

# Treasury Board and Finance

BUSINESS PLAN 2014-17

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## ACCOUNTABILITY STATEMENT

This business plan was prepared under my direction, taking into consideration the government's policy decisions as of February 12, 2014.

*original signed by*

Doug Horner, President of Treasury Board and Minister of Finance  
February 19, 2014

## THE MINISTRY

The ministry consists of the Department of Treasury Board and Finance, Alberta Capital Finance Authority, Alberta Gaming and Liquor Commission, Alberta Local Authorities Pension Plan Corporation, Alberta Pensions Services Corporation, Alberta Securities Commission, Alberta Treasury Branches Financial (ATB) and its subsidiaries, Credit Union Deposit Guarantee Corporation, Alberta Insurance Council, Automobile Insurance Rate Board, Alberta Investment Management Corporation and its subsidiaries, as well as the following nine regulated funds: Alberta Cancer Prevention Legacy Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Savings Trust Fund, Alberta Heritage Scholarship Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Lottery Fund, Alberta Risk Management Fund, Provincial Judges and Masters in Chambers Reserve Fund and the Supplementary Retirement Plan Reserve Fund. The ministry also includes the activities of N.A. Properties (1994) Ltd. and Gainers Inc.

A more detailed description of Treasury Board and Finance and its programs and initiatives can be found at [www.finance.alberta.ca](http://www.finance.alberta.ca).

## RESULTS-BASED BUDGETING AND THE GOVERNMENT OF ALBERTA STRATEGIC PLAN

Programs and services delivered by the ministry are reviewed for relevance, effectiveness and efficiency in accordance with the Government of Alberta's *Results-based Budgeting Act*.

This business plan supports the "Securing Alberta's Economic Future" theme outlined in the *Government of Alberta Strategic Plan*. This theme is supported by a renewed fiscal framework and savings strategy that will reduce the reliance on non-renewable resource revenue for funding essential programs and services. The fiscal framework includes a legislated requirement for a balanced operational plan, including transfers from the Contingency Account, and sets legislated limits on in-year increases in operating expense. The capital plan sets out the government's infrastructure investments, how the investment will be financed and how any associated capital debt will be repaid. The fiscal framework includes a legislated limit on borrowing that is interest rate sensitive. The savings plan will see the Contingency Account replenished and grows the province's longer-term savings. The savings plan will serve both the present and long-term needs of Albertans.

The plan supports the achievement of Goal 5: Living Within Our Means as outlined in the government's strategic plan through the ministry's initiatives to deliver strong and sustainable government finances. Ongoing consultations with Albertans will continue on economic forecasting and budget priorities.

## STRATEGIC CONTEXT

Alberta continues to power the Canadian economy. It is amongst the leaders of all provinces in real Gross Domestic Product (GDP) and employment growth. Maintaining the province's strong economic and financial position will continue to be a priority.

- Non-renewable resource revenue accounts for about one-quarter of the Alberta government's total revenue. Energy prices can swing dramatically due to unpredictable world events, such as political conditions in the Middle East or adoption of new technologies in North America. A priority for government is to continue to strengthen Alberta's ability to effectively and efficiently manage potential impacts of unpredictable and volatile non-renewable resource revenues.
- Alberta will continue to strengthen its position in a tightly integrated global market place by responding to the effects of economic activities, monetary policies and government decisions in other parts of the world (that can have a significant impact on the return on Alberta's investments) in a meaningful and timely manner.
- Alberta will continue to experience rapid growth. Population increases and capital market expansions have increased the need to fund major infrastructure projects. Building infrastructure today is a priority for government. Investing in new roads, schools and health facilities strengthens Alberta's communities.
- To the extent an aging population and continually escalating health care costs place upward pressures on health spending, government's priority is to continue its efforts to more closely align health spending with the rate of growth of population plus inflation.

Pension plans will also be affected by an aging population. In addition, longer life expectancy, sustained low interest rates and volatile investment performance of pension plans have resulted in significant funding shortfalls. Proactively taking action to minimize pressures on government pension plans will help to ensure the plans are sustainable and well governed for the future.

Securities regulation in Canada has been the subject of intense review and discussion. The federal government and some provinces are working to establish a common cooperative capital market regulatory regime. Alberta and other jurisdictions continue to work on enhancements to the current regulatory system which preserves the ability to address regional needs and local decision-making.

In June 2013, devastating floods took place in Southern Alberta and the Regional Municipality of Wood Buffalo. Full recovery from the disasters will take years. The ministry is supporting the flood recovery and mitigation efforts by providing financial leadership, expediting financial transactions and processing emergent funding requests.

As current issues and challenges are addressed, Alberta will be positioned for long-term success, stability and prosperity.

