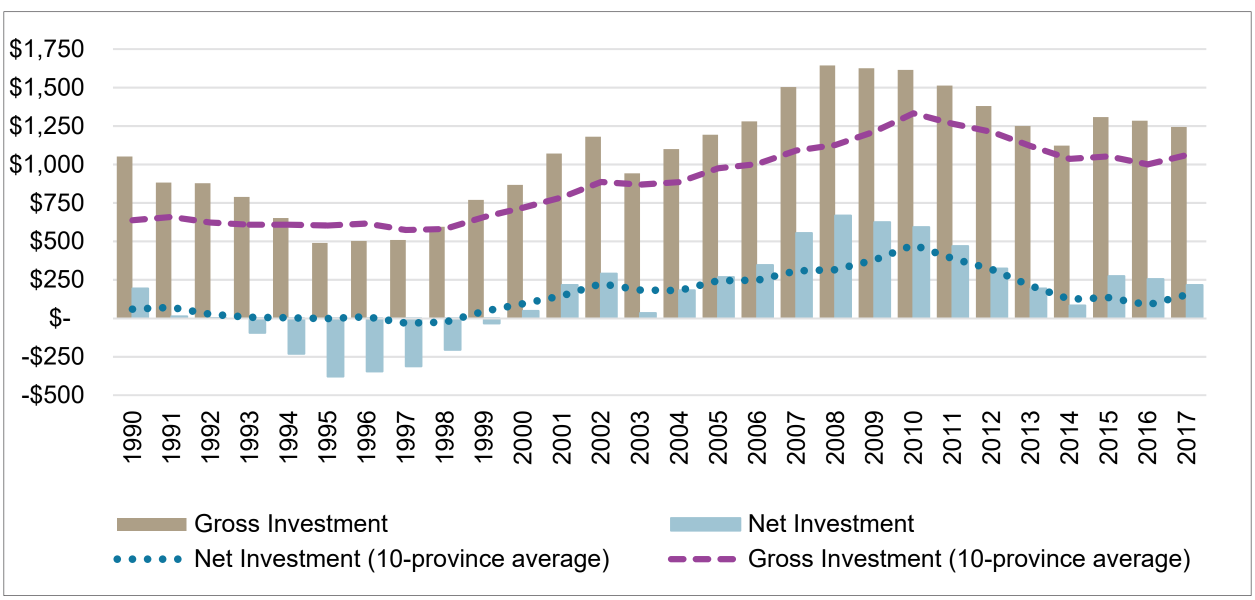
FIGURE 23: ALBERTA SPENDS MORE ON CAPITAL INVESTMENT THAN OTHER PROVINCES ($ PER CAPITA, 2017)



Source: Statistics Canada (Table: 36-10-0096-01 used for capital investment), Calculations from Alberta Treasury Board and Finance.

Spending on capital in Alberta has fluctuated widely since 1990. The erratic capital spending pattern has resulted in a "roller coaster" pattern for the Alberta's stock of public infrastructure. Real net capital stock per capita fell from over $17,500 in 1990 to $15,000 in 2000 before increasing to over $22,500 per capita in 2017.

FIGURE 24: ALBERTA'S SPENDING ON CAPITAL HAS BEEN A ROLLER COASTER



Source: Statistics Canada (table 36-10-0096-01 was used for investment and depreciation).

What are the possible reasons for higher capital spending in Alberta?

Typically, higher spending could be justified on the basis of having older infrastructure in need of upgrading, repairs or replacement. However, Statistics Canada data indicates that the average age of infrastructure in Alberta is generally lower than in the other provinces.

Another common argument is that public spending on infrastructure should be counter-cyclical; governments should spend more during economic downturns in order to support the economy and take advantage of lower infrastructure costs during such periods. For example, between 2015 and 2018, high capital spending was justified as a fiscal stimulus measure to offset the decline in private sector investment which resulted from the collapse in oil prices in the fall of 2014.

In terms of providing a fiscal stimulus, the Panel found that spending on “shovel ready” projects may have provided some fiscal stimulus in the short term. However, much of the growth often cited to justify projects is short-term stimulus from the construction phase rather than providing longer-term productivity dividends.

Moreover, the Panel found that, since 1991, infrastructure spending in Alberta has generally tended not to operate in a counter-cyclical fashion. In fact, as we’ve noted in other parts of this report, when Alberta has high revenues, especially non-renewable resource revenues, spending on both operations and capital goes up. Conversely, when revenues drop, capital spending is cut.

Spending on infrastructure just “because the money is available” or borrowing to pay for capital because of low interest rates will inevitably result in poor public infrastructure choices that provide only minor benefits to Albertans over the medium to long term. And the resulting “boom and bust” cycles reflect a lack of fiscal discipline and contribute to poor infrastructure decisions.

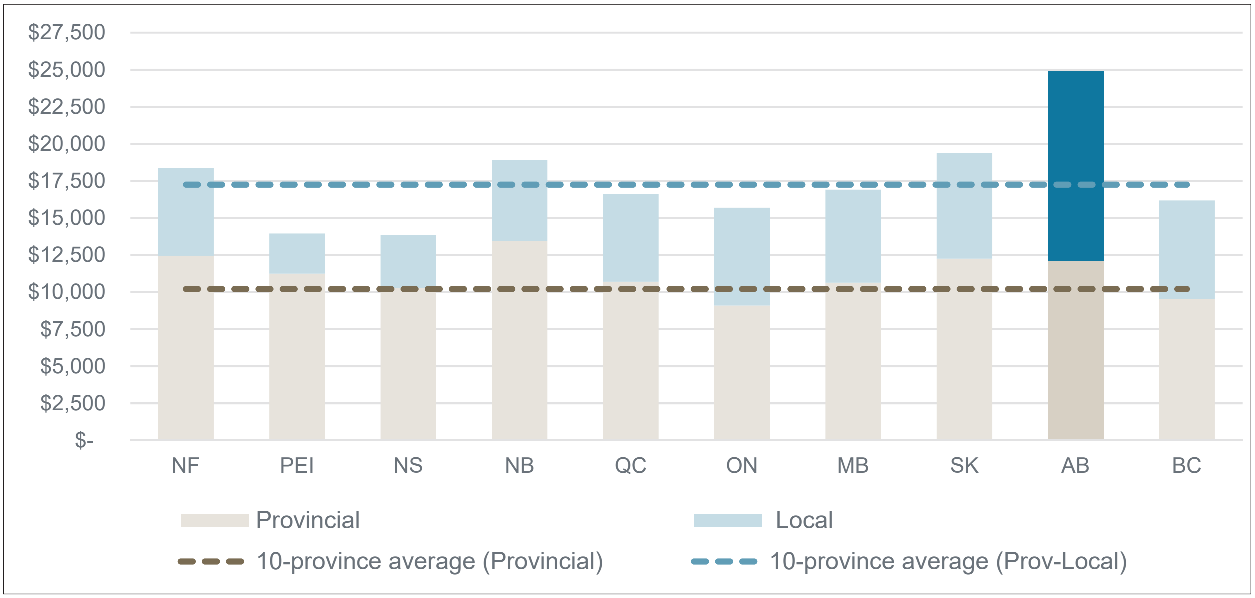
For these reasons, the Panel strongly encourages the Government of Alberta to establish a stable and sustainable level of annual capital spending and put an end to the “boom and bust” cycles.

CAPITAL STOCK

The Panel found that government net capital stock per capita, both provincial and municipal, has been consistently above the 10-province average, especially in the last decade. In 2017, the provincial government’s net capital stock per capita was 19% above the 10-province average and the municipal governments’ stock was 81% above the average, bringing the combined provincial-municipal measure to 44% above the national average.

> The Panel strongly encourages the Government of Alberta to establish a stable and sustainable level of annual capital spending and put an end to the “boom and bust” cycles.

FIGURE 25: ALBERTA'S NET PER CAPITA STOCK SUBSTANTIALLY HIGHER THAN OTHER PROVINCES (2017, $ PER CAPITA)



Source: Statistics Canada (Table: 36-10-0096-01 used for capital stock), Alberta Treasury Board and Finance calculations.

Given that the majority of capital spending by the Government of Alberta is now debt financed, maintaining a high level of public capital stock ultimately means higher taxes or lower spending on public services, or some combination of both.

Recommendation 13: The Government of Alberta should bring its net public capital stock in line with the average per capita capital stock in the other provinces over the next ten years as part of its balanced budget plans and long-term fiscal sustainability.

The Panel found that gradually reducing the province's net capital stock to the national average over the next ten years is a reasonable target. This would imply a reduction of $15.6 billion, or 24%, on a ten-year Capital Plan of $65 billion.

CAPITAL MAINTENANCE AND RENEWAL

Spending on Capital Maintenance and Renewal (CMR) extends a capital asset's useful life and reduces associated operating costs.

In the past, the Government of Alberta tended to favour spending on new capital projects at the expense of maintaining and renewing existing capital. Between 2011/12 and 2014/15, for example, annual CMR was approximately $500 million, well below the historical average of $700 million per year.

Since 2015, however, government has significantly accelerated CMR spending. Over the next four fiscal years, CMR is projected to average over $1 billion per year, well above the historical average.

