Yukon Legislative Assembly

Issue 5 35th Legislature

STANDING COMMITTEE
ON PUBLIC ACCOUNTS

Public Proceedings: Evidence

Wednesday, December 7, 2022 — 10:00 a.m.

Chair: Currie Dixon

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ON PUBLIC ACCOUNTS

Chair:	Currie Dixon
Vice-Chair:	Kate White
Members:	Hon. Nils Clarke (substituting for Hon. Jeanie McLean) Scott Kent Hon. Richard Mostyn
Clerk:	Allison Lloyd, Clerk of Committees
Witnesses:	**Office of the Auditor General of Canada**
	Sophie Miller, Assistant Auditor General David Irving, Principal Michele Spence, Director
	Department of Finance
	Scott Thompson, Deputy Minister Ralph D'Alessandro, Comptroller

EVIDENCE
Whitehorse, Yukon
Wednesday, December 7, 2022 — 10:00 a.m.

Chair (Mr. Dixon): I will call to order this hearing of the Standing Committee on Public Accounts of the Yukon Legislative Assembly. The Public Accounts Committee is established by Standing Order 45(3) of the Standing Orders of the Yukon Legislative Assembly. This standing order says: "At the commencement of the first Session of each Legislature a Standing Committee on Public Accounts shall be appointed and the Public Accounts and all Reports of the Auditor General shall stand referred automatically and permanently to the said Committee as they become available." On May 17, 2021, the Yukon Legislative Assembly adopted Motion No. 11, which established the current Public Accounts Committee. In addition to appointing members to the Committee, the motion stipulated that the Committee shall — and I quote: "… have the power to call for persons, papers, and records and to sit during intersessional periods…"

The Public Accounts Committee has a mandate to ensure economy, efficiency, and effectiveness in public spending — in other words, accountability for the use of public funds. Today, pursuant to Standing Order 45(3) and Motion No. 11, we will be discussing the Yukon Public Accounts 2021-22. I would like to thank the witnesses from the Department of Finance for appearing. They are: Scott Thompson, deputy minister, and Ralph D'Alessandro, comptroller. Also present are officials from the Office of the Auditor General of Canada. They are: Sophie Miller, Assistant Auditor General; David Irving, principal; and Michelle Spence, director.

I will now introduce the members of the Public Accounts Committee. I am Currie Dixon, the Chair of the Committee and the Member of the Legislative Assembly for Copperbelt North; to my left is Kate White, who is the Committee's Vice-Chair and the Member for Takhini-Kopper King; to her left is Nils Clarke, the Member for Riverdale North, who is substituting for Committee member the Hon. Jeanie McLean; to his left is Scott Kent, the Member for Copperbelt South; and finally, behind me is the Hon. Richard Mostyn, Member for Whitehorse West.

To begin today's proceedings, Sophie Miller will make an opening statement on behalf of the Office of the Auditor General. Scott Thompson will then be invited to make an opening statement on behalf of the Department of Finance. Committee members will ask questions that the Committee has devised collectively. The questions that each member asks are not just their personal questions on a particular subject, but those of the entire Committee.

After today's hearing, the Committee will prepare a report of its proceedings, including any recommendations that the Committee wishes to make.

This report will be tabled in the Legislative Assembly. Before we start the hearing, I would ask that any questions and answers be kept brief and to the point so that we may deal with as many issues as possible in the time allotted for this hearing. I would also ask that Committee members and witnesses wait until they are recognized by the Chair before speaking, for the benefit of our colleagues in Hansard.

We will now proceed with Sophie Miller's opening statement.

Ms. Miller: Mr. Chair, thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Yukon for the 2021-22 fiscal year. I would like to respectfully acknowledge all Yukon First Nations and acknowledge that the Committee meets on the traditional territories of the Kwanlin Dün First Nation and the Ta'an Kwäch'än Council.

I am accompanied today by David Irving, who is the principal responsible for the audit, and Michelle Spence, who is a director.

As the Government of the Yukon's auditor, our primary responsibility is to audit the government's audited financial statements and express an opinion on them. As legislative auditors, we also report on the government's compliance with specified authorities. The consolidated statements in the Yukon Public Accounts is a key government accountability document that can help Legislative Assembly members understand the results of the government's financial transactions. Therefore, our audit supports the Legislative Assembly's oversight of the government, promotes transparency, and encourages good financial management. The Committee's review of the Yukon Public Accounts is an important step in ensuring accountability for how public funds are spent and how government finances are reported.

I am pleased that the Committee is holding this hearing to examine the government's financial results soon after the Yukon Public Accounts were tabled.

The government carries out its accounting and financial reporting responsibilities through its office of the comptroller in the Department of Finance. The Deputy Minister of Finance and the comptroller will answer questions about the preparation of the financial statements. We will focus on our audit.

Our independent auditor's report is in part 2 of the Yukon Public Accounts, pages 31 to 34. We have issued an unmodified audit opinion on the consolidated financial statements. They conform, in all material respects, with the Canadian public sector accounting standards, which means that the information and the statements are reliable.

The consolidated financial statements, which include the accounts of the government and its controlled entities, show that the government had net financial assets of $163 million as of March 31, 2022. In other words, its financial assets are enough to cover its liabilities with $163 million left over. This is a key financial indicator.

The government makes estimates and assumptions that affect the amounts reported in the financial statements. The government's significant areas of measurement uncertainty are disclosed in the notes of the financial statements. These areas are inherently imprecise. As a result, it is possible that, in the future, an amount appearing in these financial statements could significantly change.

As a result of the ongoing COVID-19 pandemic, our auditors conducted this audit entirely remotely. We maintain good communication with the government departments and territorial corporations. We look forward to returning to Whitehorse next year to resume our audit work in person.

I would like to thank the Deputy Minister of Finance, the comptroller, their staff, and the staff of the departments and territorial corporations who were involved in preparing the government's financial statements. We appreciate the effort, cooperation, and help of all involved, especially given the pressures created by the pandemic.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer the Committee's questions.

Chair: Thanks very much, Ms. Miller.

Mr. Thompson: As mentioned, my name is Scott Thompson. I am the Deputy Minister of Department of Finance.

Joining me today is Ralph D'Alessandro, the comptroller for the Government of Yukon, and we are pleased to once again appear as witnesses before the Standing Committee on Public Accounts. We would like to thank the Committee for providing the department with the opportunity to speak about the 2021-22 Public Accounts.

Every year, a lot of hard work goes into preparing the government's year-end statements. This work is critical to ensuring that we remain accountable to Yukoners and serves to support evidence-based decision-making for subsequent budget cycles. I think the Chair and the representatives of the Auditor General's office did a good job of explaining the importance of this process and this cycle of doing our year-end financial statements and the Public Accounts process with the Auditor General in terms of explaining the accountability of our financial statements to the public.

I would like to specifically recognize the office of the comptroller and their staff for the huge effort that they put forward every year in supporting and coordinating financial reporting across the government to prepare the Public Accounts. This work takes place over many months and is an outstanding example of collaboration between departments in the Government of Yukon.

Over the last three audits, this group has had to overcome, as has the Office of the Auditor General, additional hurdles of the pandemic and the resulting alterations to processes, which we will have a chance to talk a little bit about later on. On top of these challenges, the team also saw the departure of some key long-time staff, and there continue to be struggles with recruiting and retaining suitable replacements in the accounting field. I think that all governments, all departments, and all entities are seeing similar challenges in trying to recruit financial expertise.

I'm pleased to say that this team has risen to these challenges by finding opportunities for change. The process of adding new staff to this area has included evaluating our long-standing processes, identifying deficiencies in how we do our business and finding solutions, as well as training the next generation of government accountants. I must applaud the efforts of departments and corporations. They work carefully to track and provide the data and information about their areas that appear in the documents we are presenting today.

We also make every effort to ensure that the Public Accounts are truly public. The documents that you have are the same documents that any member of the public can access from our website on yukon.ca, and they have been available since the Public Accounts were tabled in this Legislature on October 27. Members of the public can also access Public Accounts from previous years through our open information platform.

Mr. Chair, before I finish, I would like to also thank the Office of the Auditor General for continuing to offer professional solutions and support in this critical audit process, even though they have not been able to travel to the Yukon in person for the past three years. The department and the broader government recognize and appreciate the positive relationship that we enjoy with the Auditor General's office, and we're happy to see them here today.

As I conclude my remarks, I welcome and invite any questions from members of the Committee on previous recommendations or the Public Accounts that were tabled in October 2022.

Again, thank you for the opportunity to speak about this important work that we do each year, and thank you in advance for the questions.

Chair: Thank you very much, Mr. Thompson and Ms. Miller, for those opening remarks. Before we proceed with questions, just a final reminder that, while we will direct the questions to either the Office of the Auditor General or the Department of Finance, if people could just give me a visible indicator so I know who to introduce for the purposes of Hansard.

With that, we will carry on to questions, and we will begin with Ms. White.

Ms. White: Thank you, Chair. My first questions are for the officials from the Office of the Auditor General of Canada. Can you explain the role of the Office of the Auditor General in the preparation of the Public Accounts?

Ms. Miller: Thank you for the question. The Auditor General is the auditor of the Government of Yukon, pursuant to subsection 34(1) of the *Yukon Act*. As the auditor of the government, we carry out a financial audit in order to express and issue an opinion on the consolidated financial statements, and those statements are prepared by the office of the comptroller and included in the Public Accounts. We audit the financial statements and issue an opinion on them.

Ms. White: You provide an unqualified opinion. Can you explain what that means and why it's important, and could you describe scenarios where one would likely qualify an opinion?

Ms. Miller: The objective of our audit it to express an opinion on whether the financial statements are free from material misstatement. We do that by comparing them to accounting standards that have been issued by an independent standards-setting body. Those standards are the Canadian public sector accounting standards. When the financial statements conform with those standards, that is when we would issue an unmodified opinion. This is important because it gives the users of the statements confidence that they can rely on the information contained within the financial statements.

I can provide a couple of examples of situations where we may decide to issue a modified opinion. First, if we found errors in the financial statements or inaccuracies in the notes that we felt were so important that they should be corrected but ultimately not adjusted in the financial statements by the government, that is one of the areas where we would be issuing a modified opinion.

Also, as a second example, if there are certain situations that would limit the auditor's ability to verify the accuracy of an amount or a disclosure being in the financial statements, this is what we would call a "scope limitation", and we would then modify our opinion because of this limitation. As an example, during the pandemic in some situations, our office was unable to conduct inventory counts. If we weren't able to proceed and do other procedures, we would consider that as a scope limitation.

Ms. White: Can you please explain "materiality" and how it is used in your audit?

Ms. Miller: Thank you for the question, Mr. Chair. We apply the concept of materiality when we are planning, performing, and also reporting on our audit work. Materiality represents our judgment on the degree of significance of a misstatement, or misstatements, that could influence the decision of a knowledgeable user who is relying on the financial statements. In other words, it is the amount that would influence a user's decision. Materiality is important. It drives our testing in the samples that we select during our audit.

We also use materiality when we assess the impacts of misstatements on our audit opinion. In determining materiality, we consider both quantitative and qualitative factors, and it is important to note that even a relatively small misstatement may have a material effect on the financial statements because of a qualitative consideration. A preliminary materiality amount is set at the beginning of an audit and is reassessed throughout the audit and also at the end of an audit, so it is not just fixed in time; we assess it throughout our audit as well.

Ms. White: In your audit, what areas of the Public Accounts did you identify as those with the greatest risk of material misstatement, and can you explain the rationale behind that assessment?

Ms. Miller: We identified two areas of significant audit risk of material misstatement for the Public Accounts. The first that I would like to discuss is the one about measurement and certainty regarding the government's estimates for the Public Accounts. So, the government makes estimates and assumptions that affect the amounts reported in the consolidated financial statements, and the key management estimates are disclosed in note 2(g), which is on page 43 in part 2 of the Public Accounts. These estimates are post-employment and retirement benefits, environmental liabilities, the amortization of tangible capital assets, the corporate and personal income taxes, and contingencies. By their nature, these estimates are subject to measurement uncertainty, which means that the estimates may change and the assumptions could also change in the future. This could significantly affect the financial statements.

In our audit, we reviewed and challenged the government's estimates and assumptions and also proceeded in conducting audit procedures. We considered whether the amounts included in the financial statements were accurate, complete, and properly supported. On the basis of that work, we found these estimates to be reasonable.

The second area of risk, which is considered an automatic risk for any audit conducted in Canada and internationally, is a risk of management override of controls. Although the level of risk of management override of controls will vary from one entity to another, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it's a risk of material misstatement due to fraud, and thus, in our view, it's an automatic significant risk. Please know that, in our audit, we don't necessarily conduct an audit to design and to identify every fraud instance. If you take a close look at our audit opinion, it is actually stated under our auditors' responsibilities that the objective is to obtain reasonable assurance about whether the consolidated financial statement, as a whole or free of material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. We have to provide reasonable assurance to have a high level of assurance, but it's not a guarantee that the audit we conduct in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. That's the other area that we want to highlight.

We have conducted audit procedures for this risk on the basis of our work, and we have no items to bring to the Committee's attention.

Ms. White: What impact, if any, did COVID-19 have on this year's audit?

Ms. Miller: Thank you for the question. As noted in my opening statement, our auditors worked remotely as a result of the pandemic to complete the audit virtually. We updated our risk assessment. We evaluated the risk of fraud and all the contentious areas such as potential impairment of assets, liquidity, completeness of financial statement disclosures.

As the pandemic evolved, we continue to assess the impacts on our audit and adjusted our responses. We have assessed and reviewed areas that are more sensitive to accounting estimates and market fluctuation as a result of the pandemic, and overall, we adapted our approach. We are happy that we were able to maintain good communications with the office of the comptroller, the government departments, and the territorial corporations. We have worked together successfully to complete the Public Accounts virtually. We also found that, overall, the pandemic did not significantly affect the consolidated financial statements.

Hon. Mr. Clarke: My first questions are general questions for the Department of Finance.

With the Office of the Comptroller General being responsible for Public Accounts and the Office of the Auditor

General being responsible for the audit opinion, what work is done in collaboration between the offices during the audit?

Mr. D'Alessandro: Thank you, Mr. Chair, and through you to the Committee.

The comptroller is the main liaison with the Office of the Auditor General of Canada. This position coordinates the audit requirements, data collection, inquiry, follow-up, and all of the flow of information back and forth. The comptroller explains the government's treatment of accounting issues in the context of compliance with the public sector accounting standards.