## GOALS, PRIORITY INITIATIVES, PERFORMANCE MEASURES AND INDICATORS

As a result of the ministry's review of its goals, environment, opportunities and challenges, a number of priority initiatives have been identified. Focused agenda items, several specific areas where government will focus its attention over the next three years, are identified with a \*. Additional government commitments to Albertans are identified with a ✓.

### Goal One: Strong and sustainable government finances

#### Priority Initiatives:

- \* 1.1 Implement a renewed fiscal policy and savings strategy to reduce dependence on non-renewable resource revenue and provide strategic support to innovation in Alberta.
- 1.2 Monitor the competitiveness, economic efficiency, fairness and revenue stability of Alberta's tax system and provide supporting recommendations.
- 1.3 Advance electronic commerce for Alberta's tax and revenue programs.

- 1.4 Lead the modernization of Alberta's gaming industry through investments in new technology and game offerings to sustain revenue to the Alberta Lottery Fund.
- 1.5 Ensure benefits from charitable gaming are distributed effectively to charities to support worthy causes across the province.
- 1.6 Provide reliable economic forecasts and demographic projections.

Performance Measures	Last Actual 2012-13	Target 2014-15	Target 2015-16	Target 2016-17
1.a Alberta's credit rating (blended credit rating for domestic debt)	AAA	AAA	AAA	AAA
1.b Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)	20:1 <sup>1</sup>	12:1	12:1	12:1
1.c The Alberta Heritage Savings Trust Fund five-year annualized rate of return	5.2%	CPI plus 5.5% <sup>2</sup>		

**Notes:**

- 1 The ratio for 2012-2013 was higher than previous years' results and the targets as a result of significant recoveries made by applying reassessments made by the Canada Revenue Agency (CRA) in a similar fashion in Alberta. Most of these reassessments are currently under objection. Removing the impact of these reassessments results in a revised ratio result of 12:1 for 2012-13.
- 2 5.5 per cent includes 1 per cent for active investment management.

Performance Indicator	Actual 2010-11	Actual 2011-12	Actual 2012-13
1.a Alberta savings (\$ millions):			
• The Alberta Heritage Savings Trust Fund book value	14,198	14,652	14,813
• The Contingency Account balance	11,192	7,497	3,326
• Savings Plan balance <sup>1</sup>	28,692	25,433	21,502

**Note:**

- 1 The Savings Plan consists of the Alberta Heritage Savings Trust Fund, the Contingency Account as well as various other endowments and funds.

**Goal Two: Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans**

**Priority Initiatives:**

- ✓ 2.1 Reduce/eliminate disincentives to continued employment for those at retirement age.
- 2.2 Lead and implement change to the public sector pension plans to ensure they are sustainable and well-governed.
- 2.3 Set broad strategic objectives and monitor ATB Financial's operations for consistency with sound business practices and the achievement of a fair return.
- 2.4 Lead and implement changes to keep the regulation of Alberta's pension, insurance, and financial institutions sectors strong.
- 2.5 Work cooperatively with other jurisdictions on an improved, harmonized securities regulatory system that protects investors.

Performance Measure	Last Actual 2012-13	Target 2014-15	Target 2015-16	Target 2016-17
2.a ATB Financial return on average risk weighted assets	0.76%	1.00%	1.00%	1.10%

Performance Indicator	Actual (Year)	Actual (Year)	Actual (Year)
2.a Sector resilience:			
• Annual GDP growth of Alberta's finance and insurance industry compared to the national average <sup>1</sup>	3.9% (Alberta) 2.7% (Canada) (2010)	2.6% (Alberta) 1.6% (Canada) (2011)	3.3% (Alberta) 2.4% (Canada) (2012)
• Per capita investment in Alberta's finance and insurance industry compared to the national average	\$452 (Alberta) \$387 (Canada) (2010)	\$197 (Alberta) \$357 (Canada) (2011)	\$281 (Alberta) \$358 (Canada) (2012)
• Funded ratio of Alberta pension plans (going concern) <sup>2</sup>	82.4% (2010-11)	80.7% (2011-12)	84.3% (2012-13)

**Notes:**

- 1 GDP by industry in millions of dollars in chained (2007) dollars.
- 2 These numbers show the weighted average funded ratio (expressed in per cent) of assets as a per cent of liabilities for public and private sector pension plans that are registered in Alberta.

### Goal Three: Effective and efficient government

**Priority Initiatives:**

- ✓ 3.1 Review all government programs and services through results-based budgeting and monitor/report on progress of results-based budgeting activities to Albertans.
- 3.2 Strengthen accountability by working with ministries to produce proactive financial reporting for the public, develop and improve performance measures, and ensure appropriate results reporting and performance variance analysis in ministry annual reports.
- 3.3 Provide government-wide management and dissemination of official statistics to meet government's responsibility for data collected on behalf of Albertans.
- 3.4 Strengthen accountability of the ministry's agencies to government policy.