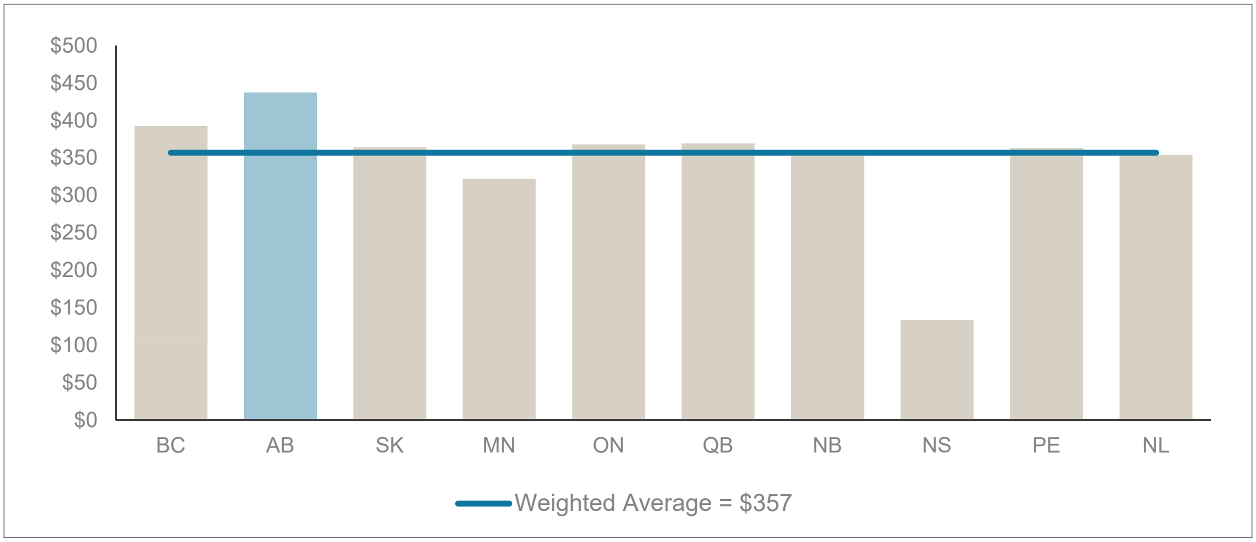
Recommendation 14: The Government of Alberta should stabilize and rationalize the allocation of Capital Maintenance and Renewal (CMR) spending and give priority to CMR in the areas of greatest need in future capital expenditure decisions.

Note: Appendix 4 provides additional comments and direction from the Panel in terms of improving capital planning and reporting.

Municipal Grants

Capital grants to municipalities make up a quarter of all provincial spending on capital. Alberta flows roughly $440 per capita in municipal capital grants which is over 20% higher than the national average.

FIGURE 26: ALBERTA'S CAPITAL GRANTS TO MUNICIPALITIES HIGHER THAN OTHER PROVINCES (2018/19)[11]



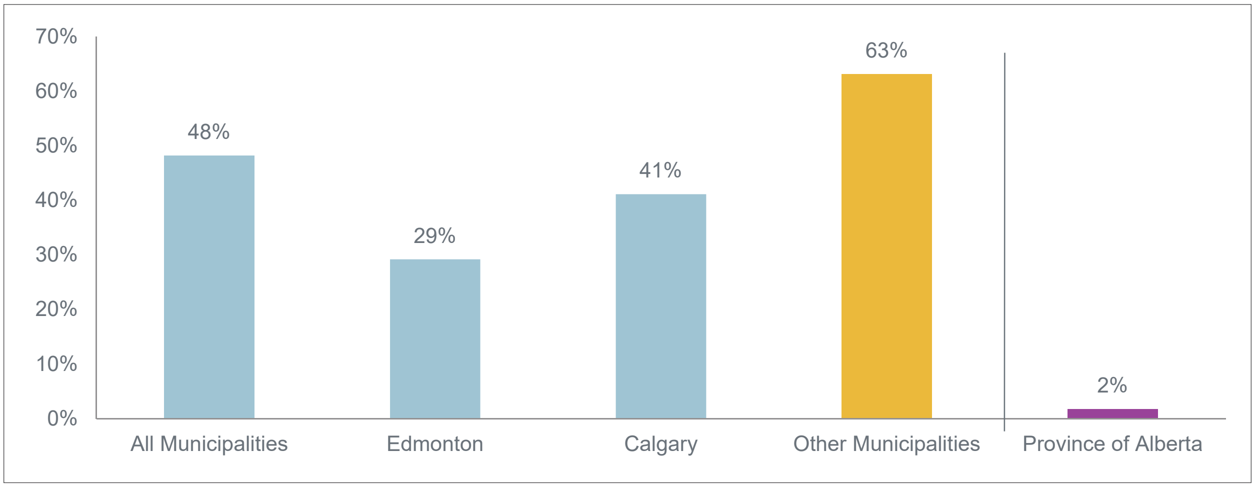
Source: Provincial Territorial (Municipal) Officials Committee, Alberta Treasury Board and Finance and Alberta Municipal Affairs Calculations.

Between 2007/08 and 2017/18, provincial revenues per capita have increased by 2%. Over the same time period, municipalities have experienced significant revenue growth of 48% per person, including 29% per person for Edmonton and 41% per person for Calgary, primarily driven by municipal property tax increases. Spending by municipalities also has increased over that same time period. In 2017/18, Alberta's municipal per capita expenses were the second highest among provinces (behind Ontario where municipalities also deliver a range of social services). Per capita capital spending in Calgary and Edmonton is among the highest for comparable cities across Canada.[12]

[11] **Notes:** Grants include discretionary and capital grants only. Given certain grants are discretionary it is not possible to determine if all of these funds were used for capital investments. BC's per capita amount have been adjusted to account for TransLink. Due to differences in funding systems, grants are not strictly comparable across jurisdictions

[12] Based on capital expenditures as reported in annual reports of Edmonton, Calgary, Toronto, Vancouver, Winnipeg, Ottawa and Montreal, and population figures from Statistics Canada. Due to differences in the services delivered, service delivery mechanisms and accounting standards, capital expenditures are not strictly comparable across provinces.

FIGURE 27: MUNICIPALITIES' REVENUE GROWTH EXCEEDS REVENUE GROWTH FOR THE PROVINCE (2007 TO 2017)



Note: 2007 (2017) refers to a calendar year for municipalities and to the 2007-08 (2017-18) fiscal year for the Province

Source: Alberta Municipal Affairs Population list, Municipal Financial & Statistical Data, Alberta's budget documents, Statistics Canada

While it's undeniable that municipalities face spending pressures, particularly in terms of transportation and facilities for their residents, at the end of the day, there is only one taxpayer, and the funding has to come out of one pocket or the other. The province can't afford to maintain existing levels of municipal capital support – levels that far exceed those of other provinces – and drive up provincial debt, while municipalities have tax room and yet rely on increasing provincial grants.

THE LEGISLATIVE FRAMEWORK

For the cities of Calgary and Edmonton, the new City Charters Fiscal Framework (CCFF) will replace the Municipal Sustainability Initiative (MSI) and Basic Municipal Transportation Grant (BMTG) Programs in 2022/23.

Starting in 2022/23, capital funding will be based on provincial revenues and fuel sales. The funding arrangement for other municipalities will need to be determined by the provincial government.

The Panel examined the new City Charter along with the complex allocation formulas included in the current MSI and BMTG grants and found that they do not allocate municipal capital grants in line with provincial goals and priorities plus they result in anomalies such as providing more funding to some municipalities with greater fiscal capacity.

Recommendation 15: The Government of Alberta should examine its legislative framework for capital funding to municipalities with the goals of:

- aligning funding to provincial goals and priorities and fiscal capacity, while further considering funding formulas that require municipalities to share more in the costs of major projects;
- adjusting its allocation formula for grants to municipalities in line with the policy of bringing Alberta's provincial and municipal per capita capital stock in line with the comparator provinces;
- establishing accountability mechanisms and performance measures to monitor the delivery of municipal programs and services and value for money spent, so citizens have the ability to constructively evaluate their local government and their use of tax dollars; and
- making better use of federal infrastructure funding, though the Investing in Canada Infrastructure Program (ICIP) as a means of more effectively managing the costs of the Capital Plan.

Management of Capital Assets

The Panel examined policies related to the inventory of provincially-owned assets and the disposal of surplus assets in government and the broader public sector.

Alberta Infrastructure typically sells between $3 million and $30 million of real estate per year. The sale of surplus properties provides both revenue to the province and cost savings from operations and maintenance. The Government of Alberta currently has 78 surplus properties in its inventory, with an appraised value of about $133 million. This does not include surplus properties held by the broader public sector (e.g. health, education and advanced education).

- **Recommendation 16:** The Government of Alberta should redefine its inventory of land assets to include the broader public sector and create a definitive policy to clearly define surplus assets and a process for disposal of surplus assets. Providing an increased ability to core government and the broader public sector to dispose of surplus assets can act as an offset to the capital cost of new investments or provide revenue for the province.

Procurement

Over the past five years, the provincial government has spent an average of $4.8 billion a year on purchasing goods and services and contracts and an additional $2 billion a year in Alberta Health Services.

Concerns have been expressed (most recently by the Alberta Council of Technologies) that the Alberta government's current procurement processes are complex, lack transparency and include bias and unfairness in awarding contracts.

The Panel believes a well-managed procurement process can address these concerns, streamline processes, reduce prices and costs, and identify better sources of supply. It also helps control spending and contributes to the province's brand as an excellent place to do business.

The Panel also encourages the government to explore opportunities for using innovative partnerships and alternative financing models for all types of infrastructure. This could include partnerships with the private sector or other not-for-profit organizations. Alberta has successfully implemented P3 (public-private partnership) models in the past and should explore the positive results of this and other models being used successfully in other jurisdictions.

- **Recommendation 17:** The Government of Alberta should form a procurement council which would be a joint effort of government and business/industry to examine innovation and efficiency in the government's procurement methods. The intent would be to make it easier to do business with government, enable better access to procurement opportunities for small, medium and large Alberta businesses, and enhance the procurement capacity with government.

- **Recommendation 18:** The government should refresh its policy on major procurements to look at how to achieve the best value for money for taxpayers. This should include exploring innovative partnerships, examining emerging innovations in other provinces, and reviewing success factors and programs that have worked well in the past.