Hon. Mr. Clarke: How did the COVID-19 pandemic affect the audit and how was this work coordinated?

Mr. D'Alessandro: Thank you, Mr. Chair, and through you to the Committee.

The 2020-2021 and the 2021-2022 audits were all done virtually due to the pandemic. This resulted in a significant increase in the time required to provide samples and schedules. There were some miscommunications or mixed messages and simple delays in responses because you are not in the room together. We got better at it, having had three years of experience, but it's not something that we want to sustain.

Hon. Mr. Clarke: What materiality level does the Department of Finance use in preparing the government's financial statements? In other words, what is your margin of error?

Mr. D'Alessandro: We begin with a zero margin of error target for submissions of departmental schedules and general ledger account reconciliations. Prior to closing the general ledger — or the "books", as we call them — all areas that are identified are corrected, regardless of their value. After the general ledger is closed and statement preparation has begun, all corrections need to be tracked manually in various statements and schedules, so only errors of $250,000 or more are considered for corrections.

Once consolidation with the other corporations' information begins, tracking corrections becomes more complex, so only errors over half a million are considered. Errors that are identified but not corrected in the current year are always corrected in the following year. In this manner, items that could have a significant impact on the statements are included and those less significant are postponed, expediting the completion of the statement preparation. It also ensures that anything material to the audit has been resolved.

Hon. Mr. Clarke: Please explain the significance of achieving a double A rating with Standard & Poor's for the government. Please elaborate on the rating to help Yukoners understand what this means.

Mr. Thompson: Last July, S&P Global Ratings affirmed the Yukon's strong financial position with a double A stable credit rating, and it has been quite stable, given that this was, I think, the 13th year that it has received this rating. The rating is further confirmation that sound and stable financial management in the past has provided the scope to respond proactively to the pandemic crisis.

S&P Global Ratings provide a forward-looking opinion on Yukon's creditworthiness. Essentially, it's an endorsement of a strong fiscal position and provides a way of benchmarking our rating against others. At the time of tabling the Public Accounts, only Canada and British Columbia had a higher credit rating than our double A level, so that is a further reflection of confidence.

To quote from the S&P report, Yukon's "Extremely predictable and supportive institutional framework supports creditworthiness." For Yukoners, this means that they can remain assured that the government continues to focus on strong and consistent financial management practices that enhance our long-term financial sustainability.

Mr. Kent: Thank you very much, Mr. Chair, and just a quick note that all subsequent questions will be directed to the Department of Finance unless otherwise noted.

My focus will be on last year's Committee recommendations. So, in our report on last year's Public Accounts, the Committee made four recommendations to the Department of Finance. The first was that the Department of Finance continue to make further technological improvements to the Yukon Public Accounts.

So, my question for the Department of Finance is: What progress has been made on technological improvements?

Mr. Thompson: The Department of Finance has ensured that the Public Accounts are made available online on the government's website in a user-friendly PDF format. The only improvement per se was to ensure that the document online was in a searchable format. We are exploring whether the user-friendliness of that document and the explanations that the public could benefit from could be enhanced in the future, but at this point, we are just making sure that the information is disseminated and is readily available and searchable online.

Mr. Kent: So, the Committee's second recommendation was that the Department of Finance continue to address issues necessary to facilitate earlier tabling of the Yukon Public Accounts, and the Standing Committee on Public Accounts of the 34th Legislative Assembly made a similar recommendation in 2021 and in 2020. Can the department tell us what progress has been made with respect to this recommendation?

Mr. Thompson: Yes, this has certainly been a recurring recommendation. I would say that our ability to make significant improvements to the timeline has not been helped by the virtual nature of the audits over the last few years. Nevertheless, the Department of Finance and the office of the comptroller are certainly interested in preparing the Public Accounts so that they can be tabled earlier. I believe the Office of the Auditor General also shares that goal.

So far, we have focused on getting the process back on its historical and traditional timing, pre-pandemic and before some of the staffing turnover that Mr. D'Alessandro talked about earlier. Once that timeline has been re-established — i.e., earlier in October — we will begin work on reducing the timelines for having all components from all the corporations and the government departments available to facilitate the earlier tabling of the Yukon Public Accounts.

One of the challenges is — and I think the Auditor General's office would concur with this — that, in order to produce the Public Accounts in a consolidated fashion, we need the audited financial statements for all the corporations so that they can be rolled up and consolidated.

So, there are steps along the way — building blocks — to the Public Accounts. Getting the corporations' financial statements audited and giving the Auditor General's office the chance to have those financial statements earlier in the year is critical to having an overall improvement to the timing of the Public Accounts on an annual basis.

Ms. White: Just as a follow-up, have the corporations been working alongside the Department of Finance to get those audits in sooner? What barriers exist right now?

Mr. Thompson: Thank you, Mr. Chair. The office of the comptroller works very closely with the corporations throughout this process. It's kind of a dual or triple relationship where the Auditor General's office is working with the corporations, we are working with the corporations, and we are working with the Auditor General's office. It's kind of a live and dynamic process throughout the summertime to try to get those wrapped up as early as possible. Certainly, we are as motivated as the Auditor General's office to get those corporation financial statements done in a timely manner and also of a high quality so that we can reduce some of the back-and-forth that may be required between the corporations and ourselves and between the corporations and the Auditor General's office.

So, yes, we work constantly and regularly throughout that process as a value-add to the process from the Finance department's perspective.

Mr. Kent: The Committee's third recommendation was that the Department of Finance include more cross-jurisdictional comparisons for certain measures where appropriate and explain the importance of such comparisons in the financial statement discussion and analysis section in future publications of the Public Accounts.

What progress has been made on including more cross-jurisdictional comparisons?

Mr. Thompson: Analysis of appropriate measures that can be used for cross-jurisdictional comparisons is being undertaken, although no new measures were selected for addition to the 2021-22 Public Accounts. Most suggested measures have proven to be somewhat inappropriate due to Yukon's distinctive nature, compared with the other jurisdictions in Canada. In other words, are they really helpful to be compared to all of the other jurisdictions in Canada? We only want to include additional cross-jurisdictional comparisons if they are helpful and relevant.

I believe that we'll look at more comparisons across the three territories since their financial situations and circumstances may be more relevant to each other and more comparable — so, limited progress on more comparisons this year, but perhaps a slight revamping and/or additional comparisons that will focus on comparisons across the three territories.

Mr. Kent: So, the fourth recommendation in the Committee's report on last year's Public Accounts was that the Department of Finance complete its plan to comply with the implementation and disclosure requirements of the new public sector accounting standard, or PSAS 3280, on asset retirement obligations for the 2022-23 Public Accounts.

My first question on this is for the Office of the Auditor General. Can you provide comments for the Committee about the imposition of PSAS 3280 and what it will mean for the Public Accounts going forward?

Ms. Spence: PS 3280 has an April 1, 2022 effective date for the government. This standard applies to all public sector entities that prepare their financial statements in accordance with the Canadian public sector accounting standards framework. This includes the government, Yukon Housing Corporation, Yukon Hospital Corporation, and Yukon University. We will see the effects of the standard in the financial statements for the first time in the upcoming 2022-23 Public Accounts.

For the 2022-23 financial statements, we expect that the government will report a new liability for asset retirement obligations and increase carrying amounts of the related tangible capital assets. We also expect an adjustment to accumulated surplus based on a modified retrospective application with restatement, which is a transition choice available to the government.

There will also be a new expense for creation of the liability and new disclosures in the notes to the financial statements. Another change is that PS 3270, which is for solid-waste landfill closure and post-closure liabilities, is retired. The government has been reporting liabilities for landfill sites in accordance with PS 3270, and these will be measured and presented differently under PS 3280.

Also, asset retirement obligations is another area of measurement uncertainty for the government. On an ongoing basis, the government will need to assess the carrying amounts of the liability at each financial reporting date, taking into account the best information that is available and remeasuring the liability if there are revisions to timing, estimates, and discounted cashflows or discount rates.

Mr. Kent: I am interested if the department can provide some comment on the imposition of PS 3280, what changes are planned in the coming years, and how comfortable the department is with progress on implementing PS 3280.

Mr. Thompson: I am happy to talk about this, since it has been the subject of considerable work over considerable time. Of course, it's one of our highest obligations to ensure that we are implementing and adhering to all of the public sector accounting standards.

We have partnered with the finance departments of the Yukon Housing Corporation, Yukon Hospital Corporation, and Yukon University to engage KPMG to provide professional advice, guidance, and support for the development of appropriate policies, processes, valuations, and implementation of PS 3280, asset retirement obligations. I may refer to it as "ARO" in the future.

Given that all four entities that I named are consolidated 100 percent in the Public Accounts, it seemed prudent that we all adopt the same fundamental policies, processes, and reporting formats. The revised policies were recently approved to be part of the *Financial Administration Manual* and have been shared with the Office of the Auditor General.

The second part of your question was about what changes are planned in the coming years. This new standard came into effect for the 2022-23 fiscal year, so the 2022-23 Public Accounts will include the full implementation of PS 3280 — or ARO — which will involve the addition of a new category of ARO assets, a new ARO liability, an increase in amortization, and a new accretion expense.

There will also be changes to the disclosure notes to reflect the new, significant accounting policies, revisions to tangible capital assets, amendments to environmental liabilities, and the addition of the asset retirement obligation liability.

The third part of your question was: How comfortable is the department with the progress on implementing 3280? The office of the comptroller is confident that they will be able to provide sufficient support for their decisions regarding the implementation of 3280, the treatment of ARO assets, liabilities, and accretion, and the disclosure of these items in the financial statements and notes such that the Office of the Auditor General will not require significant adjustments to those decisions.

Hon. Mr. Mostyn: Good morning, everybody. It is great to have the Office of the Auditor General back in the territory in person. I also want to thank the Finance officials for their participation this morning — particularly Mr. Thompson, who is obviously a little under the weather today, and I really commend his commitment to being here.

We are going to start on questions by section. Part 1 of the Public Accounts is "Financial Statement Discussion and Analysis". I have a question for the Office of the Auditor General. Is the financial statement discussion and analysis audited by the Office of the Auditor General?

Ms. Spence: Thank you, Mr. Chair. We do not audit the financial statement discussion and analysis — or FSD&A for short — nor do we express any form of assurance conclusion on it. Management is responsible for the FSD&A, and our responsibility is as set out in Canadian auditing standards. The section of our independent auditor's report called "Other Information", which you can see on page 31 of the Public Accounts, describes that our responsibility is to read the FSD&A and, in doing so, consider whether the information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Based on that work, if we were to conclude that there was material misstatement of the FSD&A, we are required to report that fact. We noted in our independent auditor's report that we have nothing to report in this regard.

Hon. Mr. Mostyn: Thank you very much for that answer. It is a little bit hard to hear you this morning. It is hard for me to hear in this Chamber, so if I could ask you to please stand up — and just as a follow-up to that: While you don't audit the financial statement discussion and analysis, do you review it prior to it being published?

Ms. Spence: Thank you, Mr. Chair. Yes, we read the FSD&A. What I was saying is that our responsibility is to ensure that there is nothing in the FSD&A that is materially inconsistent with the consolidated financial statements or information that came to our notice during the audit.

Hon. Mr. Mostyn: Thank you very much for that answer.

Can you tell us what information is contained in this section and — it's a two-barrelled question — has this section changed from previous years?

Mr. Thompson: The financial statement discussion and analysis, which I will now call the "FSD&A", is what we like to think of as the more user-friendly portion of the Public Accounts that helps Yukoners understand the often technical financial presentations by providing a plain-language executive summary.

The FSD&A includes highlights and assessment of fiscal health, indicators of financial and economic conditions, details of the financial statements in plain language, and risks and mitigations. This section provides information on a number of indicators and which attributes of YG's fiscal health they illustrate.

A brief explanation is provided to give the reader the context to assess the information. In addition to the explanations, the FSD&A has many charts to show a graphical description of the measure being discussed. Indicators are regularly shown over a 10-year timeline to provide trends and historical perspective, and some interjurisdictional comparisons are shown. The main change this year was the introduction of a graph depicting expenses by object to highlight the type of expenses and their proportion of overall spending. We also corrected some of the changes made last year — namely, using standardized colours for graphs and headings and using only nominal GDP in calculating ratios, on the advice of our economic policy staff.

Hon. Mr. Mostyn: In the financial statement discussion and analysis, where would you direct people who want to get an overall sense of the Yukon's finances?

Mr. Thompson: Thank you, Mr. Chair. The 2021-22 highlight summary is on page 3 and is essentially an executive summary of the Yukon's finances. Between the table and the seven points, the reader will find the items that are most asked for when assessing the year's results. Typically, we found those to be revenue, expense, annual surplus, the accumulated surplus, and net financial assets, along with high-level comparisons and explanations of variances to budget and last year's results.

Hon. Mr. Mostyn: My final question for this section is: How do you decide what indicators to include in the financial statement discussion and analysis?

Mr. Thompson: The Department of Finance is constantly scanning other jurisdictions for best practices. New indicators are assessed on availability of data, consistency of scope of the data, and relevance of topic and priority of topics.

When we were in discussions with the Office of the Auditor General a couple of years back on what would be most useful in a financial statement discussion and analysis, they thought that one of the Public Accounts that did a good job of this was Saskatchewan. So, we have kind of mined Saskatchewan's FSD&A for some of the measures and interjurisdictional analysis and have continued to use them somewhat as a model worth following.

Now, as we talked about in an earlier question, this is always something under constant review, and we discuss potential additions and modifications to that internally here and, where we're making significant changes, with the Office of the Auditor General — because, as was noted by Ms. Spence, while it's not audited, we do go through a process fairly late in the overall Public Accounts process where we are reviewing the FSD&A with them, and we take very seriously any comments they have on the FSD&A. We will continue to do that so that any new measures that we add — or any new indicators — we would be able to get their opinion on.

Other indicators that are included in the FSD&A are ones that already existed — so, kind of prior to that enhancement to the FSD&A of a couple of years ago. They are kept in for consistency until they are evaluated as not providing relevant and reliable information.

In other words, some of the new stuff we think is more useful and more relevant and helpful to the public — some of the other measures that are in there continue to be in there so that they can be used as a historical comparison. In other words, they are measures that have existed for some time so we don't want to drop them out and deplete people's ability to do a year-over-year comparison.

Chair: The question will be asked by me.

