Yukon Public Accounts 2020-21
Public Accounts Committee Public Hearing February 9, 2022

Outstanding Questions and Responses for the Committee

**Below are the questions which were skipped or which were not answered before time expired during the legislative hearing on February 9, 2022.* The Department of Finance was asked to submit answers to the following questions in writing.

Borrowings

53. ***Note 17 is Borrowings. On page 66 it talks about the government's borrowing limit. Couldyou explain the nature of the outstanding loans?***

The amounts reported on page 66 are presented as confirmation of compliance with the Yukon Borrowing Limits Regulations pursuant to subsection 23(2) of the Yukon Act and Order in Council (P.C. 2020-0663). The amounts include specific types of borrowing as laid out in the regulation that are outstanding at March 31st for any of the reporting entities controlled by the Government of Yukon. Namely, Yukon Development Corporation, Yukon Hospital Corporation, Yukon Housing Corporation, Yukon Liquor Corporation, Yukon University and the Government of Yukon.

The total debt of $235,230,000 at March 31, 2021 is made up of:

- $100 million of bonds issued for Yukon Development Corporation,
- $68.6 million of other long-term debt for Yukon Development Corporation; made up of loans from chartered banks and First Nation governments and partnerships,
- $26.3 million of bank loans for Yukon Hospital Corporation, these are outlined on page 65 and are loans with a chartered bank,
- $1.1 million of mortgages for Yukon Housing Corporation, which are mortgages payable to chartered banks and Canada Mortgage and Housing Corporation,
- Almost $1 million of loans payable for Yukon University/College, which are non-interest bearing loans repayable on demand within 90 days,
- $624 thousand of loans payable for Yukon Housing Corporation, which are loans payable to chartered banks and Canada Mortgage and Housing Corporation,
- $1.3 million of interest payable on all debt that had accrued up to March 31, 2021,

- $33.3 million of credit facilities used, relating to a line of credit used by Yukon Development Corporation, and
- $3.1 million relating to capital lease obligations, which are itemized in Note 18 on page 67.

This last item is the only item on the list that has been incurred by the Government of Yukon rather than by one of the corporations.

54. ***Can the Department explain the increase year-over-year Total Debt as indicated in thetable on page 65?***

The table on page 65 relates to the Yukon Hospital Corporation's loans with a chartered bank. Since questions 53 and 55 deal with the Borrowing and Total Debt items on page 66, we will provide this answer based on page 65.

The principal amounts of the Yukon Hospital Corporation's loans are being paid down from year to year and there has been an overall decrease of $3.5 million from $29.8 million in 2020 to $26.3 million in 2021. The loans are scheduled to be paid out; the first in late 2026 and the remaining two in 2028. These loans are included in the amount of borrowing reported on page 66.

55. ***Please walk the committee through the total debt listed on page 66 (note 17)***

The total debt listed on page 66, Note 17, is calculated in compliance with the Yukon Borrowing Limits Regulations as described in answer 53. As answer 53 enumerated the composition of the total debt reported, this answer will focus on the change in total debt.

Total debt has increased by $6.8 million from $228.4 million in 2020 to $235.2 million in 2021.This is mainly due to:

- A $2.3 million increase in long-term debt for the Yukon Development Corporation;
- A $3.5 million decrease in balance of bank loans for the Yukon Hospital Corporation;
- A $373 thousand decrease in balance of mortgages for the Yukon Housing

Corporation;

- A $95 thousand decrease in balance of loans payable for Yukon Housing Corporation; and
- A $9.5 million increase for credit facilities used by the Yukon Development Corporation;
- And finally, a $1 million decrease in capital lease obligations.

It is also worth pointing out that the total debt of $235.2 million, as calculated by the Yukon Borrowing Limits Regulations, is not the value of borrowings reported in the Audited Consolidated Statement of Financial Position on page 37.

Rather, the value reported is the $27.352 million, as calculated on page 64 of the same Note 17. This value is the true value of debt held by the four entities that are 100 per cent consolidated as per Note 2 (a) Significant Accounting Standards on page 41.

Borrowings

56. ***Can the witness confirm the principal amount on the YDC bond listed on page 66 is thesame as last year? What is the plan to pay this principal down?***

Yes. The amount has not changed from last year and is not expected to change at least until the maturity of the bonds in 2040. It has been the same amount reflected in the Public Accounts since the bond was issued over ten years ago.