Undertaking comprehensive program reviews

The previous sections focused on identifying potential areas for reducing spending and recommended specific steps that could be taken. At the same time, the Panel believes it's time for government to take a deeper look at all the various programs and services it provides. The financial challenge the government faces can provide a positive impetus to assess priorities, focus resources and think more innovatively about the provision of public services.

While governments typically have internal checks and balances to ensure decisions about new budget expenditures are made in a systematic manner through the Treasury Board, Cabinet and a variety of budget development processes, in Canada and Alberta, more comprehensive reviews of existing expenditures have tended to be done on a more ad-hoc basis and with limited scope.

Generally, spending reviews can be described as a process to develop and adopt savings measures. On the other hand, program reviews can be described as a more systematic review of the structures and methods used by governments to deliver on defined mandates and budgets. Spending reviews may have success in finding efficiencies but cannot achieve comprehensive change unless departments are mandated to look for fundamental change.

The Panel's research into review exercises in Canada and abroad identified best practices and key lessons that could be applied within an Alberta context. That includes:

- Political leadership is key, as is accountability for the senior public service
- Successful implementation requires monitoring
- A systematic rather than a piecemeal approach works best
- Create a window for stakeholder and public engagement to build support for reforms
- Assign responsibility for the identification of program and service realignment options primarily to the public service, rather than outsourcing this role entirely or primarily to the private sector.
- Incremental changes create incremental savings; substantial/sustainable savings require transformation.

It is perhaps more important in a period of spending cuts and restraint to assure taxpayers that their dollars are being appropriately allocated to the most critical and current needs, in the most effective and efficient way possible.

Fundamental change, not incremental change, is needed to transform the Alberta government into one which is more responsive to Albertans and meets the challenges and opportunities of the future. The Panel's view is that the Alberta public service currently lacks a reform culture.

There are a number of things that can be done to increase the odds of a successful outcome.

First, the effort needs strong political leadership and the support of Cabinet.

Second, it needs to be grounded in principles that include a commitment to improving outcomes for Albertans, protecting services for the most vulnerable citizens except services that are not achieving intended results, ensuring the best possible use of government resources, respecting the interests of taxpayers, and careful consideration of intergenerational issues.

Third, any approach should be cross-cutting in that some major initiatives should apply to all ministries such as: efforts to improve shared services; reviews of all agencies, boards and commissions; examinations of staffing levels and management ratios; governance and administrative structures of commercial and other crown corporations. It may also provide a project structure for the examination of other Panel recommendations.

Fourth, government should have a mix of inside and outside perspectives by engaging Albertans and the Alberta public service in examining innovation and efficiency. The culture of the Alberta public service needs to have the right incentives and a high level of openness to new ideas as well as proactive engagement for new policy and program proposals.

Fifth, there is an overarching need to view this type of program review not simply as a one-time cost-saving measure, but as a service innovation and improvement exercise. Other jurisdictions will have examples of innovation Alberta can learn from. With overarching challenges such as those identified in the Panel's report, there is urgency to re-tool the public service to be focussed on innovation and a citizen-centric approach to service delivery and a commitment to linking funds allocated to measurable results. Because of the significance of reviews like this, the government should consider this approach on an ongoing basis and perhaps implement a periodic requirement for program reviews, particularly if government sees a repeating cycle of escalating costs and limited outcomes.

Recommendation 19: The Province needs to undertake a comprehensive approach to a program review that includes all departments; agencies, boards and commissions; and the wider public sector. This should provide a principled and thoughtful cross-government approach to looking at the effectiveness and efficiency of government service delivery in the public interest.

Fundamental change, not incremental change, is needed to transform the Alberta government into one which is more responsive to Albertans and meets the challenges and opportunities of the future. The Panel's view is that the Alberta public service currently lacks a reform culture.

Enhancing Alberta's competitiveness

While much of the focus of plans to balance Alberta's budget must, of necessity, be focused on the spending side, the province also needs to take a deliberate and proactive approach to increasing revenues through growth in Alberta's economy. Aside from government spending, that growth will only be achieved by Alberta being an attractive place to invest by investors inside and outside of Alberta. The Panel looked at various indicators of Alberta's competitiveness relative to other jurisdictions and also at approaches and ideas from other provinces, states and countries that have been proven to attract investment and spur economic growth.

What we learned

Alberta used to be known as the most entrepreneurial place in Canada. We used to believe that if there was a good place to invest, to start and grow a business, it was Alberta. Through its research and conversations, the Panel has learned that Alberta no longer has that reputation. Instead we're viewed as overly regulated, with contradictory regulations, lengthy processes and uncertain timelines – all things that make it difficult to attract and keep investment.

Although the data is somewhat dated, a 2016/17 report compared Alberta's competitiveness on eight benchmarks: sustained prosperity, productivity, innovation, taxes and fiscal policy, regulation, infrastructure and transportation, human capital and education, and access to capital markets. While there are a number of areas where Alberta was rated excellent, we were rated poor in key areas such as growth in non-resource exports per capita, total research and development (R&D) expenditures, graduate student rate and SME (small- and medium-sized enterprise) authorization of requested credit. Alberta received weak ratings for factors such as business investment in R&D, time required to start a new business, cost of production to start a new business, bachelor degree completion rate, venture capital investment and the number of venture capital deals. (See Appendix 3 for details)

In terms of investment, Alberta's investment growth lags the rest of Canada and Alberta's oil and gas recovery has not kept pace with the rest of the world.

FIGURE 28: ALBERTA'S INVESTMENT GROWTH LAGS THE REST OF CANADA

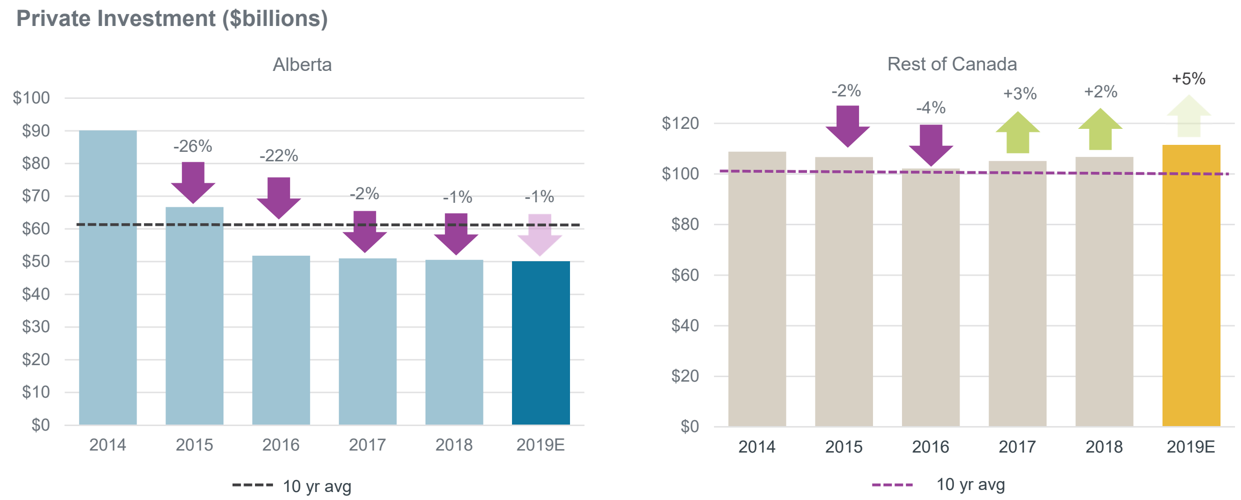
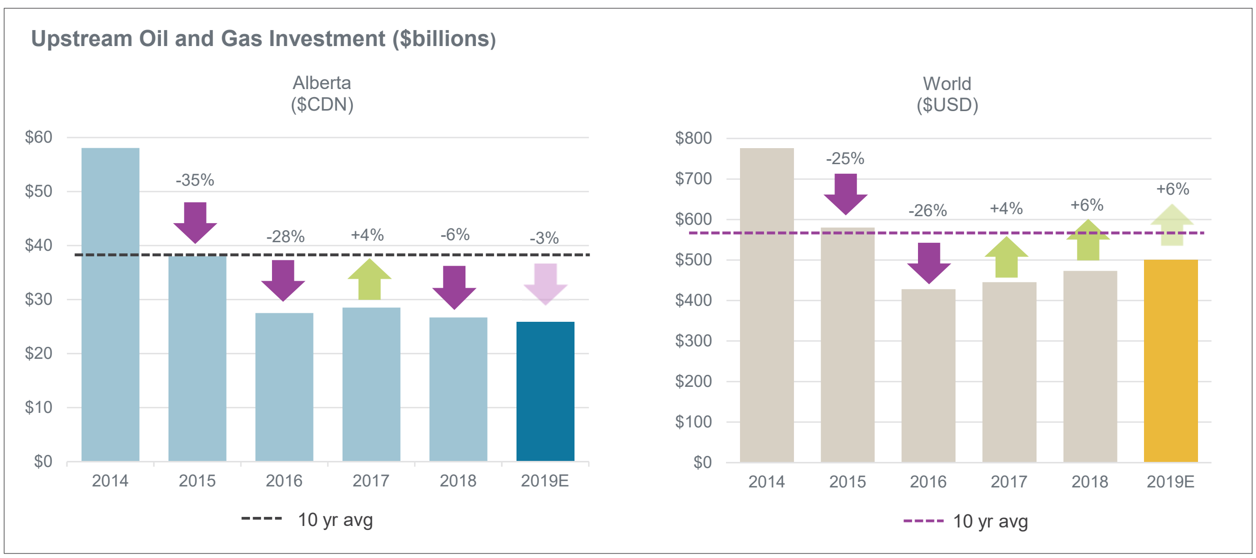


FIGURE 29: ALBERTA'S OIL AND GAS RECOVERY HAS NOT KEPT PACE WITH THE REST OF THE WORLD



These findings are echoed by anecdotal comments from those in the business sector who point to the need to streamline and reduce the complexity of Alberta's regulations and, just as significant, to improve the processes that go along with those regulations. We heard that one of the most critical concerns from business and industry was the uncertainty caused by lengthy timelines and processes that are changed or delayed during the approval process.