There is a section on Surplus (Deficit) on page 4, and to quote from it: "The surplus of $55.1 million for the year was $12.7 million higher than the previous year's surplus of $42.4 million, and $33.9 million higher than the budgeted surplus of $21.2 million."

Can you please explain why this is significant?

Mr. Thompson: I guess the first reason that it's significant is — I think having a budget that is in a surplus position is one of the most important principles of government financing. Either returning to surplus or remaining in surplus is significant in and of itself. This statement in the document is intended to place the current year's result in context of the prior year's result and the expected result that was budgeted.

In 2022, this statement indicates that the Yukon had a better result than last year and that the result also was better than expectations at the time when the mains budget was tabled. The statement should lead the reader to ask why the result was better when the expectation was for it to be worse than last year, and if the reader continues to read the complete section, a high-level explanation is provided.

The significance of the whole section is that it explains how the current result outperforms the prior year, as depicted in the graph.

Chair: With regard to accumulated surplus, there is a section on accumulated surplus on page 4, and it reads: "… the Government is reporting an accumulated surplus of $1.956 billion which is an increase of $62.6 million from the previous year's accumulated surplus…"

Can you explain the increase from the previous year's accumulated surplus?

Mr. D'Alessandro: The increase of $62.6 million from the prior year's accumulated surplus is due to a surplus of $55.1 million, plus other comprehensive gains of government business enterprises of $7.5 million. The other comprehensive gains of government enterprises are allocated to the Yukon Development Corporation for $7.4 million and the Yukon Liquor Corporation for $116,000. These other comprehensive gains of government business enterprises are listed in our note 11(a) of the consolidated financial statements on pages 49 and 50 and are detailed in the respective audited statements that we provide in part 3, section 3.

Chair: The net financial assets are described on page 5. The note states, and I quote: "The year-over-year decrease is primarily a result of the increase in accrued liabilities and environmental liabilities outstripping the increase in due from Government of Canada and investment in government business enterprises."

Can you please elaborate?

Mr. D'Alessandro: Net financial assets show how much the government has in financial assets to finance future transactions. It is calculated by subtracting liabilities from financial assets. In 2022, liabilities increased more than financial assets, which forced the net financial assets to decrease.

In 2021, the opposite occurred in that financial assets increased. I was asked last year if 2021 was an outlier, as it went against the recent trend of decreases. I can now say that it was.

Yukon is again seeing a decrease in net financial assets, in line with the prior trend, albeit at a lower rate of decrease. An interesting fact to note is that the downward trend was not impacted by the annual surplus or deficit of the year. The 2022 surplus is actually higher than the 2021 surplus. The net financial assets declined, rather than continuing to grow like they did in 2021; therefore, it can be stated with some certainty that the downward trend in surplus that we have seen between 2015 and 2020 was not the cause of the downward trend in net financial assets during the same time; the correlation doesn't exist.

Chair: Page 6 includes a reference to $16.8 million expended on the Dempster fibre project in 2021-22.

The first question here is for the OAG. In considering a project like the Dempster fibre project, can the Office of the Auditor General provide some comment about what the Public Accounts Committee should watch for as this project advances?

Mr. Irving: Significant capital projects can be complex. They need to be closely monitored to avoid cost overruns, to ensure proper recognition and disclosure in the Public Accounts. In addition, if a contractor is providing some of the funding for a project or involved in the design of a project and are going to be involved in the operation and maintenance of the project, it is important to analyze this project to determine if it meets the criteria to be considered a public/private partnership. The reason for this is that there are additional disclosures if it is a public/private partnership.

As part of our audit, we examine the funding agreement with the Government of Canada through its Connect to Innovate program and its Investing in Canada infrastructure program. We examine the agreement with the private telecommunications company that is responsible for the operation and maintenance of this fibre optic network for a period of 20 years. Management concluded that these arrangements are not a public/private partnership, and we did conclude that the contractual treatment is appropriate and the project is properly disclosed in the statements. In addition, it is important to watch the capital and operating commitments. If you take a look at page 110, you will see the contractual commitments for capital projects disclosed there.

Chair: To the department: Can the department provide an update on the Dempster fibre project?

Mr. Thompson: We reached out to Highways and Public Works, which is responsible for this, to get some information. It is a huge, complex, and critically important project for the territory. I won't be speaking to any of the technical details of the status of this huge construction project, but I will comment on some of the financial information and updates.

We were advised that they have expended $29.4 million, year to date, in 2022-23. They also stated that the project is expected to be complete in 2024.

Chair: Thank you.

Ms. White: So, we're moving on to the accumulated surplus to the territory's nominal GDP, so this is a question for the OAG. What should we interpret from the declining accumulated surplus relative to GDP on page 7?

Mr. Irving: Your interpretation will depend on your viewpoint. First, I want you to consider that accumulated surplus is the total of all the government surpluses each year, plus the other comprehensive gain or loss from the government business enterprises. You will notice that the accumulated surplus increased by $40 million in 2021 and another $62 million in the current year. So, the accumulated surplus has increased by $102 million in the last two years, to a total of $1,955,000,000.

As the gross domestic product rises, you might have different expectations. You might expect the government to invest more of its revenues in social programs and run a lower annual surplus. This would lead you to expect that the accumulated surplus should decrease relative to the GDP. Alternatively, you may expect that the government will save additional revenues and use them in a future year. In this case, you would expect the accumulated surplus to be increasing relative to the GDP. This is essentially a government policy decision on its spending priorities and not in the scope of our audit.

Hon. Mr. Clarke: Just asking Mr. Irving perhaps to just slow down a little bit and perhaps just to speak up a little bit, because we are all interested, I am sure, but I want to try to absorb the material that you are presenting, but it is being done respectfully, but a little bit quickly.

Chair: Thank you, Mr. Clarke.

Ms. White: So, the next questions are net financial assets to the territory's nominal GDP. Why is the net financial assets to GDP described on page 7 important?

Mr. Thompson: Net financial assets are important because they show how much the government has in financial assets to finance future transactions. It is calculated by subtracting liabilities from financial assets. As you will see in FSD&A, some of the charts there, only the Yukon and Nunavut have net financial asset positions on a consolidated basis. All other jurisdictions have net financial debt positions.

The percentage of net financial assets to GDP is an indicator of the size of the role the government plays in the territory's economy.

Ms. White: You answered in part, but with respect to the net financial assets to GDP, can you explain the importance of that indicator to us and why we should be paying attention?

Mr. Thompson: The percentage of net financial assets to GDP indicates the size of the government's net financial assets benchmarked against the Yukon's overall economic performance. The graph on page 7 shows a trend toward a lower ratio, which means that the government is playing less of a financial role in some of the aspects of the economy. I will talk more generally about financial measures that are benchmarked against GDP.

One of the reasons that is done is that it helps with comparability. So, if you want to compare a place like the Yukon to a larger jurisdiction, like BC or Québec, measuring it against the GDP means that it's more comparable. If you just had to compare net financial assets in an absolute way, it wouldn't have any relevance to each other. So, you benchmark it or you would do a ratio against GDP, and that helps bring it into comparability.

The other reason — and this is more of a case in jurisdictions that have net debt, as opposed to net assets — where a government has a net debt and where that net debt is increasing, it's often important for the government to show how that net debt is increasing faster or smaller than the GDP. That's why that ratio was used — the argument being that, if government is in a net debt situation and that net debt is increasing, if that's due primarily to things like capital works, creation of tangible capital assets — things like that which will have an economic impact — if the GDP is growing faster than the net debt, then that could be seen as a reason to incur additional debt.

As I said, in the Yukon, on a consolidated basis, we don't have net debt; we have net assets. So, it's not as relevant to use net financial assets to GDP as it may be in other places, but for purposes of comparing from jurisdiction to jurisdiction, it's still an important measure to use because it is a measure that is very commonly used by credit rating agencies and by financial analysts. So, for consistency purposes, it's important that we continue to show that ratio.

Hon. Mr. Clarke: Perhaps a follow-up for Mr. Thompson, but just to be clear — I think I have this, but just to over-simplify — on page 7, the net financial assets to the territorial nominal GDP, now at 4.3 percent — the only other jurisdiction in Canada that even has such a chart is Nunavut. Everybody else doesn't even have this chart, because you have crossed the Rubicon, so to speak, and it's a different chart because it's debt and not assets.

Mr. Thompson: Yes, assets and debt are just the flip sides of the same coin. So, if you are in a positive situation, then you are in net financial assets; if you are in a negative situation, you have net debt. We and Nunavut are the only ones in a net asset position. We still use the chart as a comparison to other jurisdictions, but it is maybe somewhat limiting in value when there are only two jurisdictions on that chart — where you are comparing like situations and where there are net financial assets.

Nevertheless, as I said, it helps to see where some of the other jurisdictions are, and it also helps to highlight that we remain in a net financial assets position.

Ms. White: The next question is for the Office of the Auditor General. There is a graph on page 8 that represents the net financial assets applicable to each Yukon resident. What should Yukoners be aware of regarding the current trajectory of our net financial assets per capita?

Mr. Irving: I think it's important to understand that net financial assets — it is a combination of your financial assets, so your cash, your investments, your receivables, your investment in government businesses and enterprise, your inventories for resale — and subtracted from that are your liabilities — so your payables, your debt, environmental liabilities, and amounts for staffing.

What this calculation excludes is your investment in tangible capital assets. Those are non-financial assets.

So, if you think about it from one standpoint, when you are investing in significant tangible capital assets projects, this would generally decrease your net financial assets because you are going to be using your financial assets — your cash — to build these projects. Similarly, you might have additional liabilities, payables, or debt.

It's important to understand that your financial assets have actually increased by $162 million over the last two years to $829 million. However, your total liabilities have increased at a slightly higher rate — $117 million — so your net financial assets over the last two years have decreased — $8 million. But I want you also to consider that your non-financial tangible capital assets have increased by $105 million over the last two years to $1,000,774,000. One way of thinking about this is that those annual surpluses have mainly been used to fund these significant capital projects.

The changes in net financial assets can often be affected by policy decisions: how much debt you want to take on relative to your tangible capital assets or which tangible capital assets you want to move forward with. As the department explained, the Government of Yukon is in a net financial asset position, so that is very positive. They have more financial assets than liabilities. Most governments do have a net financial debt position, and that is because they have borrowed significant monies to fund their capital projects.

In addition, as the population increases, you would expect that this would naturally decrease the net financial assets per capita if you are maintaining a similar net financial asset balance, which the government has over the last couple of years.

Ms. White: Just to follow up on that, understanding that a large portion of our revenue in Yukon is transfers from Canada, if there is a downward trend on that transfer from Canada, then the expectation would be that Yukon would need to be going into, for example, the surplus or look toward borrowing to do those investments.

Mr. Irving: The Government of Yukon does receive significant transfer payments from the Government of Canada. How you choose to spend that is a policy decision. If that is not increasing and you are going to invest in more tangible capital assets and more significant projects, then yes, that would decrease your net financial assets.

Hon. Mr. Clarke: There is a section called "Liquidity Ratio — Current Assets to Total Debt" on page 8. Can you explain our liquidity ratio of 1.45?

Mr. D'Alessandro: The ratio compares current financial assets. That is slightly different from net financial assets. The current financial assets only include cash equivalents, temporary investments due from the Government of Canada, and accounts receivables, and it is compared to the "total debt", as we define it in note 17 to the consolidated financial statements.

That total debt is calculated using the Yukon borrowing limit regulation and includes all entities of the government. So, you can tell that I am stacking the deck. It is going to be a very conservative number. The ratio indicates how many times the government could pay off its borrowings without having to begin to liquidate its long-term financial assets. The aim is to have as high a ratio as possible without impeding your other economic opportunities. A ratio of 1.45 indicates that the government has current financial assets enough to pay the total debt, in note 17, almost one and a half times. A ratio below 1 would have implied that, if the government needed to pay out all of its borrowings, it could not do so without selling its longer term financial assets.

Hon. Mr. Clarke: There is a section called "Flexibility" and "Own-Source Revenue to the Territory's Nominal GDP". The note under "Own-Source Revenue to the Territory's Nominal GDP" reads as follows: "This ratio indicates to what extent the Government is taking economic resources out of the territory's economy through user fees or taxation. This ratio is relatively constant over time indicating that the Government has not changed its demands on the economy. The ratio is also relatively low compared to other Canadian jurisdictions and indicates that the Government has some flexibility in increasing taxes and other fees without causing a severe impact on the economy."

Is the department planning any new revenue sources at this time?

Mr. Thompson: No, the department is not planning any new revenue sources at this time, nor is it working on any analysis of any proposed new revenue sources.

Hon. Mr. Clarke: Can you explain our own-source revenue of 6.1 percent?

Mr. Thompson: This is another example of one of those indicators that we peg to GDP for comparability purposes. The ratio of 6.1 percent is calculated by dividing our own-source revenue by the Yukon's nominal GDP. Our own-source revenue of $231.4 million is detailed on page 73 in Schedule A — the consolidated schedule of revenues by source under the heading "Taxes and general revenues".

As indicated below the graph on page 9, Yukon's nominal GDP for 2022 is forecast to be almost $3.8 billion.

Hon. Mr. Clarke: There is a section on vulnerability on page 9. Where are we vulnerable in revenue?

Mr. Thompson: The chart on page 9 indicates that transfers from the Government of Canada continue to range from 80 to 85 percent of the total revenue for the Yukon.

In the private sector, if a corporation relied on a single client for over 80 percent of its revenue, then it would be considered to be vulnerable to the whims of that client.

The fact that 80 to 85 percent of our revenue comes from the Government of Canada, I suppose, means that we are vulnerable in theory, but I would say that this is more than made up for by the stability of that one client being a senior level of government — one for which we have formulas that drive the determination of our funding levels, formulas that are designed to reduce the shock factor. In other words, they are averaged over a number of years, and any changes that are happening are delayed for a couple of years to allow for jurisdictions to prepare for that.

I feel that this, combined with the fact that the federal government is tied to constitutional obligations, mitigates what would normally be seen as a vulnerable revenue situation.

A final note of interest is that Standard & Poor's credit rating agency, in their annual assessment of the Government of Yukon, considers the stability of a high percentage of revenue coming from a senior government as an enviable position rather than a vulnerability. That is primarily based on some of the factors that I just mentioned.