Upon maturity, the bond is expected to be retired with funds from a new bond issuance; thus re-issuing the debt.

Bonds were issued by the Yukon Development Corporation as a debt security to allow for expected spending and to meet existing obligations of its wholly-owned subsidiary, the Yukon Energy Corporation (YEC). YEC is required to maintain a 60 to 40 debt to equity ratio by the regulatory rules it operates under, hence the strategy to re-issue.

For financial statements, the Yukon government uses Public Sector Accounting Standards, whereas the Yukon Development Corporation uses International Financial Reporting Standards to prepare their statements.

The bonds are carried at cost in the Public Accounts, but under the Yukon Development Corporation's financial statements (page 318), the bond is carried on the books at fair value thus recognizing a gain or loss on the bonds each year depending on changes to the rates.

Since the intent is to carry the bonds to maturity and then to reissue them, the amount that will need to be raised to cover the old bonds will be $100 million.

Expenses by object

57. ***Can the Department explain the increase of expense from 2020 (645,876) to 2021 (692,196) in the Personnel line under Expenses by object on page 70?***

There are many influences on personnel costs in any fiscal year, but for 2020-21, the main drivers of these increases were:

- $16.3M for increased personnel expenses related to the pandemic;
- $8.5M for employee future benefits and WCB;
- $10M related to collective agreement and manager increases;
- $9.3M related to increases at Yukon Hospital Corporation;
- $4.1M for the impact of the Commission scolaire francophone du Yukon settlement; and
- An offsetting decrease of $1.5M at Yukon University.

Subsequent events

62. ***Can you provide an update on these Subsequent Events since the tabling of the PublicAccounts?***

The impacts of COVID-19 continue to be felt here in the Yukon and globally. Some relevant events are:

- On August 25, 2021, the Yukon ended the state of emergency that was declared on March 27, 2020.
- On November 9, 2021, a new state of emergency was declared after a surge of COVID-19 cases and the arrival of the Omicron variant. Several orders and recommendations have been issued since then to manage the increase in cases. On February 3, 2022, the state of emergency was extended for another 90 days.

- The government, with support from the Government of Canada, continues to deliver many of the programs implemented in 2020 and in 2021 to support individuals, businesses, and industries. These initiatives and programs continue to be modified to ensure they meet the needs of Yukoners.

Part 3 – Non-Consolidated Financial Statements and Other Information

63. ***How does this section aid Yukoners to get a sense of the Yukon's finances? Explain itscontents and why they are included in the Public Accounts.***

Part 3 of the Public Accounts contains several elements intended to provide interested readers with more detailed information about the government's financial activities. Part 3 is broken down into three sections:

Section I Non-Consolidated Financial Statements

The non-consolidated financial statements provide information with respect to the government's departments and exclude the consolidation of the Yukon Hospital Corporation, Yukon University, Yukon Housing Corporation, Yukon Development Corporation and the Yukon Liquor Corporation. Essentially, this is where departmental managers can go to find their numbers and assess how they fared during the year.

These statements are aligned with the non-consolidated section of the government's Main Estimates and Supplementary Estimates; therefore, they tie easily to the amounts debated in the Legislative Assembly and the resulting appropriation bills.

Section II Supplementary Financial Information

The supplementary financial information are ten schedules providing details and comparative information on revenues and expenditures by department, the listing of recoveries of prior year expenses, details of restricted fund activity, inventories, legislated grants and other government transfers, and finally, a list of bad debt write-offs. A number of these schedules are required by the Financial Administration Act to be included in the Public Accounts.

Section III Supplementary Financial Statements

The supplementary financial statements provide copies of the most recently published audited statements for all five of the corporations included in the Yukon government reporting entity, as well as the statements for the Compensation Fund.

65. ***What has the government done to prepare for these accounting standards and what impacts are expected?***

The Yukon government's financial statements are prepared in accordance with the Public Sector Accounting Standards (PSAS) as set by the Public Sector Accounting Board of the Chartered Professional Accounts of Canada.

The Office of the Comptroller maintains awareness of these standards during their development, or updates, by reading and providing comments, as applicable, to drafts issued by the Board.

The Office of the Comptroller also participates in inter-jurisdictional meetings and working groups with peers across Canada to exchange information and best practices that support the implementation of new standards.