Alberta certainly is not alone in terms of a decline in competitiveness. Several reports indicate that Canada is viewed as less globally competitive than it was in the past. The 2019 edition of the IMD World Competitiveness Ranking places Canada 13th out of 63 countries, the worst performance in the survey's history, which goes back to 1997. Canada's challenges include: an aging population; limited ability to retain homegrown talent; limited attention to later career training and development; and lagging growth in high-value innovation and technology compared with other jurisdictions.[13]

[13] Public Policy Forum. "A New North Star: Canada's Competitiveness in an Intangibles Economy". April 2019.

One positive factor is the recent step to reduce Alberta's corporate tax rate from 12% to 11% this year and to 8% by 2022 (combined with keeping the small business tax rate at 2%). This will certainly help improve Alberta's competitiveness. At 8%, Alberta will have the lowest corporate tax rate in Canada and among the lowest in North America. Corporate tax rates are an important factor in business decisions about where to locate and grow businesses, and Alberta competes not only with other provinces but with key states in the US. In terms of combined federal and state/provincial corporate income tax rates from lowest to highest, Alberta will move from a current rank of 36th in comparison with all provinces and US states in 2018 to a rank of 7th by 2022.

While that's good news, clearly there is still more work to be done.

> Alberta used to be known as the most entrepreneurial place in Canada. We used to believe that if there was a good place to invest, to start and grow a business, it was Alberta. Through its research and conversations, the Panel has learned that Alberta no longer has that reputation.

What are other jurisdictions doing to improve competitiveness?

What makes a province attractive to expand a business that is already here or to investors looking for the best place to do business?

The Panel engaged Myers Norris Penney (MNP) to review strategies used in other jurisdictions not only in Canada but in selected states and countries. Their report identified the following as best practices for attracting business and investment:

- Existence of a clear and well-supported investment attraction strategy. That includes a long-term vision and direction for business attraction efforts, target markets (e.g. key industries) for investment and the intended approach to reach and secure investors. "To instill confidence in investors, the strategy should be supported at all levels of government in the jurisdiction, as well as by senior leadership from the local business community." [14]

Example: In 2012, the Governor of the State of Colorado launched the Making Colorado Initiative which involved development of a brand for the state that would help boost trade, tourism and economic development. The main purpose was to "unify Colorado – making its government more efficient while attracting talent and businesses and promoting tourism." To develop the brand for Colorado, the government recruited a Chief Marketing Officer and gathered input from a wide range of stakeholders including youth ambassadors from across the state and hundreds of thousands of residents to build awareness and support for the Initiative.

[14] MNP. "Research and Analysis Support for the Blue Ribbon Panel on Alberta's Finances". July 2019.

- Provision of investor-centric service offerings. Service-oriented "soft-landing" efforts can help businesses establish or expand operations through positive interactions and access to professional and social networks. A variety of steps can also be taken to ensure investors can start operations as quickly and seamlessly as possible and then further grow their operations. Examples include facilitating a soft landing for investors through a one-stop shop experience, developing "after care" approaches for newly-formed companies, and developing industry clusters.

Example: In Utah, the Governor's Office of Economic Development adopted a one-stop shop approach to working with investors as well as businesses wanting to become established in the State. Its one-stop shop approach is delivered through the collaboration of a surprisingly wide variety of stakeholder groups ranging from educational institutions, community players, environmental groups, and Indigenous tribal leaders to multiple levels of government and economic development agencies.

- Regulatory efficiency, transparency and predictability. These approaches balance the need for regulatory and compliance procedures with the cost, time and risk to investors. They also provide transparency and predictability.

Example: In 2011, the Saskatchewan Ministry of Environment (MOE) moved away from a "command and control" compliance structure towards a results-based regulatory framework, the Saskatchewan Environmental Code. In this new framework, the onus is on the applicant to remain in compliance with environmental protection standards. According to the MOE, this approach eliminates ineffective processes, especially for routine, well-understood and low-risk activities and allows governments to focus on activities deemed high-risk to the environment and public safety. The Saskatchewan Environmental Code aimed to consolidate and simplify environmental protection objectives while promoting efficiency and a uniform application of policies.

- Enhancement of the local labour force. Having access to skilled labour is a key factor in attracting new investments and growing businesses. This involves collaboration between government, industry and academic institutions.

Example: In British Columbia, attracting more skilled talent to the province was a key part of the government's comprehensive 10-year B.C. Tech Strategy. The BC government provided a modest amount of funding for a partnership with major technology industry partners to study labour market needs in the technology sector. The program helps employers and educators understand labour market changes and ensure that education and training programs in BC are aligned with industry's needs and priorities.

- Measurement of investment attraction. Measurement is important because it provides accountability and guides future decisions. This should include setting clear targets, systematic tracking and consistent use of metrics such as return on investment or economic impact.

An Alberta approach

Given what we've learned from other jurisdictions, what approach should Alberta take to improve its competitiveness and attract new investment and businesses to Alberta?

Convention tells us there is a typical set of financial tools used by governments: a competitive tax regime, incentives for innovation, and grants that reward targeted investment in growth sectors. These are important instruments, but they are ones that can be replicated by any province, state or country.

In an increasingly competitive world of investment, coupled with the ever-increasing complexity of markets and distribution for our products, financial tools are important but not sufficient to attract the high-calibre investment Alberta needs to grow and build its economy.

Alberta needs to send a clear signal to the world that it aspires to be a powerful engine of ingenuity, engagement and accountability, a place where people and businesses succeed. Alberta needs to put out the welcome mat to ethical, responsible wealth creators who will respect our province and who want to deploy Alberta's well-educated and entrepreneurial people to drive their success.

With a compelling vision in place and a clear signal that Alberta is open to business and investment, the government needs to turn to the public service and challenge them to work with industry partners to make that vision a reality. This is a significant challenge to a public service that may not always have had the direction, leadership or mandate to substantially change how the work of government gets done.

Case in point: we know that investors and business leaders, both big and small, place a value on efficient, predictable and time sensitive dealings with government and that far exceeds the value of financial incentives. Uncoordinated processes, layered regulations, undisciplined timelines and any number of inefficient and unwelcoming government experiences can undermine, to the point of ineffectiveness, even the most generous and luring financial incentives. The reverse, however, having highly efficient, predictable and time sensitive dealings with government (not to be confused with easy, lenient or cursory), can multiply the value of financial incentives and perhaps even reduce reliance on them.

With that context in mind, the Panel recommends that the following steps be taken.

Recommendation 20: The government should work with industry and Albertans to set a compelling vision for Alberta's economic future combined with a deliberate strategy to foster an economy that creates jobs and wealth while rebuilding Alberta's reputation as the best and most responsible place to do business. The strategy should include specific steps to:

- develop, transform and empower the public service so it has the culture and capability to deliver on the economic vision and strategy established for the province.
- make competitiveness and attraction a top priority and send an important signal to industry and investors that Alberta is putting out a "welcome mat" and tackling all the issues facing business, not just taxes.
- work with industry and post-secondary institutions to develop a long-term plan to ensure Alberta has one of the best and most highly skilled workforces in the world.
- set clear targets, measure results and report regularly on progress to improve competitiveness.

Articulating a clear vision then putting a deliberate strategy in place is key to Alberta's success going forward and builds on successful models used in other jurisdictions the Panel reviewed.

This is critical to differentiating Alberta as a place to invest and expand businesses. Every state and province the Panel looked at has some type of attraction strategy in play. If we look closely at factors we can control and that investment truly cares about, we can begin differentiating Alberta as a place that invites success. Of necessity, this includes an intensive review of Alberta's regulatory framework and the processes that go along with executing on those regulations. The Panel was particularly impressed with concepts like one-stop shops for potential investors or the Saskatchewan approach to environmental reviews. This approach creates the fast-track equivalent of a "Nexus Pass" for companies that have a proven track record, it rewards companies that consistently comply with regulatory requirements, and it focusses regulators' attention on the highest risk projects.

Alberta's public service has a critical role to play in executing on the vision and strategy. The public service can be and has to be the catalyst to deliver a differentiated Alberta experience and re-imagine work. They need to be challenged to develop ideas and approaches that are consistent with the vision and mission and common across all of government. Rather than considering all ministries and all agencies, boards and commissions the same, they should be challenged to up their game, focus on their unique strengths and be held accountable to deliver better results. Crown corporations like ATB Financial and AIMCo can and should play a key role in Alberta's competitiveness strategy and should be treated as commercial enterprises rather than traditional government agencies.

Having the right leadership is critical to engage and deliver the government's economic mission and vision. And they need to have a mandate to engage with industry and a wide range of Albertans – to learn from the best, get the best ideas and deliver results.

The Panel also understands that having a highly skilled workforce is critical to attracting industry and investment. Alberta's track record shows we are not competitive in developing the workforce Alberta will need in the future, especially with the growing emphasis on technology and innovation. New industries won't invest and locate in Alberta if we don't have the trained and highly skilled people they need to start and grow their business.

Once Alberta has built an investment attraction and economic development strategy it should develop a long-term labour market forecast to ensure the province has the skilled workforce available for the new jobs that are expected to be generated. This forecast should then influence coordinated investment and policy decisions across government, namely working with post-secondary institutions, technical and trade institutions and the K-12 system to ensure Alberta is well positioned for economic prosperity.

As noted in the Panel's comments on post-secondary education, we need to challenge all post-secondary institutions to engage with industry, do things differently and deliver the programs industry and businesses – and Albertans – need.