Hon. Mr. Clarke: Under "Transfers from the Federal Government to Total Revenue", it says — and I quote: "… the Government received 84% of its revenue from the Government of Canada…" What is the transfer amount forecast for fiscal year 2023-24? What can we learn when comparing this transfer amount to previous years? Is it a stable, predictable increase?

Mr. Thompson: So, each year in the Budget Address, we publish a three-year view of the financial forecasts, including for the transfers from Canada. You can find those numbers on page 4 of the March 2022 fiscal and economic outlook. We estimated at that point in time that, in 2023-24, the transfers would grow five percent to $1.307 billion from this year's estimate of $1.244 billion.

The grants are designed to provide Yukon residents a range of public services comparable to those offered by provincial governments at comparable levels of taxation. They are designed to adjust with population levels and changes to comparable provincial and territorial expenditures and revenues. In our view, the transfers are both stable and predictable.

Hon. Mr. Clarke: My final question this round is: What was the transfer amount received by Yukon that was not COVID-19-related?

Mr. Thompson: The total transfers from Canada reported as revenue totaled $1.481 billion. Actual revenue reported as related to funding for COVID was $31 million — so a critical part of the federal support but, in terms of sheer dollars, a relatively small portion of that total amount.

The remaining $1.45 billion included: $1.118 billion for the territorial funding formula; $48.5 million for the Canada health transfer; $17.4 million for the Canada social transfer; $22.5 million for carbon amounts received; $25 million for climate change priorities; $748,000 for the cannabis transfer; and $217.8 million in service agreements across multiple departments.

Mr. Kent: My first question is about the net financial assets or debt-to-GDP ratio. I know you have talked about this a little bit in questions from Ms. White and Mr. Clarke, but we have noticed that Yukon and Nunavut are the only jurisdictions that have a positive ratio. So, is there anything else you would like to add with respect to factors contributing to that positive net debt-to-GDP ratio, and what has Yukon's net-debt, or asset-position, -to-GDP ratio been in previous years? I believe that is identified in that graph on page 7, but I'm just curious if there's anything you would like to add.

Mr. D'Alessandro: The ratio is calculated as net financial assets, net debt, divided by GDP. So, mathematically, the ratio is positive if both elements are positive, which means that the only factor for obtaining a positive ratio is having net financial assets rather than a net debt position.

Net financial assets indicate that the government's net financial assets exceed its financial liabilities at the date of the financial statements, so they are snapshots. It's a point-in-time picture.

What I would suggest is that all of these indicators are just simply pixels in a picture. You need all of the pixels together to give you the full picture. Taking them in isolation tends not to provide a good focus on what the picture is, so that's why we provide as many different pieces as we do to give you different aspects of the economy and how we are interacting with it.

There is also the fact that, as we and Nunavut are the only two that have net financial assets, it is something that distinguishes how our governments have chosen to finance their activities over the last two decades or more, compared to how the other jurisdictions have, and there are lessons to be learned there.

Mr. Kent: My next series of questions is with respect to the carbon price rebate program, from page 13 in the Public Accounts.

First of all, my first question is: Why has the closing liability grown so much?

Mr. Thompson: The federal carbon levy increases each year on April 1. The levy is generally increasing faster than emissions are decreasing, which means that the amounts received from the carbon levy transfer are going up each year. At the same time, uptake for the general business rebate was lower than expected in the initial years of the program, and we're still in the initial years, really.

This was because it took a while for the tax software developers to catch up, and they did not initially include the business rebate in their tax preparation programs. That didn't mean, obviously, that tax filers weren't entitled to it — and if they applied for it, they received it — but it just meant that it wasn't as automatic for those who were using certain tax-filing programs to receive it.

These two factors — increasing carbon levies and the low initial uptake — are the main causes of the higher closing liability. I should also add that — and maybe we can deal with it in a subsequent question as well — as some of you are likely aware, the fact that you don't apply for something in your business tax filing in one year, you have a number of years to catch up with that. So, if they neglected to apply for the business rebate two years ago or last year, but are now more aware of it, they have that period of time to catch up and still get the benefits of it on their tax returns.

Mr. Kent: The department touched on this, and it is clear that businesses are not fully accessing the rebates. I am curious if there have been any additional actions from the department to address this. Just as a quick follow-up, I will note that, when we did the Public Accounts hearing last year, the tax software companies not being caught up was addressed at that time as well. Has there been any movement from those software companies to catch up with respect to this particular rebate?

Mr. Thompson: Yes, it was much more problematic last year than it is this year. Because of the efforts that we have taken, working with not only the business community, mining community, and the tax software providers, we expect it to be different this year.

Following several outreach efforts to raise awareness, including advertisements and direct contact with organizations, software providers are now including the business rebate in their tax preparation programs. This has significantly increased the uptake, and we are seeing the evidence of that. Businesses that use these software applications are now automatically prompted to claim their rebate. As a result, the number of rebates assessed increased by approximately 250 percent from the first half of 2021 to the first half of 2022.

Mr. Kent: So, I am curious what the long-term impacts of this current trajectory are if it remains unchanged and continues to grow at the current rate for these liabilities.

Mr. Thompson: Yes, I guess to be clear, we do not expect this trend to continue, and we have already taken steps to ensure that it — well, to do the best that we can to ensure that it doesn't continue, and if it did continue, I think that the government would be faced with having to make some policy changes.

The carbon rebate programs are designed to automatically balance over time. Surpluses or deficits that arise in one period are carried forward to adjust rebates in the next period. So, for example, the business rebate for 2022-23 is roughly four times higher than that of the previous year. This, combined with the increasing program uptake noted previously, will significantly reduce the balance in the carbon rebate fund. So, we expect it to be a different situation this year — next year.

Mr. Kent: So, my final question about the program is: Are there any planned changes to this program as a result of the passage of the *Carbon Price Rebate Amendments Act*, which we just completed in the Fall Sitting?

Mr. Thompson: Yes, the subject of considerable discussion here in this Assembly, Bill No. 21 amended the carbon rebates for placer and quartz mining businesses to align with new federal pollution pricing requirements. The Canada Revenue Agency will now administer placer and quartz mining rebates through the tax system, alongside our existing rebate for general businesses. We expect that initial uptake for the new mining business rebate will be much higher, compared to the general business rebate. Awareness of the new mining rebate is exceptionally higher among placer and quartz mining operations.

The Department of Finance is also coordinating with Canada Revenue Agency to ensure that the new mining rebate is included in the CRA's tax forms and system updates in May 2022. This will ensure that mining operations can efficiently claim their rebate at the same time as they file their income tax returns.

Hon. Mr. Mostyn: Under financial assets and temporary investments, under "Temporary investments" on page 20, it says: "At March 31, 2022, the Government held $4.1 million in temporary investments compared to $1.6 million the previous year."

Can the department explain the cause of the increase in temporary investments?

Mr. D'Alessandro: As disclosed in note 8, "Designated assets" on page 47 of the statements, "The Government has designated a portion of its assets for the purpose of meeting the obligations under Part 3 (Supplemental Plan) of the *Legislative Assembly Retirement Allowances Act* … as well as the 'Severance allowance' section of the *Legislative Assembly Act*…"

These funds are managed by a third-party fund manager. During the 2021-22 fiscal year, the fund manager moved $3.3 million from portfolio investments to temporary investments within these designated funds.

Finally, as also disclosed in note 4, "Temporary investments" on page 45, there was $819,000 of term deposits held by the university at March 31, 2021. Those were not renewed at their maturity during 2021-22, and that explains the differential of the $2.5 million.

Hon. Mr. Mostyn: Thank you for that answer.

Part 2 of the consolidated financial statements — the audited consolidated financial statements start on page 27. How is it decided which entities are consolidated in the Public Accounts and the method used?

Mr. D'Alessandro: Public sector accounting standard 1300, government reporting entity, is the public sector accounting standard that provides the guidance that we follow in determining which entities are consolidated and how.

Note 2, "Significant accounting policies", section (a), "Reporting entity and method of consolidation", beginning on page 9 of the notes, provides the details regarding how we have applied the guidance provided in PS 1300, and that is how we have established that the Yukon Hospital Corporation, the Yukon Housing Corporation, and Yukon University are 100-percent consolidated with full eliminations, whereas the Yukon Development Corporation and the Yukon Liquor Corporation are consolidated using the modified equity process; therefore, we only recognize certain numbers from their performance.

Hon. Mr. Mostyn: Thank you for that answer.

What improvements have been made to the presentation of Public Accounts, and what are some continuing areas for possible improvement?

Mr. D'Alessandro: The improvements to presentation of the Public Accounts have occurred mainly in the financial statement discussion and analysis. It has been expanded over the last two versions to provide more information and language as plain as possible, given the technical topics often discussed. This section, the financial statement discussion and analysis, provides the broadest scope for including further information that may be of interest to Yukoners and other readers, such as this year's addition of the "Expenses by object percentages" on page 17.

Conversely, the presentation of the consolidated financial statements is regulated by the public sector accounting standards, so little opportunity exists for deviations; however, a new conceptual framework was issued by the *CPA Canada Public Sector Accounting Handbook* on December 1, 2022. The approval and assurance of the conceptual framework is a significant milestone for the Public Sector Accounting Board and financial reporting in the Canadian public sector. A new reporting model standard is expected to be approved and issued in 2023, and we will have to be compliant with it. Meanwhile, the implementation of the public sector accounting standard 3280, asset retirement obligation, will see the addition of some new line items in the financial statements, changes to the schedule for tangible capital assets, and the addition of new disclosures in the notes.

Hon. Mr. Mostyn: We are going to move to the consolidated statement of financial position. The consolidated statement, as at March 31, 2022, is on page 35. Can the department explain the increase in the amount due from Canada?

Mr. D'Alessandro: Note 5, due to/from Government of Canada, on page 46, provides the year-over-year comparison of the major components that make up this amount. Year-over-year variances are driven by two aspects: the volume of the activity in an item and the disposition of claims and invoices at March 31. Often, the change is simply due to not getting paperwork issued on time to have payments processed prior to the year-end cut-offs, so they show up either as due payable or receivable.

Hon. Mr. Mostyn: Can the department explain the increase in government business enterprises?

Mr. D'Alessandro: The investment in government business enterprises represents the equity portion of Yukon Development Corporation and Yukon Liquor Corporation, as accounted for by the modified equity method.

Details of the calculations and the growth in the equity of the corporations are disclosed in note 11(a), beginning on page 49, with the equity numbers actually shown on page 50. That is how we grow our investment that we hold in those two corporations.

Hon. Mr. Mostyn: Thank you, Mr. Chair, and thank you for that answer. Can the department explain the increase in accounts payable and accrued liabilities?

Mr. D'Alessandro: Various factors explain the changes in accounts payable and accrued liabilities, such as cut-off date, holdbacks and security deposits, where in project, and approval of invoices. Note 12, "Accounts payable and accrued liabilities" on page 53, provides the year-over-year comparison of these components for this amount and, based on the values there, it can be surmised that the increase is related to both the volume and timing of activity that occurred this year.

Hon. Mr. Mostyn: Thank you for that answer once again. Can the department explain the significant increase in environment liabilities?

Mr. D'Alessandro: Note 13, "Environmental liabilities", beginning on page 53, provides both narratives and a table of the details of the values recorded. The table on page 55 reveals that the majority of the $51-million increase relates to two items: Wellgreen, which increased $11 million, and Wolverine, which increases $39 million. Details for Wellgreen are provided in the last paragraph on page 53, and details for Wolverine are conversely found in the first paragraph on page 54.

Chair: Back to me for questions with regard to the consolidated statement of operations and accumulated surplus. Page 36 contains the statement of operations and accumulated surplus. Under "Expenses (Schedule B)", can the department explain the change between the budget and actuals for 2022 in the line of "Natural resources"?

Mr. D'Alessandro: Thank you, Mr. Chair. The budget-to-actual variance in 2022 for natural resources is the result of numerous factors in the function, but the largest influence on the result was the $50-million increase in environmental liabilities, which were not included in the original main estimates for 2021-22.

Chair: With regard to the consolidated statement of change in net financial assets on page 37, what were significant acquisitions or capital projects that drove the tangible capital assets?

Mr. D'Alessandro: As listed on page 6 in the FSD&A highlights under "Investment in Tangible Capital Assets", expenditures in 2021-22 on multiple-year projects included: $16.8 million expended on the Dempster fibre project; $5.7 million on the Old Crow Health Centre; $4.1 million on the Old Crow tenplex; $5.7 million on the Pelly Crossing pool facility; $9.8 million on the Whitehorse mixed-use housing project; $5.2 million on community housing projects; $2.8 million on the Whistle Bend school; $2.7 million on modular trailers at Robert Service School; $28.9 million on construction work on various roads and highways; and $15.7 million on bridge work on the Alaska, Klondike, and Robert Campbell highways.

Chair: Can the department tell us how much was budgeted for capital projects in 2021 and how much was actually spent?

Mr. D'Alessandro: $434.3 million was included in the original main estimates. Another $3 million was added during the supplemental estimates, for a total of $437.3 million; $343.3 million was actually expended.

Chair: Can the department provide a breakdown by department with explanation of the changes or differences between budget and actual spending?

Mr. D'Alessandro: The Management Board Secretariat has provided the explanations that were compiled during their P12 variance analysis of the $94-million variance between budget and actuals. There were 11 departments involved. I will hit the highlights for you.

Community Services budgeted $118.8; actuals of $86.1 million led to a variance of $32.7 million. Residential land development was underbudget both in Whitehorse and the communities; $15.7 million lapsed in total, $8.5 million just in Whistle Bend. Investing in Canada infrastructure program lapsed $13.3 million; Dawson reservoir, Haines Junction infrastructure upgrades, and Vuntut Gwitchin elders complex were the top drivers. Next highest of the variance was in Highways and Public Works; a budget of $189.9 million and actuals of $174 million left a variance of $15.8 million. Major lapses were: Yukon Resource Gateway program, $10.5 million due to delays in ongoing First Nation implementations and delays in YESAB applications; Old Crow complex, $9.1 million; Selkirk storm drain, $3 million; Whitehorse airport runway site project, $2.5 million; and Old Territorial Administration Building retrofit of $1.6 million. Lapses were offset by higher expenditures and upgrades along the north Klondike Highway as projects progressed faster than planned.

The next highest variance would be within the Yukon Development Corporation, which had $27.9 million as their budget with only $13.3 million as their actuals, for a variance of $14.6 million. That $10.2 million lapsed under incentives in Canada infrastructure program, mainly from the grid-scale battery storage system and the Mayo-McQuesten transmission line not progressing as planned and $3.6 million for projects under the Arctic energy fund. The largest driver was the Haeckel Hill project on that.