Once approved by the Board and an effective date is communicated, new standards are analyzed for impact and based on expected impacts, revisions are made to:

- the Financial Administration Manual;
- the Year-end instructions to departments and corporations; and / or
- the Public Accounts presentation and related notes.

As new standards are identified, they are added to the list of New Accounting Standards under the Emerging Issues section of Risks and Mitigations in the FSD&A.

On page 26 there are seven standards listed that are currently on our radar. A short description of the standard, the date it comes into effect and an assessment of the potential impact on the government is provided for each.

66. ***What is the expected impact of adoption of the Asset Retirement Obligations standard onthe government's financial statements? Are there expected impacts on the entities consolidated into the Public Accounts?***

- The Yukon government, together with the Yukon Hospital Corporation, Yukon Housing Corporation and Yukon University, have retained the services of KMPG to provide professional services in the areas of asset scoping, cost estimation, policy amendments, training, and implementation of the standard across all four entities.
- In addition, work is ongoing to assess the impact of the new standards on the financial statements for the year ending March 31, 2023.
- The impact of the standard on the Yukon government and its consolidated entities will be seen in several steps. There will be different levels of impact upon implementation, ongoing impacts, as well as on the retirement of assets.
- **On implementation:**
    - There will be increases to the Tangible Capital Assets (TCA) value, in Non-Financial Assets category, by the amount of the Asset Retirement Obligation (ARO).
    - There will be a new liability, the Asset Retirement Obligation Liability (AROL), which corresponds in value with the increase in the TCA value.
    - When these values are equal, there will not be an impact on Accumulated Surplus, but Non-Financial Assets will increase, while Liabilities increase and that will decrease Net Financial Assets.
    - In certain scenarios, the ARO asset will already be partially amortized based on the related TCA. In these cases, there will be an impact on Accumulated Surplus equal to the portion of the new ARO asset that is deemed to be already amortized as of April 1, 2022.

- **On an ongoing basis:**
  - Increases in budgeted annual amortization amounts for the new ARO assets will impact the annual surplus as a non-cash item; and,
  - There will be a new budget item called the Accretion Expense. This item captures the increase in the AROL estimate due to the passage of time, and will impact the annual surplus and increase the AROL reported.
- **On retirement of the asset:**
  - The removal of the asset from the TCA list should have no effect as the asset should be fully amortized. If that is not the case, there may be a loss on disposal as per current standards;
  - Cash expenditures will be incurred to perform ARO activities; and
  - The AROL recorded will be used to offset expenditures resulting in no, or nominal, impact on the current fiscal year’s surplus/deficit.

The actual estimates of the ARO values and their amortization timelines have yet to be calculated as estimation processes are still being decided. Once the estimates and amortization timelines are finalized we will be able to assess the impact on the 2022-23 fiscal year.

There is no Accretion Expense anticipated for the first year of implementation, but an estimation process will be in place in time for setting the 2023-24 budget.

Finally, a disclosure note in the 2021-22 Notes to the Financial Statements is planned and a more fulsome explanation of expected impacts will be included in the Financial Statement Discussion and Analysis.

COVID-19 Response

68. ***Can the Department of Finance speak to the overpayment of the 'Covid CERB Exemption'? (note 25)***

Legislated grants, by definition, are prescribed in legislation and are payable for any eligible claim. Close scrutiny is maintained on these types of grants as exemplified by Note 25 around over expenditures and by Schedule 8 in Part 3 Section II, page 194.

The rationale for the scrutiny is that, due to the claim-based and non-discretionary nature of these expenditures, they tend to be difficult to forecast and hence to budget for accurately.

In the case of the 'COVID CERB Exemption', the difficulty of forecasting social assistance payments was further compounded by the department's unfamiliarity with the grant, COVID-19, unexpected uptake by the public, and the implications to social assistance eligibility. Health and Social Services originally budgeted $18.2 million for social assistance in Whitehorse and increased it in the Supplementary to $19.7 million, which was short of the actual $20.8 million.

The Department of Health and Social Services' finance branch has initiated work on improving forecasting by implementing monthly and quarterly reviews of actuals compared to budget and forecasts.

69. Page 14 includes a section called "Impact of COVID-19". It states – "While the global pandemic had a very limited effect on the Government's Consolidated Financial Statements for 2019- 20, it had a significant and prolonged impact on both the revenue and expense pictures for the Government for 2020- 21."

What were the budgetary implications? What steps did the government take to be ableto implement such a comprehensive set of supports for Yukoners?