Finally, government should consult with stakeholders such as industry members, economic development organizations and research organizations on what the appropriate measures of competitiveness are, measure them often, publish them, analyze results, and act on areas that can be improved. Regular reports should be shared publicly, be the catalyst for ongoing consultations with industry stakeholders and economic development organizations, and provide the basis for potential policy changes or areas for prioritization.

> Alberta needs to send a clear signal to the world that it aspires to be a powerful engine of ingenuity, engagement and accountability, a place where people and businesses succeed.

Once the budget is balanced, how do we keep it that way?

After the difficult challenges of balancing the budget by 2022/23, how does Alberta keep it that way and avoid slipping back into the boom and bust cycles we've experienced in the past?

Maintaining responsible balanced budgets is critical to Alberta's future. It's vital to maintaining Alberta's competitiveness and the well-being of today's and future generations of Albertans. A new fiscal framework is needed to encourage fiscal sustainability, manage revenue volatility, and provide stability to fiscal planning. This will enable the province to maintain competitive tax rates, build the necessary infrastructure, and provide the health, education and social services programs that are vital elements to the province's economic and social prosperity.

Maintaining Balanced Budgets after 2022/23

The Panel considered a number of different approaches for maintaining long-term fiscal discipline and concludes that the government should adopt and legislate a set of fiscal rules consistent with the new fiscal framework.

This is certainly not a new idea. Since 1992, the Government of Alberta has legislated seven different sets of fiscal rules. Frequent changes in fiscal rules in Alberta when they start to constrain governments have led some observers to question their usefulness.

Given that track record, it's not surprising that there is some healthy skepticism about how effective fiscal rules are at constraining the tendency of governments to eliminate or change the very rules they put in place when faced with difficult fiscal choices. At the same time, there are several studies which have shown that fiscal rules can work.[15]

The problem is often not with the rules themselves, but with the absence of political will to adhere to fiscal rules during difficult financial times. While the Panel understands there are good reasons to be skeptical about the effectiveness of fiscal rules, the Panel believes that legislating fiscal rules can help to ensure the province's long-term sustainability and avoid a return to structural deficits.

Introducing fiscal rules

The Panel examined a variety of fiscal rules that Canadian provinces and international jurisdictions have adopted over the past 25 years. Given that experience, the Panel thinks that any set of fiscal rules should have the following characteristics:

- The fiscal rule should apply only to fiscal variables that the government can control.
- When the fiscal rule is binding, the government should have reasonable options for addressing the fiscal situation.
- The fiscal rule should be simple, not readily subject to manipulation, and apply to broad budget components, rather than have a narrow application.

15 For further reference, see Tapp (2013), Farvaque, Foucault and Jonas (2015), Portes and Wren-Lewis (2014) and Parliamentary Budget Office (2014)

Based on Alberta's and other jurisdictions' experience, the Panel examined the pros and cons of three types of fiscal rules: rules that require balanced budgets and forbid deficits; rules that require saving a certain amount of non-renewable resource revenues and limit the amount of those revenues that can be spent; and rules that set limits on annual public expenditures. We found that:

- Balanced budget rules are good in theory, but in practice they don't take into account legitimate reasons why governments might need to run short-term deficits to deal with unanticipated circumstances. They also don't actually prohibit running deficits – they just prevent governments from budgeting for deficits.
- Alberta has had rules around saving a portion of resource revenues (putting a fixed percentage of resource revenues in the Heritage Fund instead of spending them) but those rules were relaxed and eventually eliminated entirely. The reality is that resource revenues account for about 11% of Alberta's annual revenues – they still are a significant source of funding. In addition to the ongoing temptation to spend those revenues when the government has them, there is nothing to prevent a government from funding programs through borrowing instead of using resource revenues. Saving resource revenues should be a long-term goal of the province, but in the short term, the Panel believes that a portion of these revenues is better used to help pay down Alberta's debt.
- Putting limits on total program spending (both operating and capital) appears to be the best approach, especially given Alberta's history of having how much it spends driven by the availability of revenues.

Putting limits on total program spending (both operating and capital) appears to be the best approach, especially given Alberta's history of having how much it spends driven by the availability of revenues.

How would limits on program spending work?

There are a number of different ways for setting appropriate limits on spending.

One option would be to limit the annual growth of total program expenditures to the combined annual increase in population and the rate of inflation. While this sounds simple enough, no provincial government has achieved this target over the last 10 years because of pressures from increasing costs of providing services that exceed the rate of inflation, population aging, and rising expectations about the quality of public services people expect as their own household incomes grow.

Another metric for limiting the annual increase in program spending is to tie it to increases in household income in Alberta.[16]

16 Dr. Melville McMillan, a fellow of the Institute of Public Economics at the University of Alberta, has argued that when examining spending policies there is a need to consider population growth, price changes, and real income changes.

Household incomes are a useful comparator for three main reasons. First, household income is a major determinant of Albertans' demand for goods and services, including those provided by governments. The amount of money they have in their household determines how much they can afford and are willing to spend. Second, household income is a measure of fiscal capacity; it reflects the ability of a province or country to finance public services. Finally, because wages and benefits are a major component of the costs of public services, and governments must be competitive in the wages and salaries they provide, average incomes reflect a significant cost component of government budgets.

Recommendation 21: The Panel recommends that the provincial government adopt a fiscal rule that limits the annual increase in total program spending to the projected rate of increase in total household incomes in Alberta.

This type of fiscal rule satisfies the criteria for fiscal rules noted earlier. It is based on a fiscal variable that the government can control—its program expenditures. It is a limitation on what the government can spend. The government always has the option of spending less than the permitted increase. It is a relatively simple rule that applies to a key fiscal variable, total program expenditures. And it would prevent Alberta from repeating its past history of ratcheting up spending when resource revenues are high. It also says to taxpayers that when their household incomes go up, it's reasonable and responsible for government spending to increase at about the same rate. If this rule had been adopted in 1998/99, program expenses would be nearly $18 billion lower than they are today.

Limiting In-Year Spending Increases and Budgeting for Emergencies and Disasters

Once a budget is set, rules need to be in place to ensure that only essential increases in spending are allowed within the fiscal year. The current Fiscal Planning and Transparency Act (FPTA) limits in-year operating spending increases to 1%t of total budgeted operating expense for a fiscal year. There are no such limitations in place to control in-year capital spending increases.

The Panel found that the 1% limit on in-year operating expenses contains various loopholes and exemptions such as funding for emergencies and disasters or commitments made in connection with collective bargaining that result in a need for government to increase its budget during the course of a fiscal year. This weakens fiscal discipline within government, as ministries are not required to stick with budget targets.

A recently released paper found that Alberta had the highest average difference between actual and budgeted expense, 3.7%, and the highest average percentage difference between actual and budgeted revenues, 7.9%, among the provinces. They also found that when revenues are higher than forecast in the budget, the government has increased spending within that same fiscal year.[17]

Once a budget is set, rules need to be in place to ensure that only essential increases in spending are allowed within the fiscal year.

[17] Robson, W. and F. Omran. 2019. "Big Spenders: Canada's Senior Governments Have a Bad Budget Habit" Commentary, No. 548 C.D. Howe Institute, Toronto. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_548.pdf

A special category of funding has been set up for emergencies and disaster assistance programs in order to provide some in-year flexibility to address agriculture assistance, flooding, wildfires, and insect infestations. These expenditures have become one of the largest components of in-year spending increases and are not subject to the 1% limit on in-year operating expense increases.

Over the past five years, spending on emergencies and disaster assistance has averaged over $600 million per year, including a high of $1.2 billion in 2016/17 and a low of $212 million in 2014/15, but the amount budgeted for emergencies and disaster assistance has averaged about $375 million.

Recommendation 22: The Panel recommends that the 1% rule on limits to in-year operating spending increases be repealed and replaced with a contingency amount voted by the legislature and allocated to the Treasury Board and Finance Ministry. A transfer of funds from the contingency to a ministry would only be allowed for a public emergency or disaster or for an unanticipated priority that is clearly in the public interest and cannot be delayed to the next budget.

The Panel suggests that, given historical numbers, a contingency fund should be in the order of $500 - $750 million, with $400 - $500 earmarked for emergencies and disasters. Any transfer from the contingency to a ministry would require an Order in Council approved by Cabinet. Since Orders in Council are public documents, this would also require governments to explain the reasons for the increased spending.

Providing a Revenue Forecast Allowance

Given our reliance on volatile sources of revenue, the Panel would normally conclude that some sort of buffer needs to be built in to revenue forecasts right away, not only to increase their reliability but, most importantly, to ensure that uncertain revenue forecasts do not drive spending targets. However, given the significant constraints that will be required on spending over the next four years, we recommend that a buffer be adopted on a go-forward basis after the budget is balanced.

The Panel examined a number of mechanisms that could be used to build in a buffer that takes into account economic and revenue forecasting risk and believes that a Revenue Forecast Allowance, set as percentage of Alberta's total revenues would be most appropriate.

The Revenue Forecast Allowance should act solely as a buffer or cushion to minimize revenue forecast risk and not be used to fund in-year spending initiatives. If the Revenue Forecast Allowance is not fully required at the end of the fiscal year, it should then be applied towards reducing Alberta's net financial debt.

Recommendation 23: After the budget is balanced, the government should build a formal buffer into its revenue forecasts through the use of a Revenue Forecast Allowance, initially set at 0.75% of revenue then increasing gradually to 1.25% over a three-year period.

Paying down Alberta's debt

The Panel was asked to provide advice on annual allocations towards retirement of the province's accumulated debt once the budget is balanced. As noted earlier in this report, under a Balanced Budget Scenario, net financial debt will increase to $51.4 billion, and debt servicing costs will increase to $3.2 billion, the fifth largest expense of government. Since 2016/17, the government has been borrowing to cover both operating expenses and capital expenditures.