The last one that I will go through was Education — $24.6 million budgeted and $13.3 million actual, for a variance of $11.3 million. There was $6.2 million from the Whistle Bend school delay and project award and excavation timelines. There was $3.7 million from Robert Service School due to delays in supplies. As I mentioned, there were 11 in total. The rest of the departments were fairly close and not worth taking up further of your time.

Chair: I have one quick follow-up on the previous question. With regard to the question about how much was actually budgeted versus spent in 2021-22, Mr. D'Alessandro said that $437 million was budgeted and $343 million was actually spent. Can you provide some context for why that gap exists, and what conclusions should we draw from the inability of the government to fully spend its budgeted capital?

Mr. D'Alessandro: I would defer that question to the Management Board Secretariat, which does the actual analysis of the variances. I just tend to report actuals. I don't get into that side of the management accounting anymore, but I would make the comment that, on a personal level, I have noted that we tend to overbudget compared to the capacity that we can actually produce, given the size of the economy here in the Yukon. We are predominantly bringing in people from the south to do the work. With the conditions over the last two years, that has been extremely difficult.

Mr. Thompson: I just wanted to take the opportunity to supplement that, although I think Ralph covered the main points of it.

Looking at the lists of explanations for why the actual spending did not come up to the level of budgeted spending, you can see that a lot of it had to do with delays that were COVID-related, either getting supplies or getting labour or other delays in tendering and things like that. What Mr. D'Alessandro said is, to some degree, always a fact — where your expectations for the pace of a project may be higher than the reality and therefore you budget on an anticipated level that is not borne out.

I would say that, in the last two years, it has been exacerbated by the pandemic and the ability of projects to stay on pace as a result of those supply-chain and labour challenges.

Chair: One further supplementary question there is: Is the gap between budget and actual spending — it is roughly three-quarters, I would say. I could be wrong on the overall number there, but is that consistent with previous years?

Mr. Thompson: So, $343 million to $434 million — is that the three-quarters that you are referencing?

Chair: That is correct.

Mr. Thompson: It depends on how far back you go. I would say that it is, just based on memory, a higher figure certainly than 2020 and 2021 and in probably the two or three years prior to that. If you go back further than that, I would have to look for the data, but I think it was higher than that or at the same level as that at different times in the past.

I am sorry; I don't have that data in front of me, but my memory serves that what we are reporting on here is higher than the immediate past. There have probably been cases in the years before that where the amount lapsed on the capital side has been as high as that.

Chair: Can the department explain in detail the decrease in net financial assets of $74,551,000?

Mr. D'Alessandro: I will start off by pointing out that this number is actually a budgeted number, and it is the decrease in net financial assets resulting from the budgeted surplus, budgeted TCA acquisitions, budgeted amortization, and adjustments in the main estimates. The accuracy of this estimate is limited, as it is only the statement of operations components available to inform its calculation, whereas, as you see in the next column over, the actual calculation requires the impact of changes in other non-financial assets.

This shortfall is acknowledged by not continuing the column to the closing balance for net financial assets, which is what that statement is providing. It should also be noted that, on the advice of the Office of the Auditor General, we removed the values for accumulated surplus and net financial assets in the budget column on the financial results table, on the first page of the FSD&A, for similar reasons.

Chair: Can the department explain the decrease in net financial assets at the end of the year?

Mr. D'Alessandro: As discussed previously, net financial assets are calculated by subtracting the liabilities from financial assets, as reported on the statement of financial positions on page 35. The statement of change in net financial assets on page 37 provides a reconciliation of the statement of operations surplus (deficit) to the change in the net financial assets. Essentially, the statement indicates the non-financial assets items that impacted net financial assets but not surplus (deficit) — for example, acquisition of tangible capital assets or investment of inventories of supplies. It also indicates which non-financial assets items impacted surplus (deficit) but not net financial assets — for example, amortization or the consumption of inventories.

There is also one final component for the financial assets item related to the investment in government business enterprises. This value is not part of the annual surplus deficit but is added directly to accumulated surplus, so its treatment is similar in this statement.

Chair: Okay, before we carry on to Ms. White, I will just note for the Committee and for witnesses that it is 11:48, and we will break at or close to noon, so I may interrupt at some point between now and then.

Ms. White: So, the consolidated statement of cash flow is on page 38. Can the department explain the change in surplus of government business operations?

Mr. D'Alessandro: As provided on the line in the consolidated statement of cash flow on page 38 for surplus government business enterprises, details can be found in note 11(a). In Note 11(a), "Investment in government business enterprises" on page 49 and 50, summary financial statements for Yukon Development Corporation and Yukon Liquor Corporation are presented and show the calculation of the current surplus, along with last year's comparative values. Further details regarding the government business enterprises are provided in the rest of the section of note 11, which continues through to page 52.

Ms. White: Notes to consolidated financial statements begin on page 39. In note 1, "Authority and operations", under "Budget", the use of special warrants is noted. Can the department explain the effect that special warrants have on Public Accounts?

Mr. D'Alessandro: Special warrants are a component of the government's governance controls that ensure that proper authority is always in place for the approval of expenditures. They are part of the budget process and are subsequently incorporated into the main estimates or possible supplementary estimates, which only appear in the Public Accounts as comparative figures; therefore, it has no effect on the Public Accounts.

Ms. White: Under "Significant accounting policies", tangible capital assets are described on page 43 under note 2. How is the estimated useful life of tangible capital assets determined?

Mr. D'Alessandro: In estimating useful life of tangible capital assets, a variety of factors are taken into consideration. Such factors include: the condition of existing comparable assets; the expected wear and tear from usage from passage of time; expected usage; the effects of technology advances; and anticipated repairs and maintenance. While Finance has provided direction in the *Financial Administration Manual* of acceptable ranges of estimated useful life by asset category, we fully expect the purchasing department subject matter experts to provide their input on what the estimates should be for each specific asset.

Ms. White: How is the accuracy of estimated useful life audited?

Mr. D'Alessandro: It might be more appropriate to refer to Finance's activities as "monitoring" rather than "auditing". That monitoring will be able to be more robust as we introduce the fixed asset module in the main financial system. This module will integrate the purchasing and maintenance activity with the tracking of assets. We are hoping to introduce the use of condition reporting to inform decisions regarding remaining useful life of assets, thus allowing corrections, if needed, and to inform future estimates on similar assets.

Ms. White: This is a question for the Auditor General.

In regard to "Measurement uncertainty" on page 45, it is noted that environmental liabilities are — and I quote: "… subject to a high degree of measurement uncertainty…" I would like you to discuss this. Has the Auditor General noted this to Yukon government before?

Mr. Irving: Yes, we have noted this to the Yukon government. Environmental liabilities involve a significant measure of uncertainty in the current year and in prior years.

There are several assumptions made for how significant that contamination is at various sites, when in the future the remediation will occur, and what would be the appropriate inflation and discount rates to be applied.

Ms. White: What steps have been taken by Yukon government to address this?

Mr. Irving: I prepared our response as to what our audit work is as opposed to what the Yukon government was doing. From our audit perspective, we evaluate the reasonableness of the government's methodology for determining environmental liabilities. We review the key assumptions, and we test, on a sample basis, the data used to determine whether these assumptions are reasonable, appropriate, and properly supported.

We reviewed and assessed management's updated analysis and inclusions on significant sites.

Ms. White: A last follow-up for the AOG: Are there further steps that should be taken?

Mr. Irving: Yes, we have discussed with the government in prior years and in the current year that our comparison of average past actual remediation costs has exceeded their estimates. As such, we have recommended to the government that they should re-evaluate their estimates for their sites, based on the higher cost experienced versus what they have estimated.

The government has indicated that they are considering upgrading their costing matrix.

Ms. White: This is actually a quick follow-up for YG. So, understanding that the Auditor General has said that the environmental liabilities estimate has always been lower than the actual cleanup cost, what actions is the Yukon government taking to address that issue?

Chair: Before we go to that, I will note that we have a series of questions about this, and there will be a lengthy reply to this. So, maybe we'll take this opportunity to exercise a recess.

It's 11:55 a.m. We are going to take this opportunity to recess and return at 1:00 p.m. for further questioning. So, at this time, we will enter the recess.

Recess

Chair: We will return to order from the recess and carry on.

Prior to moving on to the next question, Mr. D'Alessandro, did you want to clarify a few comments?

Mr. D'Alessandro: I was just confused during the back-and-forth between yourself and Mr. Thompson on the "three-quarters". You were referring to three-quarters of the budget having been spent, not that it had lapsed — correct?

Chair: I was referring to the question in relation to the amount budgeted for capital being $437 million, and the amount actually expended — the actual expenditures were $343 million. Subsequent calculations lead me to believe that it is not quite exactly three-quarters, but that is what I was referring to. Okay?

Mr. D'Alessandro: Okay.

Chair: We will carry on with questions then, and where we concluded was at the tail-end of Ms. White's, and so we will pass along to Mr. Clarke.

Hon. Mr. Clarke: Page 46 contains note 5, "Due from/to Government of Canada". Can the department explain the increase related to RCMP that is due from Canada?

Mr. D'Alessandro: We reached out to Justice and confirmed that the amount related to RCMP in note 5 indicates the amount due to Canada accrued for the fourth quarter payment for their various service agreements that are in place, and as noted, there has been an increase of almost 23.5 percent on certain salaries and increases for maintenance, fuel, and utilities in those costs. There was also some limited term funding for capital, hence the increase in that fourth-quarter payment.

Hon. Mr. Clarke: Then we have loans receivable. Note 9 on page 48 is on loans receivable. What loans to municipalities are currently due? For what, or which projects, and at what rates of interest?

Mr. D'Alessandro: We reached out to Community Services, the department responsible for those loans, and got the following details.

All municipal loans reported March 31, 2022, which totaled $2,344,020.85, are related to City of Whitehorse borrowing associated with infrastructure upgrades supported through local improvement charges. The individual details are: construction of service works on portions of Black Street between 2nd Avenue and 4th Avenue; the loan amount was $374,546 at an annual interest rate of 6.375 percent for a loan period of 15 years, starting June 1, 2008. The annual payment, due June 1 each year, is $39,514.75. The balance as of March 31, 2022 was $72,067.11.

Construction of underground and surface works in the area known as Marwell east and construction of underground and surface works on a portion of Black Street between 4th Avenue and the escarpment — the loan amount was $2,317,092.57 at an annual interest rate of 3.26 percent for a period of 15 years, starting December 31, 2012. The annual payment, due December 31 each year, is $197,763.30. The balance as of March 31, 2022 was $1,062,150.67.

Construction of underground and surface works on a portion of Ogilvie Street, between 4th Avenue and the escarpment — the loan amount was $475,341. The annual interest rate was 2.72 percent. The loan period is 15 years. The start date of the loan was February 6, 2015. The annual payment, due February 6 each year, is $39,015.64. The balance as of March 31, 2022 was $277,141.73.

Construction of underground and surface works on a portion of Wheeler Street, between 4th Avenue and the escarpment — the loan amount was $635,099.09. The annual interest rate was 3.57 percent. The loan period is 15 years. The start date of the loan was January 30, 2019. The annual payment, due January 30 each year — they didn't tell me. The balance as of March 31, 2022 was $533,317.38 — missed that in all this minutia.

Then there is one last one: construction of surface works on a portion of Alexander Street, between 2nd Avenue and 4th Avenue. That loan amount was for $475,557.33. The annual interest rate was 3.57 percent. The loan period is 15 years. It started, again, on January 30, 2019. The annual payment due each year is $41,496.12, and the balance on March 31, 2022 was $399,343.97.

Mr. Kent: I have a series of questions on environmental liabilities. I know we have touched on some aspects here, but I will just go through them in case there is something that department officials want to add. So, the first question is: What does "environmental liabilities" mean? What do they represent? I will include the next question there as well: How are environmental liabilities calculated?

Mr. Thompson: Environmental liabilities are defined in the *Financial Administration Manual* as estimated costs related to the remediation of contaminated sites. A contaminated site is a site that contains contaminants in the soil, surface water, or groundwater greater than or equal to the standards in the *Contaminated Sites Regulation*. An environmental liability is recorded when: (a) the contamination occurs or when the government becomes aware of the contamination; (b) the government is obligated to incur such costs; and (c) the costs of the remediation can be reasonably estimated.

Whether the government is obligated is defined in the *Environment Act* but can be subject to many other legal and ethical considerations. To paraphrase the *Environment Act*, the responsible party is whoever is in control of the substance at the time of the spill or leak. However, the government can, or sometimes must, take responsibility for sites where the responsible party isn't clear or no longer exists, but where our obligation to the territorial public and the ecosystem still exists. I will say that there is a list on page 55 of the estimated liability for contaminated sites, landfill sites, and type 2 sites.

On the subsequent question — How are environmental liabilities calculated? — they are calculated by the Site Assessment and Remediation Unit in the Department of Environment. I may refer to that as "SARU". Each site is estimated individually in the most accurate way possible. In 2021-22, environmental liabilities were calculated through an estimate for remediation, as provided by an external expert, or if no expert opinion could be provided, an estimate for remediation was based on similar past sites. As sites potentially requiring remediation are identified, the unit applies a three-phase approach to assessing the environmental liability for each site. The sites are prioritized based on the severity of contamination and the urgency of remediation.

Phase 1 assessments are basically reviews of the site's documented history of uses and issues to establish the likelihood of there being contamination.

Phase 2 assessments are undertaken for sites where the phase 1 assessment indicates there is likely contamination. This phase includes analyzing samples and performing tests to establish contamination levels and migration risks. For example, is the contamination spreading?

Finally, phase 3 is a full assessment of the site and the development of a preliminary plan for remediation. The unit uses a cost matrix system to value the environmental liability for the site at each phase.

Mr. Kent: I thank Mr. Thompson for that because he did a good job of discussing the method for calculating the environmental liabilities. Perhaps, if there is any elaboration on it — if there have been any changes implemented recently in this calculation —

Mr. Thompson: Calculations used above were considered insufficiently accurate in situations where enough site characteristic information was not available, so a consultant was engaged to review the methodology and provide updates to improve estimates.

This review resulted in an expanded methodology implemented in May of this year, 2022, and a revised process where calculated estimates are based on site characteristics such as contaminant type, volume of contaminated material, type of contaminated material, risk to human health, et cetera — all of which are placed into a risk matrix.