Performance Measure	Last Actual 2012-13	Target 2014-15	Target 2015-16	Target 2016-17
3. a Sustainable operating spending growth (operating spending relative to population plus CPI)	6.5% (operating spending) 3.6% (population plus CPI)		Operating spending growth equal to or less than population plus CPI growth	

Performance Indicators	Actual 2010-11	Actual 2011-12	Actual 2012-13
3.a Financial reporting:			
• Percentage of unqualified independent auditor's reports on Government of Alberta financial statements	100%	100%	100%
3.b Alberta budget variance:			
• Percentage change in actual government operating expense from budget	-1.1%	-0.4%	-0.9%

OPERATIONAL PLAN

(thousands of dollars)

	Comparable			2014-15 Estimate	2015-16 Target	2016-17 Target
	2012-13 Actual	2013-14 Budget	2013-14 Forecast			
<b>OPERATIONAL EXPENSE</b>						
Ministry Support Services	12,909	14,130	13,940	<b>14,392</b>	14,392	14,392
Budget Development and Reporting	4,075	5,660	5,660	<b>5,733</b>	5,733	5,733
Fiscal Planning and Economic Analysis	5,500	5,822	5,822	<b>5,822</b>	5,822	5,822
Investment, Treasury and Risk Management	658,766	570,267	662,933	<b>682,222</b>	729,877	777,548
Office of the Controller	4,266	3,781	3,781	<b>2,811</b>	2,811	2,811
Corporate Internal Audit Services	3,714	4,160	4,160	<b>4,198</b>	4,198	4,198
Tax and Revenue Management	46,951	46,394	46,394	<b>46,510</b>	45,610	46,155
Financial Sector and Pensions	169,284	181,537	173,162	<b>189,435</b>	195,659	199,141
Air Services	6,726	7,016	7,016	<b>7,099</b>	7,099	7,099
Gaming	30,702	34,700	34,700	<b>33,600</b>	38,100	38,100
Teachers' Pre-1992 Pensions Liability Funding	435,870	455,796	443,796	<b>455,000</b>	465,918	475,500
Alberta Family Employment / Scientific Research and Experimental Development Tax Credits	178,883	214,673	194,098	<b>202,195</b>	207,293	210,462
Corporate Income Tax Allowance Provision	124,756	120,000	120,000	<b>16,000</b>	12,000	12,000
Consolidation Adjustments	(240,632)	(259,385)	(260,636)	<b>(262,993)</b>	(295,326)	(319,435)
Sub-total	1,441,770	1,404,551	1,454,826	<b>1,402,024</b>	1,439,186	1,479,526
<b>Debt Servicing</b>						
General Government	146,851	136,877	130,493	<b>133,932</b>	134,600	143,822
School Construction Debentures	8,695	6,221	6,221	<b>4,301</b>	2,830	1,798
Alberta Capital Finance Authority	208,455	252,488	218,706	<b>215,933</b>	246,423	400,963
Consolidation Adjustments	(74,225)	(80,957)	(74,573)	<b>(76,972)</b>	(82,380)	(91,602)
Sub-total	289,776	314,629	280,847	<b>277,194</b>	301,473	454,981
<b>Total</b>	<b>1,731,546</b>	<b>1,719,180</b>	<b>1,735,673</b>	<b>1,679,218</b>	<b>1,740,659</b>	<b>1,934,507</b>

Total operational expense includes cash payments towards unfunded pension liabilities, which will be eliminated under a separate, legislated plan. Subject to the *Fiscal Management Act*, total operational expense excludes annual changes in unfunded pension obligations, which are a non-cash expense and which do not affect borrowing requirements. Annual increases / (decreases) in the ministry's unfunded obligations for pension plans (including the teachers' pre-1992 plan) are estimated to be:

208,000	200,000	200,000	<b>56,000</b>	51,000	41,000
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**CAPITAL PLAN SPENDING**

Ministry Support Services	546	280	280	<b>280</b>	280	280
Investment, Treasury and Risk Management	29,749	8,943	8,943	<b>5,000</b>	5,000	5,000
Tax and Revenue Management	1,453	2,082	2,082	<b>2,082</b>	2,082	2,082
Financial Sector and Pensions	11,133	17,379	16,162	<b>19,463</b>	13,301	3,625
Air Services	952	241	1,186	<b>241</b>	241	241
<b>Total</b>	<b>43,833</b>	<b>28,925</b>	<b>28,653</b>	<b>27,066</b>	<b>20,904</b>	<b>11,228</b>