The Panel examined some of the major the issues related to using debt to finance operating and capital spending. Most agree that debt should not be used to fund ongoing operating expenses – running deficits because the government is spending more than it can afford simply adds to a growing debt. On the other hand, there is debate about whether that same logic should apply to capital spending. As noted in the section on capital spending, the Panel believes that the government should put in place a rigorous long-term capital plan that provides annual spending amounts at predictable levels. With this type of plan in place, capital spending should be planned for and relatively constant from year-to-year. That would allow capital projects to be financed out of current revenues rather than incurring more debt and passing on the financial burden to future generations. For that reason, the Panel believes that both operating and capital spending should be paid for out of current revenues, not financed over time through debt.[18]

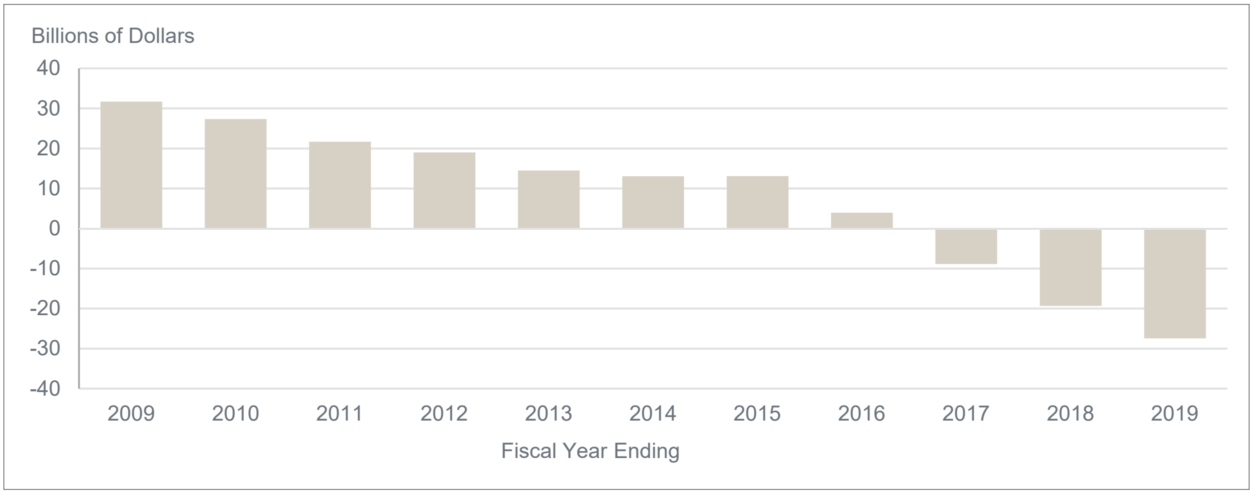
There are a number of different measures that could be used to describe Alberta's debt position, but the Panel focused on net financial debt (the difference between the province's assets and its liabilities) as the most appropriate measure for the province. Net debt not only is the most widely recognized measure of the debt burden, but also focusing on eliminating net debt would allow the province to use budget surpluses to create a fiscal stabilization fund or make contributions to the Heritage Fund – both of these approaches would also reduce Alberta's net debt.

Looking at net debt, this is where we stand today.

The Government of Alberta has gone from having $31.7 billion in net financial assets at the end of the 2008-09 fiscal year to a net debt of $27.5 billion at the end of the 2018-19 fiscal year. In the most recent fiscal year, 2018/19, the province's net debt increased by $8.1 billion. Over the entire 10-year period, the financial asset position of the Government of Alberta declined by $59.2 billion. Fifty -five percent of this decline is due to borrowing for capital projects, 43% is from borrowing to fund operating expenditures and interest payments on debt, and 2% is from other financial transactions.

[18] For more information on this topic, see Mintz and Smart (2006), Dahlby and Smart (2015) and McMillan (2019).

FIGURE 30: ALBERTA'S FINANCES DROPPED FROM NET ASSETS TO NET DEBT



Source: Alberta Treasury Board and Finance

Recommendation 24: Once the budget is balanced in 2022/23, the Government of Alberta should introduce a legislated plan to eliminate Alberta's net debt by 2043/44.

A legislated plan is essential, otherwise the goal of eliminating Alberta's net debt is unlikely to be achieved.

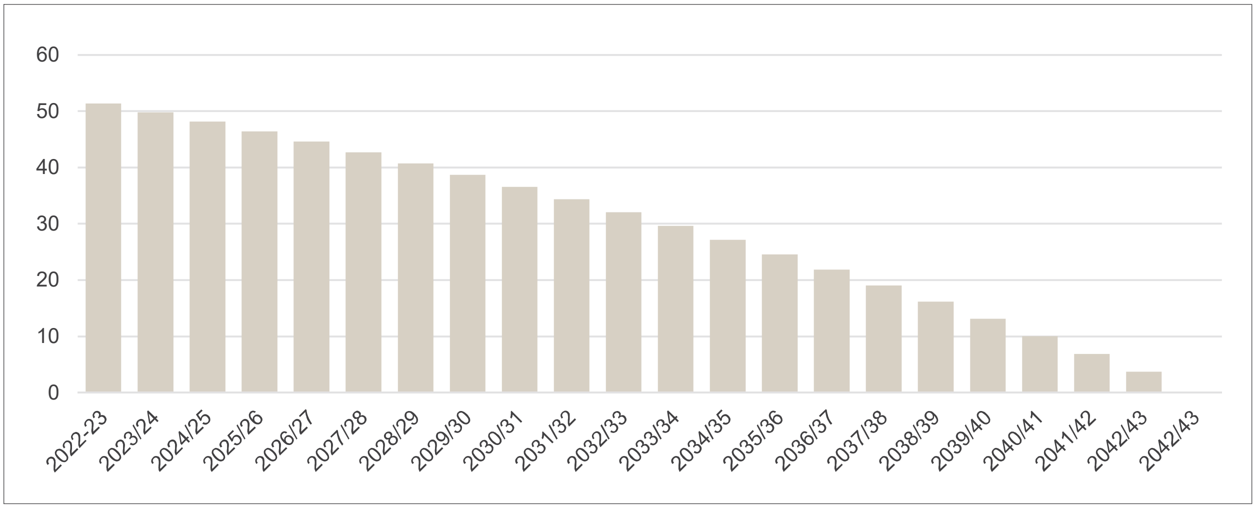
The Panel suggests that annual debt reduction payments should be based on a set percentage of the province's total revenues rather than a pre-determined, fixed dollar amount.

In terms of setting a target date for eliminating the net debt, given the projected size of Alberta's net financial debt in 2022/23 ($50.9 billion), the Panel believes that a reasonable target date for eliminating the net debt is 2043/44.

Based on a prudent assumption of average annual growth of total revenues of 4.1% per year, the Government of Alberta could eliminate its net debt by 2043/44 by running a surplus of 2.6% of its total revenues each year. In other words, the Government of Alberta would be saving 2.6% of its total revenues and using it to pay down its net debt. The Panel recognizes that it is impossible to forecast revenue growth over a 20-year period with a high degree of accuracy, and therefore every four years, the government should update its forecast of total revenues and revise the percentage of total revenues that will be used for paying down the remainder of its net debt by 2043/44.

The Government of Alberta has gone from having $31.7 billion in net financial assets at the end of the 2008-09 fiscal year to a net debt of $27.5 billion at the end of the 2018-19 fiscal year.

FIGURE 31: A PRUDENT PLAN FOR ELIMINATING ALBERTA'S NET DEBT BY 2043/44



Source: Alberta Treasury Board and Finance

Improvements in Fiscal Reporting and Transparency

Alberta is considered a leader in fiscal transparency[19]; however, the Panel feels there a number of additional steps that can be taken to improve the quality of financial reporting, improve financial discipline, and monitor long-term fiscal sustainability. Because many of these suggestions are detailed changes and additions to existing reports, we have included them in Appendix 4.

The Panel would like to single out one recommendation to improve fiscal transparency and provide more budget certainty.

Recommendation 25: The Panel recommends that Alberta establish a fixed budget date.

In its review of other provinces, the Panel learned that provincial budgets in British Columbia must be released on the third Tuesday of every February. Currently, there is no fixed budget date in Alberta and this can cause considerable uncertainty to organizations and entities which depend on provincial budgets to determine their own budget plans, particularly school boards and municipalities. Setting a fixed date would help entrench a tradition of timelier budgets.

[19] CD Howe Institute
https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary%20545.pdf

Monitoring Compliance with Balanced Budget Rules

While legislated fiscal rules can exert some control over behavior, Alberta's experience with fiscal rules shows that they can be amended or repealed by a simple majority vote of the Legislative Assembly.

The Panel believes that there needs to be a balance between the ability of a democratically-elected government to adopt the fiscal policies that it deems appropriate and the need for independent oversight to keep government focused on adhering to the fiscal rules that it has adopted. The Panel considered alternative institutional arrangements to monitor and report on compliance with fiscal rules by independent budget offices (like the Parliamentary Budget Office of the federal government), fiscal councils (made up of individuals with financial expertise and mandated to report publicly), and international financial organizations (like the International Monetary Fund (IMF), the Organization of Economic Cooperation and Development (OECD) or the World Bank).

There are advantages and disadvantage of each model but, on balance, the Panel believes that using a reputable independent agency is the preferred approach. Alberta's former Auditor General, Merwan Saher, has argued that the Government of Alberta should provide public reports that evaluate the province's long-term fiscal future.[20] International financial agencies have considerable experience and expertise in assessing the long-term sustainability of a government's fiscal policies. They could also monitor adherence to fiscal rules and the government's debt reduction plan.