The risk matrix can then be used to both provide estimates for the booking of environmental liabilities and as a method to track, prioritize, and annually assess all identified liabilities.

Mr. Kent: I will combine these next two questions as well, Mr. Chair.

Can the official tell us how environmental liabilities impact the surplus or deficit, and how are the amounts for environmental liabilities audited?

Mr. Thompson: As each liability is recorded, an equal amount is recorded as an expense. This expense will reduce the surplus or increase the deficit in the year the liability is booked. When remediation is actioned and actual expenditures occur, the liability is reduced by the value of these expenditures, so these expenditures are offset and have a zero effect on surplus deficit.

If actual expenditures are higher than the recorded liability, a further expense is then recorded against that year's surplus, but if the actual expenditure is less than the liability recorded, then the excess liability is written off against a prior period recovery of expense.

Mr. Kent: The second part of that question was: How are the amounts audited? My apologies if you answered that, but I just wanted to follow up there.

Mr. Thompson: No, I paused too long before I answered the second part of that.

Annually, each site listed in the liability is audited for accuracy against all available information — things like the risk matrix that I talked about, expert opinions, recent assessments, current contracts or tenders, et cetera — by the Site Assessment and Remediation Unit, SARU. This audit is then inspected by the Department of Environment's Finance branch director for reasonability before adjustments are made. An itemized schedule of the resulting liabilities is submitted to the Department of Finance for review by the comptroller. The overall liability account is then further audited by the Office of the Auditor General of Canada, who reviews all this information as needed.

Mr. Kent: I know that we touched on this a little bit, but if there is anything that the deputy wants to elaborate on with respect to when our environmental liabilities are initially recorded and how are these liabilities de-recognized — is it only with expenditures, or is it also with new estimates or that type of thing, which would bring that cost down?

Mr. Thompson: Yes, I did touch on this briefly, but I can expand on it a little bit. The environmental liabilities are recorded in the financial statements when the value of the liability can be determined with reasonable accuracy and the responsibility for performing the remediation lies clearly with the government. Since the values are based on estimates, the liability for a site can change over time. When the government engages in the remediation work for a site, the cost of the remediation work is charged against the liability rather than expensed. On completion of the remediation, there may be an excess liability that will need to be cleared or excess costs that need to be expensed. Most sites will also require a period of monitoring to ensure that the contamination has been successfully remediated. This cost is included in the disposition of the liability.

To provide more clarity around the timing of impacts, booking an environmental liability incurs an expense but does not create an appropriation for the value. The Site Assessment and Remediation Unit each year must request spending authority for its remediation work, which is then included in the department's appropriation.

Mr. Kent: My final question on environmental liabilities, I think, was addressed when Ms. White asked about it. It is with respect to that over $50-million increase to the environmental liability line. I believe that the witnesses mentioned that this was primarily because of the Wolverine mine and Wellgreen.

I guess, with respect to this question and these overall liabilities, did the departments of Environment or Energy, Mines and Resources, with respect to these abandoned mines, provide Finance with a work plan? I note that there is a $3.5-million estimate for the development of a closure and remediation plan for Wolverine. Do we have any idea when that item will be actioned or when those amounts will be spent? Then, of course, there is the remaining estimate for the overall remediation. Is there a plan that you get from the department when they first give you these estimates?

Mr. D'Alessandro: Thank you, Mr. Chair. Probably the most succinct way to answer that is to mention that there also exists an interdepartmental site and assessment review committee that consists of the people from Environment who are involved, me, and representatives from Highways and Public Works, Community Services, Energy, Mines and Resources, and any other department that has identified a contaminated site or is concerned about a project that is going to happen on a site that needs to be assessed. That group meets at least three times a year and reviews all of the documents that we have been talking about. We also review the remediation plan that Environment brings forward every January to get pre-approval for what they are going to do in terms of remediation work.

During the course of this past year, the increase to Wellgreen was discussed by that group and agreed to during the course of the year; therefore, it happened through the supplements, and we were able to book it in the course of the year. On Wolverine, the timing of the court decision that there was going to be no one who would be able to purchase the site which therefore made it the default that it was the government's triggered us to record that liability, which actually happened in the midst of us doing the year-end consolidations.

EMR and Environment were involved. It was actually a negotiated number that we came up with as being the least incorrect number. We took the $35.548 million, which was the original security ask for the mine, and added in EMR's estimate of $3.5 million to get a proper remediation plan done. That's how we came out with — this opening number for Wolverine, but it will be subject to whatever that plan tells us is the actual cost that we are going to see going forward.

I should point out that the ongoing maintenance of the site is separate and distinct from the environmental liability for the remediation of the site.

Hon. Mr. Mostyn: Continuing with contaminated sites, negotiations with the Government of Canada and the previous owner of the Wellgreen site are noted. When can we expect the final levels of responsibility and liability to be completed?

Mr. Thompson: The Department of Finance has been working with the Department of Environment, as Ralph has pointed out. All environmental liabilities, including these ones, are the subject of considerable discussions during Public Accounts time, but we received an update from the Department of Environment. The timeline for finalizing the responsibility and liability will remain open until all avenues to engage Canada have been exhausted on Wellgreen. Yukon Environment has worked to consolidate the history of this project and this mine, including permits and lease information, legal advice, and MOUs for the management of the Wellgreen mill and tailings site.

The regulatory regime was established first under Canada and then, after devolution, continued under the Yukon government. The narrative developed shows a complicated regulatory and compliance history, shared between both governments, and that has not been successful in securing remediation for the historic liabilities.

In the last 18 months, Government of Yukon has made several attempts to engage the administration from Crown-Indigenous Relations and Northern Affairs Canada to create a collaborative agreement, outside of the devolution transfer agreement process, that recognizes the shared responsibility of both governments. To date, there has not been a successful resolution to that in getting to a shared agreement.

Hon. Mr. Mostyn: Can the department please explain the increase related to Wellgreen?

Mr. Thompson: The increase was a result of much more information becoming available about the conditions on the site

— the geotechnical, hydrological, hydrogeological, and geochemical — as a result of assessment work undertaken there. This information resulted in the development of a more detailed remedial option analysis and remediation planning. The information about conditions meant that a more complex solution was required than was initially planned.

Hon. Mr. Mostyn: I will now turn to the Auditor General. Can the Auditor General confirm the change in relation to the Wellgreen site, and is the government's accounting of this site consistent with best practices?

Ms. Spence: What we would expect is for the government to use the best information available at the financial reporting date. Based on our audit procedures, we evaluated management's judgments with respect to the change in estimate for the Wellgreen site, and we found it to be based on reasonable information.

Chair: All right, it's back to me.

With regard to landfill sites, can the department explain the calculation for the determination of landfill liabilities?

Mr. D'Alessandro: Thank you, Mr. Chair. The Department of Community Services retains the services of Morrison Hershfield during each year to complete the determination of landfill liabilities, based on public sector standard 3270, closures and post-closure liability requirements. That report has provided the basis for the landfill liabilities recorded each year since, up to and including 2021-22, which is the final year that public sector standard 3270 was enforced.

Beginning April 1, 2022, landfills will now fall under public sector accounting standard 3280, asset retirement obligations. The department has been working with Morrison Hershfield and KPMG to ensure that the calculation of the liability is done correctly. Under both standards, the closure cost and post-closure costs are calculated as the net present value of the expected future cash flows required to complete the closure and post-closure activities. What is different is how the resulting liability is recorded and the process for expensing the estimated value.

Under 3270, we had an annual amount based on how much of the landfill was being used. Now, going forward, we will recognize the full liability at the beginning and then amortize it as an asset through ARO over the life of the landfill. Essentially, it's the same impact by the time you're done; it just looks a little different on the statements and creates better exposure for people reading your statements to know what your liabilities truly are.

Chair: Does the department include liabilities for landfill sites that belong to municipalities as well?

Mr. D'Alessandro: In the 2021-22 landfill liabilities, the department has not included any value for landfills that belong to municipalities. This will have to change under 3280, as there are promissory estoppels whereby the municipalities have undertaken the operation of landfills with an expectation that Yukon government would be involved in the closure processes. Estimated values have not been able to be calculated with enough confidence in incorporating the initial implementation for PS 3280, but work is ongoing.

Chair: As a brief follow-up, does the department have any sense of the overall impact of the changes to 3280, both for the sites that you have on right now, plus the liabilities that will come from the municipalities that will be added on in the future? What is the overall impact anticipated for the Public Accounts?

Mr. D'Alessandro: Thank you, Mr. Chair, for that follow-up. It is a fairly pertinent question because what we have been finding going through is that, due to the number of different land acts that Yukon works under, landfills don't appear anywhere in our tangible capital assets yet because we were just using them as dumps. Now that we are actually going to be recording them as having asset retirement obligations, the question becomes: Should we not be recognizing the original asset, and what value is that original asset? The short answer is: The land underneath it.

So, we are having to do some work, and KPMG is working with Community Services and me to come up with how we are going to value that discovered asset so that we can now do the process going forward. In the next answer, I will give you the municipal side of that.

Chair: Has the Department of Community Services accepted any joint liability for municipal landfills and were previously owned or operated by the territorial government or federal governments? And why or why not?

Mr. D'Alessandro: The Department of Community Services is currently in negotiations with the municipalities to establish what joint liability might look like. All municipal landfills outside of Whitehorse and Faro are on land owned by YG. The land tenure and regionalization agreements currently under negotiation include the establishment of shared liability arrangements.

Formal approval of negotiated settlements with municipalities will be sought through to the 2023-24 fiscal year and will inform the liability that Yukon will record, going forward. Once we have an idea of how much that liability is based on how long YG ran the landfills before the municipalities took them over and we have sorted out who actually is going to have land tenure, then we will be able to start putting all those pieces together.

Chair: Moving on to type 2 sites, the Veris Gold Corporation abandoned the Ketza River mine site on April 10, 2015. Some of the work done here was permitted under the Government of Canada prior to devolution; therefore, they are responsible for the remediation of those aspects. Did the Government of Yukon permit any work after devolution, and if yes, what is the value of that responsibility?

Mr. Thompson: We worked with Energy, Mines and Resources to get an update on this matter. Part of the remedial process, outlined under section 6.58 of the devolution transfer agreement, requires the parties — those being YG, Canada, and the affected First Nations — to engage an independent assessor. The role of this assessor is twofold: one, to delineate liabilities between Canada pre-devolution and Yukon post-devolution. The second one is to develop a remedial plan for the site.

At this stage, the parties are in a dialogue about how to approach the requirements of 6.58, recognizing that two of the affected First Nations are not signatories to the devolution transfer agreement itself. Until the independent assessor has been engaged and completed the delineation of liability — or an alternate approach, under 6.64, has been agreed to — the amount and the value of the Yukon's component remains unknown; however, looking at the historical fact base of post-devolution licensing, we predict it will be minimal.

Ms. White: I actually do have a follow-up question on environmental liabilities, and it follows my initial question to the Auditor General. One of the things the Auditor General says is that there is a measurement uncertainty when they talk about environmental liabilities. It says that it's subject to a high degree of measurement uncertainty. So, you have just gone on and you have listed that there have been some changes, but one thing that the Auditor General has continued to highlight for us, as Public Accounts, is that their calculation for the liability is often higher than that of the Yukon government.

So, is the new way, with the joint committee that you mentioned, addressing the concerns that the Auditor General has highlighted? Then, has Yukon government gone back to audit — so, the list is the 100-plus sites for Highways and Public Works, airports, et cetera. So, will those sites be re-evaluated if you're using a new process?

Mr. Thompson: Perhaps we could provide a joint response to this. I will start off and let Ralph fill in any details — sorry, Mr. D'Alessandro — that I gloss over. So, as I said, every year, this is a subject of considerable discussion between Finance, the Auditor General's office, and Environment. The fact is that these are estimates. They are always going to be estimates until they're actuals when the work is all done. So, a higher number doesn't necessarily make it more right. We are not interested in whether the number is higher or lower; we're mostly interested in whether it's as accurate as we can get it.

Some of the issues that have been raised by the Auditor General's office, I think, have shone a reasonable and well-warranted light on this issue, and that's why a lot of work is being done in the government to work on the methodology. The fact is that we're not the experts on this, either. Those people who spend their entire workdays on environmental remediation at SARU are the experts. So, that's why we rely on them to give us the best advice.

As I said, these are forecasts and estimates sometimes far into the future, so none of these will be 100-percent accurate. Remember, of course, that this is the booking of a liability. What is actually important is to spend the money and complete the projects that are remediating the sites, but we have the same desire as the Office of the Auditor General in trying to get to the best projection for costs of a site as possible. That's why we are looking at the sometimes limited history that we have on remediated sites and try to extrapolate that, based on the type of site that it was — the complexity, the severity of the contamination — so that the costs that are actually incurred can be extrapolated to a bigger number, with some degree of certainty that we're not overestimating it as well.

Ms. White: I guess the reason why I am asking the question is, if it turns out, for example, that there was a necessity of remediating those sites — currently we are at $94.5 million; let's say that goes up to $120 million, so that affects the surplus. The reason why I am asking the question, or trying to understand, is based on what the Auditor General has said, which is that, in their estimation, the Yukon government keeps them lower than what the Auditor General would indicate, but that affects when we look at the final book of what the surplus actually is.

I was just trying to understand whether or not government would be undertaking an audit of the existing, or the known, environmental liabilities, just because — again, knowing that, right now, there are 129 sites. If we are only talking about Wellgreen and Wolverine being the most recent two environmental liabilities that have been calculated, knowing that we're talking about a different methodology, at what point do we look back at what has been booked for those other 127 contaminated sites?

Mr. D'Alessandro: I would caution the review of the $94.5 million as being exemplified by Wolverine or Wellgreen. They are two mine sites that are vastly more complicated and vastly more expensive to deal with than any of the other sites, including the landfill sites. That is why they were an impact of $50 million by themselves.

If we take them out of the equation and fall back to talking about the $43 million that was there a year ago and we're looking at 128 sites, you have to ask the question of: Is it more important to remediate those sites that are in peril of causing further contamination beyond the boundaries of the site itself, or is it more important to spend your resources on assessing all of the other sites that have been deemed as not likely to be a large concern? Do you end up spending your money to get a better number of what you should spend, as opposed to focusing your money on dealing with what you were told to remediate?