The Department of Finance, in partnership with the Department of Economic Development and the Executive Council Office, formed a short-term review process that utilized a basic evaluation framework to help determine where supports might be needed.

The Department of Finance took the lead by utilizing an existing working group of Assistant Deputy Ministers (ADM). Members consisted of a representative from each department and corporation.

COVID-19 business support ideas and concepts were presented to this group for feedback. The ADM group then reviewed and made recommendations to deputies.

Concepts endorsed by this group resulted in a more formalized submission and criteria details, which were analyzed so final decisions were made which enabled departments to move quickly to administer the programs.

The budgetary impacts were notable.

In 2020-21, the actual gross spending for the notable categories of support were $39.7 million in health care and public health spending, $42.1 million in economic relief and recovery, $3.1 million in education supports and $6.4 million in pandemic management spending. These are all gross figures and were offset by $70 million in recoveries resulting in a net impact of $21.3 million.

Revenue/Expenses, Opinion

70. ***How does a change in the population of the territory impact our annual transfer paymentfrom the Government of Canada?***

The Territorial Formula Financing grant is calculated by subtracting the territory's fiscal capacity from its Gross Expenditure Base(GEB).

The GEB is an approximation of the Yukon's annual revenue requirement, which is the amount required to provide Yukoners with similar public services as residents in the rest of Canada. The GEB is adjusted annually to account for growth in population and provincial, territorial, and municipal government expenditures. So as the population increases, so does our Gross Expenditure Base.

To provide some additional context around our fiscal capacity, this is an estimate of Yukon's ability to generate its own source revenue. It is calculated as the total revenue that the Yukon could raise from its largest non-transfer revenue sources if each source were taxed at the national average tax rate for that source.

71. The net financial assets reported as of March 31, 2021 is $182.7 million. The year-over- year increase is primarily a result of the increase in cash and cash equivalents and due from Government of Canada outstripping the increase in liabilities, and represents the first increase after five years of declines. Please provide more detail as to why the Yukon is in this position? What factors have contributed to this net financial position?

Net financial assets are calculated in the Statement of Financial Position as the total Financial assets less total Liabilities.

As of March 31, 2021, on page 37; the Consolidated Statement of Financial Position reports Financial assets for 2021 as $749.7 million and Liabilities as $597 million, which results in Net financial assets of $182.7 million; an increase of $10.8 million over the 2020 value of $171.9 million.

Financial assets increased by $82.2 million on the influence of increases in cash and cash equivalents ($22.4 million), due from the Government of Canada ($58.4 million), loans receivable ($17.5 million) and investment in government business enterprises ($7.8 million) offset by decreases in accounts receivable ($11.3 million) and inventories for resale ($13.8 million) plus the net of nominal movement increasing the total by $1.2 million.

On the other hand, Liabilities increased by $71.4 million. Including increases in due to the Government of Canada ($12.5 million), accounts payable and accrued liabilities ($36.8 million), unearned revenues ($11.5 million), post-employment benefits and compensated absences ($10 million) and retirement benefit liabilities ($8.2 million) offset by decreases in borrowings ($5.7 million), liabilities for leased tangible capital assets ($1 million) and the net of the remaining liabilities ($1 million).

Those are the components of Net financial assets from the top down, but there is also a bottom up way to calculate Net financial assets. This method takes the Accumulated Surplus minus the Non-financial assets, which also equals Net financial assets.

For 2021, the Accumulated Surplus of $1.893 billion minus Non-financial assets of $1.710 billion is equal to Net financial assets of $182.7 million.

This calculation is the basis for the Statement of Change in Net Financial Assets that is on page 39. Similar to how the Statement of Cash Flow, on page 40, begins with the Surplus/Deficit and then adjusts for non-cash items to reach the increase/decrease in the cash position; the Statement of Change in Net Financial Assets begins with the Surplus/Deficit and then adjusts for non-financial items to get to the net financial assets.

In this method, Net financial assets are calculated as last year's closing balance plus the surplus, then adjusting for the effect of change in tangible capital assets, the change in other non-financial assets and 'other comprehensive gain or loss of government business entities'.

Many accountants prefer this method because it is familiar in form to the Statement of Cash Flow and it has fewer parts to the calculation.

But as for what factors contribute to the net financial position, the name says it all; everything on the Statement of Financial Position contributes to the net financial position.