Recommendation 26: The Panel recommends that the government should contract with a reputable independent agency to provide an assessment every four years of Alberta's fiscal policies, particularly regarding adherence to its fiscal framework and the long-term fiscal sustainability of the province's fiscal policies. The report should be made public four months before a scheduled election.

SUMMARY OF THE KEY ELEMENTS OF THE NEW FISCAL FRAMEWORK:

- Legislate rules to limit program expenditure increases based on the rate of increase in household incomes
- Legislate restrictions on in-year spending increases
- Introduce a revenue forecast cushion
- Improve transparency and accountability with more relevant quarterly reports and fiscal plan documents, and an expanded mid-year fiscal update and economic statement
- Set fixed budget dates
- Legislate a plan to eliminate the province's net debt by 2043/44
- Review the province's fiscal policies every four years, conducted by a reputable independent agency

20 Auditor General of Alberta. 2018. "Putting Alberta's Financial Future in Focus," A Commentary by the Auditor General, April. Available at https://www.oag.ab.ca/webfiles/reports/April2018_OAG_ Commentary.pdf

Concluding comments

The Panel's intent with this report was not only to confirm the stark reality of Alberta's fiscal situation but to identify specific opportunities to reduce spending in line with other provinces and, at the same time, to achieve better results and put the province on a path to long-term fiscal sustainability.

The Panel believes this is an opportunity for the province to look beyond just short-term quick fixes to reduce spending and to use this as a time to explore new approaches and alternatives for delivering public services, improve Alberta's competitive position, and achieve a sustainable financial situation and long-term results for Albertans – all at a reasonable cost to taxpayers.

Overall, that is the conclusion of the Blue Ribbon Panel on Alberta's Finances.

We urge the government to take decisive action.

Appendices

Appendix 1: Panel Terms of Reference

Context - The Government of Alberta has committed to "appoint a Blue Ribbon Panel of experts to conduct a 'deep dive' into Alberta's fiscal situation, recommend a path to balance, and propose a realistic plan to start paying down the debt."

Mandate - The mandate of the Blue Ribbon Panel on Alberta's Finances is as follows:

- Develop and provide an assessment of the Government of Alberta's business-as usual fiscal outlook for current fiscal year, 2019-20, and the subsequent three fiscal years, 2020-21, 2021-22 and 2022-23, based on the most current economic and fiscal forecasts, assuming no policy changes, in order to establish a baseline for future fiscal planning.
- Develop and provide an assessment of alternative scenarios for the Government of Alberta's fiscal outlook to establish a clear understanding of the risks associated with the province's business-as-usual fiscal outlook between 2019-20 and 2022-23.
- Develop and provide an assessment of the material economic forecast assumptions, including assumptions about commodity prices that underlie the fiscal outlook, the main uncertainties associated with the economic forecast, and the sensitivity of the fiscal outlook to changes in the economic forecasts.
- Provide advice to the government on plans to balance the provincial budget by 2022-23, without raising taxes, based on the fiscal outlook.
- Provide an assessment by department and agency of program expenditure trends and cost drivers and the sensitivity to changes in the economic forecast.
- Provide advice and recommendations on a new fiscal framework, including requirements for presenting a four-year balanced budget plan, requirements for future balanced budgets, annual allocations towards retirement of the province's accumulated debt once the budget is balanced, and requirements for ministry business plans, monthly, quarterly and mid-year budget updates, and annual reports.
- Examine current practices, processes and systems used to prepare the province's budget, quarterly updates and economic statements and annual financial statements, report on ease of use, and recommendations for improvement with due regard to enhancing fiscal sustainability and transparency.
- Examine current processes and systems used in government for preparing, approving, and monitoring progress on the Government of Alberta's Capital Plan, including processes and systems used to approve in-year capital spending, and provide recommendations for improving the province's capital planning framework.
- Analyze the business investment climate in Canada and its impact on the Alberta economy.
- Provide advice on any other matter the Panel deems relevant to its mandate as a result of information coming to its attention during the course of the review.

Appendix 2: Key Economic and Price Assumptions for Revenue Scenarios

Base Case

ENERGY AND ECONOMIC METRICS - BUSINESS-AS-USUAL SCENARIO

Fiscal Year Assumptions	2015-16 Actuals	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Projection
Crude Oil Prices[a]								
WTI (US$/bbl)	45.00	47.93	53.69	62.77	60	61	65	66
Light-Heavy Differential (US$/bbl)	13.4	13.9	14.4	23.3	18.4	23.2	23.6	18.4
Exchange Rate (US¢/Cdn$)[a]	76.4	76.2	78.0	76.3	75.0	76.8	78.8	80.0

Calendar Year Assumptions	2015 Actuals	2016 Actuals	2017 Actuals	2018 Estimates	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Projection
Gross Domestic Product									
Nominal (billions of dollars)	323.8	301.7	331.9	348.2	361.6	371.8	391.4	413.1	435.9
% change	-14.0	-6.8	10.0	4.9b	3.8	2.8	5.3	5.6	5.5
Real (billions of 2012 dollars)	336.8	322.7	336.8	344.1	347.7	356.6	366.8	378.4	390.3
% change	-3.7	-4.2	4.4	2.2b	1.0	2.6	2.8	3.2	3.1
Other Indicators[a]									
Employment (thousands)	2,301	2,264	2,287	2,331	2,351	2,386	2,431	2,485	2,542
% change	1.2	-1.6	1.0	1.9	0.9	1.5	1.9	2.2	2.3
Unemployment Rate (%)	6.0	8.1	7.8	6.6	6.6	6.5	6.1	5.6	5.2
Alberta Consumer Price Index (% change)	1.2	1.1	1.5	2.4	1.9	1.7	1.8	2.0	2.0
Population	4,144.5	4,196.1	4,244.0	4307.1	4,377.5	4,449.5	4,524.9	4,612.6	4,706.0
% change	1.5	1.2	1.1	1.5	1.6	1.6	1.7	1.9	2.0

[a] Actual

[b] Forecast

Global Recession Scenario

ENERGY AND ECONOMIC METRICS - GLOBAL RECESSION SCENARIO

Fiscal Year Assumptions	2015-16 Actuals	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Projection
Crude Oil Prices[a]								
WTI (US$/bbl)	45.00	47.93	53.69	62.77	60	47	59	65
Light-Heavy Differential (US$/bbl)	13.4	13.9	14.4	23.3	17.9	21.1	22.2	18.2
Exchange Rate (US¢/Cdn$)[a]	76.4	76.2	78.0	76.3	75.0	70.6	74.4	78.4

Calendar Year Assumptions	2015 Actuals	2016 Actuals	2017 Actuals	2018 Estimates	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Projection
Gross Domestic Product									
Nominal (billions of dollars)	323.8	301.7	331.9	348.2	361.4	347.7	360.1	398.4	430.0
% change	-14.0	-6.8	10.0	4.9b	3.8	-3.8	3.6	10.6	7.9
Real (billions of 2012 dollars)	336.8	322.7	336.8	344.1	347.6	347.8	348.4	365.0	382.6
% change	-3.7	-4.2	4.4	2.2b	1.0	0.1	0.2	4.8	4.8
Other Indicators[a]									
Employment (thousands)	2,301	2,264	2,287	2,331	2,351	2,356	2,356	2,427	2,534
% change	1.2	-1.6	1.0	1.9	0.9	0.2	0.0	3.0	4.4
Unemployment Rate (%)	6.0	8.1	7.8	6.6	6.7	7.5	8.4	7.1	5.2
Alberta Consumer Price Index (% change)	1.2	1.1	1.5	2.4	1.8	1.1	1.0	2.0	2.3
Population	4,144.5	4,196.1	4,244.0	4307.1	4,377.5	4,449.5	4,522.8	4,601.3	4,692.4
% change	1.5	1.2	1.1	1.5	1.6	1.6	1.6	1.7	2.0

[a] Actual

[b] Forecast

Constrained Market Access Scenario

ENERGY AND ECONOMIC METRICS - CONSTRAINED MARKET ACCESS

Fiscal Year Assumptions	2015-16 Actuals	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Projection
Crude Oil Prices[a]								
WTI (US$/bbl)	45.00	47.93	53.69	62.77	60	61	65	66
Light-Heavy Differential (US$/bbl)	13.4	13.9	14.4	23.31	18.4	23.2	23.6	25.6
Exchange Rate (US¢/Cdn$)[a]	76.4	76.2	78.0	76.3	75	76.8	78.8	78.8

Calendar Year Assumptions	2015 Actuals	2016 Actuals	2017 Actuals	2018 Estimates	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Projection
Gross Domestic Product									
Nominal (billions of dollars)	323.8	301.7	331.9	348.2	361.5	368.7	383.2	392.2	407.2
% change	-14	-6.8	10	4.9b	3.8	2.0	3.9	2.4	3.8
Real (billions of 2012 dollars)	336.8	322.7	336.8	344.1	347.6	353.8	360.4	367.9	374.7
% change	-3.7	-4.2	4.4	2.2b	1.0	1.8	1.9	2.1	1.8
Other Indicators[a]									
Employment (thousands)	2,301.1	2,263.8	2,286.9	2,330.7	2,351.0	2,376.0	2,403.0	2,439.0	2,476.0
% change	1.2	-1.6	1.0	1.9	0.9	1.1	1.2	1.5	1.5
Unemployment Rate (%)	6.0	8.1	7.8	6.6	6.6	6.8	6.9	6.8	6.7
Alberta Consumer Price Index (% change)	1.2	1.1	1.5	2.4	1.9	1.6	1.5	1.5	1.4
Population	4,144.5	4,196.1	4,244.0	4,307.1	4,377.5	4,448.9	4,522.2	4,597.6	4,675.3
% change	1.5	1.2	1.1	1.5	1.6	1.6	1.6	1.7	1.7