That is the story that I hear back from SARU every time we sit down with the interdepartmental group — is going through: Do you want me to spend my time — because they have a limited number of contractors that they can bring in with the competencies to go do the drillings, to come up with the assessments at the higher levels, to assess the contamination and the remediation plans — or do you want me to have that same person going out and doing that and getting an actual remediation completed on a site that we have already targeted as being a higher priority?

So, it is that case of having to balance the needs, and right now, what we have focused on is trying to use the matrix that has been revised as of this year as a means of: How do we get better at predicting which ones are the ones that we should prioritize? You will find that, going forward, as long as we don't start having Wellgreens and Wolverines showing up every year, this number will come back down to a manageable number and we will be able to have a more accurate number. Our biggest concern is that the OAG would like us to use historical costs and apply them as an average going forward, but we have always said that we always prioritize the worst contaminated site first, which would then expect that those would have been the most expensive ones first. Therefore, using that average cost going forward would overinflate the minor ones that you have postponed.

The other aspect of it is present valuing. You can't present value a cash flow if you don't know when the cash flow is going to happen, and that is the problem with a lot of these sites — that we don't know when we will actually be able to get them in the queue to get the work done. So, we go with a cost based on today's dollars as opposed to trying to extrapolate out into the future when they might happen and then discount it back to the current. So, we are not doing net present valuing.

So, those are some of the sticking points that we disagree with the OAG on — that it is just a matter of the capacity of: What can we do with the information that we have?

Ms. White: I am going to turn my attention to the Auditor General — I guess the same question.

Mr. Irving: It is just a matter of devoting resources — right? There is no question about it. If you want the best information on your environmental liability sites, you will be performing ESA2s and ESA3s. You would know the contaminated sites and be able to come up with a very good estimate.

We understand that, from the government's perspective, their priority isn't to complete all these ESA2s and ESA3s; however, we are taking a look at the amount that they book for their other sites compared to the actual historical costs. As opposed to saying, "You have to have this; what is your best estimate?", we are just telling them that what we have seen is that the historical costs have exceeded their estimate, and we advise them to consider looking into those estimates to see if they need to be revised.

Ms. Miller: From a benchmarking perspective, comparing with what I have seen within the federal government, they have what they call "zero-dollar value sites" where there are sites that have not yet been assessed. However, in the past few years, they have created some methodology based on recommendations that we had requested them to do to be able to come up with an estimate based on similarities of different sites. With that, they have able to increase their liability based on this methodology, having not necessarily gone through a very thorough assessment, but to give themselves a high-level dollar figure — a range to kind of give them an idea of what that amount could be. Since then, we have been more comfortable with the environmental liabilities for those types of sites.

Ms. White: Does the Yukon government currently have any zero-value sites?

Mr. D'Alessandro: Actually, what Ms. Miller just described is the system that we have had in place. As soon as a site is identified, there is the analysis of past documentation and whatever is on file for the spot, and based on that, an opening value is allocated to the site. There are no sites that I am aware of on our list of 128 that are zero. They all are — I am going to say that $800 is the opening number for anything that is going to be assessed, because it is probably what the cost will be to do the next phase. Then, at the next phase — and there is more information — that $800 will have been expended, but it will also increase to reflect what information has been found.

So, what will happen is that, as we go through each of the assessments, the dollar value rises as we know better information. The problem that I would acknowledge is that we have too long of a time where sites sit at one assessment level or another before they move on to the next, but that is again where we start getting into the constraint of just how much we can do with what we have.

Ms. White: I am going to promise that this is the last one. I guess, from my perspective, it is the concern about the accuracy — so, for example, knowing that the liabilities affect the final, for example, surplus or deficit. So, between one government and the next — let's say that the next government comes in and says that they are going to prioritize, that they are going to get accurate numbers for these 100-plus sites, and all of a sudden, the surplus goes way down. As a person in a political role, let me tell you that I would be accused of being a bad manager of money. That is how it comes back.

So, from my perspective, what I am looking for is the accuracy, and I understand the perspectives from both sides. I will put out here that I look forward to further conversations about environmental liabilities, and I think that, really, what I am looking for is understanding the level of accuracy. I'm probably going to try to find out, at this point in time, out of all those sites, what level of assessment they are in, how many are in the entry, and how many have gone up toward the accurate assessment, because that does affect each of us in our roles at different times.

I guess I am highlighting that I am looking forward to further conversations in future years.

Chair: Is there a question there?

Ms. White: No, it was a comment.

Chair: Okay, unless there is some burning desire for someone to respond, I think we will carry on with questions.

That sort of shifts us away from environmental liabilities and on to borrowings. Note 17 is "Borrowings". Page 64 is information on the government's borrowing limit. Could you explain the nature of the outstanding loans?

Mr. D'Alessandro: The amounts reported on page 64 are to conform with compliance with the Yukon borrowing limits regulation, pursuant to section 23(2) of the *Yukon Act* and Order-in-Council Parliament of Canada 2020-0663. The total debt of $216,374,000 at March 31, 2022 was made up of the following components: $100 million for the bonds issued by Yukon Development Corporation; $73.4 million of other long-term debt for Yukon Development Corporation, made up of loans from chartered banks and First Nation governments and partnerships.

There is $22.6 million of bank loans for the Yukon Hospital Corporation. These are outlined on page 63 of the same note, and they are all loans with chartered banks.

There is $0.7 million of mortgages for Yukon Housing Corporation, which are mortgages payable to chartered banks and the Canada Mortgage and Housing Corporation. There is just under $1 million of loans payable for Yukon University college, which are non-interest-bearing loans repayable on demand within 90 days. It is actually more of an endowment than it is a loan. It just has a safety clause that the person can take it back if they don’t like how the university is using the funds.

There is $522,000 in loans payable for Yukon Housing Corporation, which are, again, loans payable to chartered banks and Canada Mortgage and Housing Corporation. There is $1.9 million of interest payable on all debt that had accrued up to March 31, 2022. There is $14.2 million of credit facilities used, related to line of credit used by Yukon Development Corporation, and $2 million related to capital lease obligations, which are itemized on the following note 18 on page 65.

Chair: That covers the outstanding loans. Can the witness please walk the Committee through the total debt listed on page 64?

Mr. D’Alessandro: The total debt listed on page 64, note 17, as I have said, is calculated in compliance with the Yukon borrowing limits regulations. It has decreased by $18.9 million, from $235.2 million in 2021 to $216.3 million in 2022.

This is mainly due to a $4.8-million increase in long-term debt for the Yukon Development Corporation, a $3.7-million decrease in the balances outstanding for the Yukon Hospital Corporation, a $356,000 decrease in balance of mortgages for Yukon Housing Corporation, and a $102,000 decrease in the balance of loans payable for the other set of loans for the Yukon Housing Corporation.

There is a $623,000 increase in accrued interest, payable at March 31; a $19.1-million decrease for credit facilities used by Yukon Development Corporation; and finally, a $1.1-million decrease in capital lease obligations.

It is also worth pointing out that the total debt of $216.3 million, as calculated by the Yukon borrowing limits regulations, is not the value of borrowing reported in the audited consolidated statement of the financial position on page 35. Rather, the value reported is $23.7 million, as calculated on page 62 of this same note 17. That is the value of debt held by the four entities that are 100-percent consolidated, as per note 2(a), “Significant accounting standards”, on page 39. So, those are the actual amounts held by the core corporations with external lenders.

Chair: Okay — a multi-part question: Can the department explain how borrowings are affected by inflation? Have interest changes from the Bank of Canada had an impact, and what additional costs, if any, have resulted?

Mr. D’Alessandro: The interest changes from the Bank of Canada have had no impact on the loans included in the borrowing calculations, as those loans all have fixed rates set before the recent rate hikes. The only exposure to the interest changes would be for the outstanding balances on the line-of-credit facilities utilized by Yukon Development Corporation, and that exposure would only have occurred after the rate hikes began on March 2, 2022. So, as of March 31, 2022, no additional costs had resulted from the interest changes from the Bank of Canada.

Chair: Now a question directed to the OAG: Can the Auditor General provide some comment or advice in regard to the impact of inflation? In particular, what impact is there on current and future borrowing?

Ms. Spence: With respect to borrowings, we have similar observations to those that the department just expressed. So, the government would be subject to higher interest rates on debt that bears interest at market rates. As at March 31, 2022, it was Yukon Development Corporation that had the most significant debt, and most of that was at fixed interest rates. It had a $100-million bond with a fixed interest rate and principal due in 2040. It also had other long-term debt with fixed interest rates, or variable rates that are not based on market interest rates, and it had lines of credit at market interest rates.

Another consideration in terms of economic factors is measurement uncertainty, which we have discussed a number of times today as being an area of significant risk. The government estimates require assumptions about economic inputs. As an example, measurement of retirement benefits depends on a number of economic assumptions. So, these would include discount rates on benefit costs and obligations, long-term rate of return on assets, remaining service lives, and rates of compensation increase. The actual returns on planned assets also affect evaluation. All of this is to say that changes in the economic environment and increased uncertainty can mean that the risk of actual results differing significantly from those estimates reported in the financial statements increases.

Ms. White: So, note 21 on page 68 is “Expenses by object”. Can the department provide an explanation of the increase in personnel?

Mr. Thompson: The increase in personnel expenses was $24.4 million and was driven by the following factors: salary increases, as per various collective agreements; new positions related to *Putting People First*, a multi-faceted plan that involves new facilities and new health professionals; *Our Clean Future* strategy, which likewise has an impact on the number of employees that YG has dedicated to that long-term environmental strategy; sexualized assault response team; as well as teachers and education supporting staff; and also additional emergency medical services related to the opioid crisis. So, in a nutshell, that is what accounted for that increase.

Ms. White: Note 25, “Overexpenditure”, on page 70 — what role and oversight does the Department of Finance play with respect to monitoring departmental financial reports to ensure compliance with the rest of the *Financial Administration Act* and the appropriation acts?

Mr. Thompson: This year, the only amount shown under note 25, on page 70, is for a legislated grant amount and not for a department being over vote in their expenses versus appropriations, as has been the case in previous years. As with all legislated grants, the department is obligated by legislation to pay these amounts.

The Department of Finance chairs numerous committees at various levels in the organization to improve financial awareness and build capacity. Management Board Secretariat holds regular meetings with departments, including departments that are at higher risk of overexpenditure, to mitigate any potential risks. There are variance report exercises during the year, which allow Management Board Secretariat to review and make recommendations for funding pressures identified by departments.

So, it is really about monitoring the situation. We have, as a central department, responsibility for assisting all the other departments in managing, monitoring, and engaging their spending and whether there is a risk of exceeding their voted amounts, so we are doing that on a regular basis — I would say even more so after a couple of years back when we had departments over their total vote.

Ms. White: Just to build on that, it was noted for us by the OAG that management did inform the Auditor General about the overexpenditure in Health and Social Services this last time around.

What corrective measures were taken following the overexpenditures? I will just wrap in the next question: Can you provide a comment about incidents of non-compliance with these internal controls?

Mr. Thompson: I will say that they are slightly different — whether it is a legislated grant or whether it's just a sheer overexpenditure compared to your vote. In the legislated grant, you don't really have the ability to reduce something else in that spending area in order to stay within the overall allotment for that activity. So, that tool doesn't really exist for a legislated grant. With other spending, as we are monitoring through the year, the opportunity exists to seek a supplementary appropriation or manage your spending differently so that you are leaving enough room in your budget to accommodate the areas of pressure.

In a situation from a couple of years ago where we had a couple of departments going over their allotment, we took a number of measures that I mentioned briefly — more closely monitoring, more regularly checking in with departments, looking at spending profiles and history. We have regular meetings with departments, including departments that are at higher risk of overexpenditure, to mitigate any potential risks. This includes highlighting the awareness of expenditures for legislated grants.

Sometimes I think that there is a tendency of not watching those as carefully because you have no choice but to spend that money. But nevertheless, they are appropriated on a specific line for each legislated grant, so we need to watch those ones closely — so, increasing the awareness and watching those and informing Finance. Again, we are not the experts on legislated grants at Health and Social Services, so we would rely on the department to tell us if they see something happening that suggests that there is a change in the number of applicants in the population of the users of a certain benefit or grant such that we would need to — is it an anomaly or is it going to be a trend going forward that we are spending more in that area than we would have expected?

There are variance report exercises during the year that Management Board Secretariat undertakes to review and make recommendations on funding pressures identified for departments.

I think that I neglected the second half — right?

Chair: Okay, Mr. Thompson.

Mr. Thompson: I apologize, Mr. Chair. All departments are responsible for — could I ask for that question again? I was thinking about the first half.

Ms. White: I asked it really poorly, so it's not you; it was me. It is probably because it is a multi-part.

Can the department provide comment about instances of non-compliance within internal controls? So, are there active investigations being conducted, and for what? Have there been instances of fraud within Yukon government? How is management responding? Have, or are, the RCMP involved in any of these investigations?

Mr. Thompson: For clarification, I thought that was the one I was on, but I wanted to make sure because it was a multi-part question.

So, again, there is kind of a team approach to this. All departments are responsible for managing the internal controls over their area's financial activities and reporting any noted occurrence of non-compliance. These occurrences are reported to the Deputy Minister of Finance, the comptroller, and the government internal audit service. Currently, there is — just to get specifically at your sub-questions — one investigation underway into an allegation of fraudulent misdirection of funds to the wrong recipient and another with respect to internal controls related to a transfer payment agreement.

When instances of fraud are identified, management informs the three offices named above and an assessment of the situation is made. Either the comptroller or the internal auditor will take the lead on following up on the instance and conducting the appropriate investigation or contacting the RCMP if a criminal offence is suspected.

After every incident, we review the circumstances and make any appropriate changes to procedures to update our methodologies and our policies so that we make sure that we are learning from past cases of fraud and are able to detect these promptly and hopefully prevent them from happening in the first place.

As far as the RCMP, currently the RCMP are investigating the allegation that someone fraudulently caused the banking information related to a specific supplier's account to be altered to a different account. The misdirected funds have been tracked to an account in another jurisdiction. The investigation into who owns that account is ongoing. No government employees are suspected of involvement in that incident.

Chair: Before we move on, can we just clarify how many active investigations are being conducted and for what? We are looking for the number of investigations.

Mr. Thompson: Thank you, Mr. Chair. I didn't give a specific numeric to that, but as far as we are aware — and I should say that "investigation" is a pretty broad term, so an investigation could be a labour relations incident or it could be lots of things that aren't necessarily financially related. As far as a finance investigation that has been done with our knowledge — in other words, brought to our attention and action is taken on it — there are the two that I mentioned; there is the fraudulent misdirection of funds and internal controls related to the transfer payment agreement.

Hon. Mr. Clarke: We are on to contingencies. Note 28 on contingencies is on pages 71 and 72. Has the department considered changing the amount of the risk management revolving fund?

Mr. Thompson: Thank you, Chair. We worked with the department to get a status report on this.

The $5-million capacity of the risk management revolving fund has been adequate to respond to historical, present, and the current projected costs.

The Government of Yukon experienced relatively few significant insurable losses in its history to bring into question the size of the risk management revolving fund.

A 2020 actuarial study conducted by our broker showed the capacity of this fund to be sufficient based on their modelling. In addition, the risk management office actively manages government's insurance practices, which is the greatest pressure on the risk management revolving fund.

Hon. Mr. Clarke: I have a bit of a preamble on the next question.

Part 3 is "Non-Consolidated Financial Statements and Other Information", and "Notes to Non-Consolidated Financial Statements" begin on page 89. That includes authority and operations and investments.

In note 1, "Authority and operations", under "Investments", it says — and I quote: "The *Financial Administration Act* (Yukon) allows the Government to invest money from the consolidated revenue fund in the following investments: securities that are obligations of, or guaranteed by, the Government of Canada or a province; fixed deposits, notes, certificates and other short-term paper of, or guaranteed by, a bank including swapped deposit transactions in the currency of the United States of America; commercial paper issued by a company incorporated under the laws of the Government of Canada or a province, the securities of which are rated in the highest rating category by at least two recognized security rating institutions."

Can the department explain which of these areas we are currently invested in?

Mr. Thompson: The Yukon government only has the following investments, which are held to meet certain post-employment and retirement benefit obligations for Members of the Legislative Assembly — those being short-term funds at March 31, 2022 carrying value of $4.122 million and marketable securities, which have a carrying value at March 31, 2022 of $30.527 million. The investments are managed by a third-party manager and are a mixture of the instruments listed in the *Financial Administration Act*.

Hon. Mr. Clarke: My final question relates to the non-consolidated comparative schedule of expenses on page 153. Can the department explain the significant drop in spending associated with Mental Wellness and Substance Use Services?

Mr. Thompson: The Department of Health and Social Services has provided the following explanation for this. Variances in the Mental Wellness and Substance Use Services O&M funding in 2021-22 are due to a variety of factors, such as actual client usage, staffing shortages, as well as temporary service and community travel reductions in some areas due to COVID-19. Also of note is that withdrawal management temporarily reduced bed capacity in response to public health measures. All withdrawal management beds are currently operational.

Mr. Kent: I just have a couple of questions that are specific to aspects of the Public Accounts. The first one is with regard to a transfer payment on page 196. So, I am hoping that department officials can explain the difference between the budget and the actual physician recruitment and retention initiatives and any explanation as to why the full amount budgeted was not spent.

Mr. Thompson: Again, we worked with the Health and Social Services department in getting their explanation for this. YMA physician recruitment and retention initiatives are for the recruitment of new physicians, as well as retention of existing physicians. Although YMA administers this funding to physicians, as outlined in the memorandum of understanding, actual costs for many of these initiatives will vary, depending upon physician uptake.

There will be an increase to these costs in years that physicians are recruited, and costs will reduce and stabilize when physicians are receiving retention only. So, there will be a natural ebb and flow to this line of the budget.

Mr. Kent: My final question of the day — and I would like to thank the officials from the Auditor General's office, as well as officials from Finance, for spending some time here with us today to answer our questions. Again, my final question is on page 237 of the Public Accounts.

Can the department provide an explanation of the impact of the fuel price adjustment? This is with respect to the Yukon Development Corporation notes to the financial statements.

Mr. D'Alessandro: We reached out to Yukon Development Corporation, which redirected us to Yukon Energy Corporation, and we received this explanation. By regulation, OIC 1995/90, franchise utilities in the Yukon are protected from fluctuations in the market price of fuel used to generate electricity, both diesel and liquefied natural gas. Through general rate applications to the Yukon Utilities Board, electricity rates are set. These rates include the all-in cost, including delivery to YEC's plant, a fuel used by the utility to generate electricity, and are set based on the market price for fuel at the time of filing the general rate application. After rates are set, the market price for fuel may be higher or lower than the price included in the rate set through the most recent general rate application. If the cost of fuel to the utility is lower or higher, then the utility charges the difference to an accrual account — a credit to be returned if the price is lower and a debit to be recouped if the price is higher. Subject to triggers and requirements established by the Yukon Utilities Board, the utility advises the Yukon Utilities Board of adjustments to address outstanding balances in the accrual account. The mechanism for this is Rider F. If the accrual account has a sufficiently large negative credit balance, Rider F will reflect a refund to customers. If the accrual account has a sufficiently large positive debit balance, Rider F will reflect the charge to customers.

For the 2021-22 Public Accounts, as at December 31, 2021, which is YDC's official year-end, Rider F was zero cents per kilowatt and thus had no impact on ratepayers at that time. Rider F is currently at 0.865 cents per kilowatt hour, reflecting that the market price for fuel, and therefore the positive debit balance to the accrual account, has increased. The utility recently filed a joint submission to the Yukon Utilities Board to increase Rider F to 1.635 cents per kilowatt hour, effective January 1, 2023, reflecting that the market price for fuel, and therefore the positive debit balance in the accrual account, continues to increase significantly.

To the extent that actual costs of fuel are reflected in the rates set by the Yukon Utilities Board, fuel price adjustments should have a net-zero financial impact on the Yukon Energy Corporation and, by extension, on the Yukon Development Corporation, because over the long term, actual costs incurred in the use of fuel to generate electricity are offset by Rider F adjustments. So, it is essentially a built-in process to ensure that the market fluctuations do not impact the corporation.

Hon. Mr. Mostyn: I am going to turn to the Yukon Housing Corporation. The statements start on page 293; the question is for Auditor General's office. Can you provide some context for the flowing of money in the way described in the section on page 316? Two parts to this: The Safe at Home Society has run into well-publicized issues with the cost of this work. Does this create any issues from the perspective of the auditor, and what should MLAs watch for as this project progresses?

Mr. Irving: On page 319, in note 16, it discusses this arrangement. Now, the Canada Mortgage and Housing Corporation, CMHC, did launch the rapid housing initiative. This was to help address urgent housing needs during COVID-19 through the rapid construction of affordable housing. CMHC reached out to Yukon Housing to be involved in this initiative.

CMHC did sign an agreement with Yukon Housing to provide $5 million for this project. Yukon Housing signed a separate agreement with Safe at Home to provide the $5 million for the initial purchase of this project. Now, it is important to understand that Yukon Housing didn't receive any amenities, didn't profit from this arrangement, and CMHC directed Yukon Housing to give it to Safe at Home. They had no discretion to pick another contractor. So, as such, this is described as a "flow-through arrangement" in that note.

It is also important to understand that Safe at Home also received other CMHC funding for this project outside of the Housing Corporation. With regard to your question, if the Safe at Home Society is unable to operate or maintain these housing units for the next 20 years, then the Yukon Housing Corporation, in consultation with CMHC, will have to determine the appropriate course of action to ensure that these units are operated and maintained.

As the auditor, we will be continuing to discuss this in the upcoming audit with Yukon Housing Corporation and any communications that they have had with Safe at Home and with CMHC to determine if Yukon Housing has any additional costs or requirements with this project, besides the contingency that has been disclosed here.

Now, I did want to let you know that I reached out to Yukon Housing Corporation, and they did confirm for me today that Safe at Home remains the owner of this building and remains in charge of the project.

Hon. Mr. Mostyn: Can the department explain the change in the net debt for the Yukon Housing Corporation from 2021 to 2022?

Mr. Thompson: The Yukon Housing Corporation has let us know that the increase in their net debt in 2021-22 is largely due to the corporation managing its cash balances with only one request for a cash advance from the Yukon government during the fiscal year. During the previous fiscal year, 2020-21, the corporation experienced a decrease in its operating activity specifically related to capital assets, which led to a buildup in its bank balance while receiving quarterly cash advances from Yukon government.

As COVID-19 prevention measures relaxed in 2021-22, the operating activity, including construction, increased. In addition, a decrease in mortgage loans receivable and accounts receivable, specifically proceeds from CHMC, translated to increases in cash, which was spent on increased construction activity.

Hon. Mr. Mostyn: Can the department explain whether the Yukon Housing Corporation has taken over a building from the Options for Independence Society and when this occurred? There are some subsidiary pieces to this, such as: What is the estimated costs to the Department of Health and Social Services to run the program and the facility, and does the Options for Independence Society still operate other facilities?

Mr. Thompson: Yukon Housing has let us know that yes, on April 1, 2021, the corporation took ownership of a building, including land, from Options for Independence Society of the Yukon in exchange for discharging its mortgage with the corporation.

The following details were provided by Health and Social Services on this matter. The estimated cost for the Department of Health and Social Services to run the program and the facility is, in 2021-22, $1.238 million and, in 2022-23, $1.332 million. The program area agreement identifies two other facilities. The Aurora House is a three-bed group home for women with fetal alcohol spectrum disorders, and the second is the semi-independent housing, which is a separate program with one building and 14 apartments for adults with fetal alcohol spectrum disorders.

Hon. Mr. Mostyn: This is a follow-up to some of the questions that I think we asked the Auditor General earlier, but what obligations exist for Yukon Housing Corporation in regard to the flowing of $5 million to the Safe at Home Society?

Mr. Thompson: Again, we worked with the Yukon Housing Corporation to make sure we understood the nature of this arrangement. The responsibilities or obligations were for the Yukon Housing Corporation to disburse the $5 million from the CMHC program to the Safe at Home Society to facilitate the purchase and renovation of the property at 4051 4th Avenue in Whitehorse. Under the rapid housing initiative, the corporation needs to submit reports to Canada Mortgage and Housing Corporation on the progress of the renovation project and compliance with the 20-year affordability and target group requirements. There are requirements within that CMHC program. The Yukon Housing Corporation, as was pointed out by the Office of the Auditor General, is essentially in a flow-through position, but it will also have some responsibilities on submitting reports to CMHC.

Hon. Mr. Mostyn: Who is responsible for the operation of the housing units if the Safe at Home Society collapses or fails financially?

Mr. Thompson: I believe Mr. Irving touched on this just a second ago. The Safe at Home Society is the owner of the property and, through its arrangement with CMHC under the northern carve-out part of their programs, accessed approximately $10 million to purchase and renovate the property. The Safe at Home Society also accessed $5 million through CMHC's rapid housing initiatives round number 2, and the amount was flowed by the Yukon Housing Corporation.

CMHC is the primary funder and has a legal authority to determine the actions it would take if operation of the housing units were to collapse. CMHC reserves the right to take action against the Safe at Home Society under the northern carve-out loan agreement if the society does not fulfill its obligations, like the affordability and accessibility requirements, for the next 20 years. Of course, CMHC's first course of action is to work with all parties, and its last course of action is to foreclose on the loan. CMHC has the final decision. I think that aligns with the update that Mr. Irving received.

Hon. Mr. Mostyn: Last question of the afternoon — I want to thank officials for their time today. I guess I'm the closer this afternoon. The Chair will then give his closing remarks.

The last question is: What role did the Department of Finance play in the flowing of $5 million to the Safe at Home Society?

Mr. Thompson: So, the Department of Finance provides support to the Management Board of Cabinet. So, essentially, any funding decision made by government is supported by the part of the Department of Finance that has that responsibility. So, there was an activity where we were reviewing information provided by Yukon Housing Corporation and making recommendations on the submission and request for approval of the funding provided. Even though it was not our funding and it was a flow-through, it was still utilizing a portion of a CMHC program. So, when it's utilizing part of our allocation, we took on that role and provided advice to Management Board.

The funding for this initiative was provided to the Safe at Home Society by the Yukon Housing Corporation, and those funds are fully recoverable from Canada, as was already mentioned.

Chair: Thank you, Mr. Thompson. That concludes the prepared questions that the Committee had for the witnesses. However, if there are any follow-up questions from the Committee — I'm looking and seeing none. So, since we have a few minutes, are there any closing comments from witnesses before we move to adjourn?

Mr. Thompson: I said it at the start, but I will repeat it now just because it is critically important to us — it's interesting, watching this cycle through a few years, where there is a ton of work that goes into Public Accounts. Mr. D'Alessandro and I have been having what we call our "post-mortem briefings" with departments and corporations so that we learn from this process every year and can take advantage of what we learned before we lose it to our memory and make the next year's process even better.

I say that one of the things I learned the most is how much of a dynamic and critical relationship it is between the comptroller's office and the Auditor General's office and all of the departments and corporations that are really the holders of that information. To some degree, we are both dependent on their expertise and their knowledge, not only of the programs that are being funded, but of the financial details that run beneath it.

This is the long way of saying that we really appreciate the work that this Committee does, because it is an opportunity to further explain that. It is also a further opportunity to see the kind of dynamic between the Office of the Auditor General and ourselves, because it could not survive without a positive and productive relationship between the Office of the Auditor General and the Finance department.

So, thank you again to the Auditor General's office and to this Committee for your time today.

Chair: Thank you, Mr. Thompson.

Ms. Miller: Thank you, Mr. Chair. I am echoing the same comments and, from the perspective of coming to Whitehorse for the first time, I very much appreciate being here in person today rather than doing this virtually, so thank you.

Chair: Before we adjourn, on behalf of the Committee, I want to thank our witnesses, of course, from the Department of Finance. Thank you for being here and providing so much detailed information. To the Office of the Auditor General, thank you so much for joining us here in person in Whitehorse. It's wonderful to have you back and we look forward to seeing you at future hearings.

The purpose of the Public Accounts Committee is to help ensure accountability for the use of public funds. Public hearings are an important part of this work. The Committee's report on this hearing will be tabled in the Legislative Assembly, and we invite those who appeared before the

Committee and other Yukoners to read the report and communicate to the Committee their reaction to it.

I would also like to add that this hearing does not necessarily signal the end of the Committee's consideration of the Public Accounts. The Committee may follow up with government departments, and this could include a follow-up public hearing potentially at some point in the future.

With that, I would like to thank all those who participated in and helped organize this hearing. I now declare this hearing adjourned.

The Committee adjourned at 2:30 p.m.