[a] Actual

[b] Forecast

Appendix 3: Alberta's Competitive Position

Competitiveness benchmarking results for Alberta

Measure	Alberta's Rank[1]	Rating[2]	Change in Rating[3]
Sustained Prosperity			
GDP per capita	2 /15	Excellent	→
Growth in real GDP per capita	8 /15	Average	↓
Personal income per capita, after tax	7 /15	Average	→
Growth in real personal disposable income	5 /15	Good	↓
Housing affordability	7 /13	Good	→
Unemployment rate, five-year average	6 /15	Good	↓
Unemployment rate, latest year	15 /15	Poor	↓↓
Employment growth	6 /15	Average	↓↓
Index of Economic Well-being	2 / 9	Excellent	→
Human Development Index	3 /10	Good	→
Greenhouse gas emissions	13 /15	Weak	→
Low-emission electricity production	15 /15	Poor	→
Change in low-emission electricity production	5 /15	Good	↑
Productivity			
GDP per hour worked	7 /15	Good	↓
Growth in real GDP per hour	8 /15	Average	↓
Non-resource exports per capita	9 /15	Weak	→
Growth in non-resource exports per capita	14 /15	Poor	→
Innovation			
Total R&D expenditures	12 /15	Poor	→
Growth in total R&D expenditures	4 /15	Good	↑
Business R&D expenditures	11 /15	Weak	→
University patents received	8 /13	Weak	→
Industrial share of research funding	1 /13	Excellent	→
Start-ups licensing university technology	5 /12	Average	↑
Investment in machinery and equipment	3 /10	Good	→
Investment in ICT equipment and software	2 / 7	Good	→
Employment in natural and applied sciences	3 / 6	Good	↓
Total early-stage entrepreneurial activity	2 / 8	Good	↓
New business start-ups	2 /14	Excellent	↑
High-growth firms	1 / 6	Excellent	→

Legend for ratings[2]

- *Excellent (top quintile)*
- *Good (second quintile)*
- *Average (middle quintile)*
- *Weak (lower quintile)*
- *Poor (bottom quintile)*

Measure	Alberta's Rank[1]	Rating[2]	Change in Rating[3]
Taxes & Fiscal Policy			
Marginal effective tax rate on investment	3 /10	Excellent	→
Business total tax index	1 /13	Excellent	→
Top personal income tax rate	11 /15	Weak	↓↓↓
Total tax burden	2 /15	Excellent	↑
Government net financial assets	3 /14	Average	→
Regulation			
Time required to start a new business	8 /10	Weak	→
Cost of procedures to start a new business	7 /10	Weak	→
Property transfer costs	6 /15	Excellent	→
Total business cost index	6 /13	Good	→
Infrastructure & Transportation			
Government investment in infrastructure	2 /10	Good	↓
Net stock of public infrastructure assets	1 / 6	Excellent	→
Government spending on roads, bridges and transit	4 / 6	Weak	↓↓↓
Airport passengers per capita	6 /15	Average	→
Households with broadband internet	4 /15	Good	→
Wired broadband internet speed	9 /14	Weak	↓
Mobile broadband internet speed	6 /14	Average	→
Human Capital & Education			
High school math, reading and science skills	3 /10	Good	→
High school completion rate	6 /15	Good	→
Post-secondary education other than degrees	3 /12	Excellent	→
Bachelor degree completion rate	10 /15	Weak	→
Graduate student rate	14 /15	Poor	→
International graduate students	4 /15	Good	→
Apprenticeship completion rate	1 / 6	Excellent	→
Ongoing formal or informal education	1 /10	Excellent	→
Employment rate	2 /15	Excellent	→
Change in employment rate	13 /15	Weak	↓
Net migration rate	1 /15	Excellent	→
Share of labour force aged 55+	2 /15	Excellent	→
Share of labour force aged <25	9 /15	Average	→
Access to Capital Markets			
SME authorization of requested credit	6 / 6	Poor	→
SME financing as an obstacle to business growth	4 / 6	Average	→
Venture capital investment	9 /15	Weak	→
Number of venture capital deals	10 /15	Weak	→
Head office employment	1 / 6	Excellent	→

1 The number of jurisdictions compared for each measured varies due to availability of data.
2 The ratings take into account both Alberta's ranking and Alberta's measured value relative to other jurisdictions.
3 The number of arrows indicates the number of ratings categories by which Alberta's rating has changed since the prior edition of this report.

Appendix 4: Improving planning, transparency and financial reporting

Improvements to Capital Planning and Reporting

The Panel examined the current framework for capital planning and reporting in Alberta relative to best practices in other Canadian provinces, and found significant improvements have been made in response to the 2017 Report of the Auditor General and the 2017 Ernst and Young (E&Y) report on best practices.

The capital planning process in Alberta is a detailed process where ministries identify and prepare submissions to be considered for Capital Plan funding. A Deputy Minister's Capital Planning Committee (DMCPC) reviews processes, and Treasury Board Committee (TBC) and Cabinet assess proposals and resource needs associated with capital planning.

- The Panel believes there are a number of additional steps that government should take to improve capital planning and reporting:
- The Deputy Minister's Capital Planning Committee (DMCPC) should have its role formalized and expanded to providing advice to the Ministers' Capital Committee on Capital and Treasury Board Committee (TBC).
- The government should discontinue publishing the list of unfunded projects with the Capital Plan. Publishing the list contributes to bias in favour of spending on new facilities rather than maintaining existing facilities. It also limits the degree of flexibility government has for future priorities and sets unreasonable expectations. No other province publishes an unfunded project list.
- The government should legislate a strong governance framework for capital planning in Alberta through the passage of an Alberta Infrastructure Act.
- The government should support long-term capital planning and reporting by preparing and publicly releasing a 20-year Strategic Capital Plan. This will promote greater transparency and help government stick to a medium- to long-term vision for capital.
- The government should ensure that capital approval processes and systems consider future operating impacts as a mandatory requirement for approval. The budgeted operating costs for capital projects should fully reflect the impact of proposed capital projects, including those that commence beyond the prevailing three-year operating plan and typically take a number of years to complete. The government should consider requiring certain capital projects to cover the operating costs of their capital requests as a starting position for approval. If ministries cannot accommodate operating costs within their existing budget, the project should be deemed not to have the requisite priority or value. This will create better discipline in the capital planning and approval system.

More Relevant Fiscal Reports

Fiscal and financial reporting is crucial for maintaining transparency, accountability and public confidence in the government's management of the public purse. Currently, the main public fiscal and financial documents are:

- Fiscal Plan, Government and Ministry Business Plans, Budget Estimates and Budget Address presented when the budget is introduced to the Legislature
- Quarterly Fiscal Updates and Economic Statements
- Government of Alberta and Ministry Annual Reports

All of these documents are available on the Alberta Treasury Board and Finance website. Excel files are provided for the Economic Outlook, Tax Plan and Other Fiscal Plan Tables.

The Panel reviewed these documents and, while the current documents meet an acceptable standard, the Panel feels that the Fiscal Plan documents would be improved if they contained:

- An appendix with a table or graph of the impact of changes in key economic variables, such as the price of WTI, on revenues, expense, deficits, and net financial debt over the three-year budget plan
- An appendix that shows the primary budget balance (total revenues minus operating expenditures and capital expenditures) and the fiscal balance (total revenues minus operating expenditures, capital expenditures, and interest payments on debt) over the three-year budget plan in order to report in a more understandable fashion the government's full fiscal position.
- An appendix that describes progress on the Government of Alberta's debt reduction strategy once the budget is balanced in 2022/23.

The requirement that the Government of Alberta produce Quarterly Fiscal Updates and Economic Statements was introduced in 1993. Prior to that, information on the Government of Alberta's fiscal situation was only provided many months after the end of the fiscal year. The Panel believes that the content of the Quarterly reports should be amended. Currently, given the high short-term volatility of Alberta's resource revenues, the public tends to focus on the revenue forecast and how it differs from the revenues in the budget. This short-term focus on revenue fluctuations and their implications for the current fiscal year's budget deficit takes public attention away from the more important fiscal variable that the government can control, namely its operating and capital expenditures. The Panel believes that the format of the Quarterly Reports should be revised, and the focus should be on how operating and capital expenditures are deviating from the budget numbers, with detailed explanations for these deviations. The Quarterly reports also contain updates on the Economic Outlook, which is a useful summary of the labour market, populations and other economic indicators that the Government releases on a weekly and monthly basis.

Missing from the suite of reports is a mid-year update of the fiscal outlook for the three years in the Fiscal Plan. Currently, Quarterly reports only deal with the current fiscal year and do not update the fiscal outlook for subsequent years. According to the OECD Best Practices for Budget Transparency, a fiscal update should provide the following basic information:

- Information on significant issues in the implementation of the budget including disclosure of the impact of government decisions, or other circumstances, that may have a material effect on the budget;
- A review of the economic assumptions underlying the budget and a disclosure of the impact of any changes on the budget;
- An updated budget forecast for the current fiscal year and subsequent years in line with the medium-term budget framework.

The Government of Alberta should prepare a comprehensive Mid-Year Fiscal and Economic Statement by November 30 of each fiscal year to serve as a full three-year update on the government's budget. Basic contents of the Mid-Year Fiscal Update and Economic Statement should include:

- an updated presentation of the Fiscal Plan tables presented in the same format, time-frame, and detail as the budget
- an update of the key fiscal and economic assumption underlying the budget and the impact of any changes; an explanation of the key factors underlying variances in the mid-year updated forecast relative to the original budget estimates
- detail on policy decisions taken since the presentation of the budget that have fiscal implications, with estimates on the magnitude of the impact
- disclosure of key fiscal and economic risks
- sensitivity of major revenues and expenses to changes in key economic and price indicators
- this would ensure that legislators and Albertans can assess progress made on the Fiscal Plan and hold the government to account for results achieved. It could also serve as an information guide to kick off pre-budget consultations with Albertans.