Yukon Legislative Assembly

Issue 5 34th Legislature

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Public Proceedings: Evidence

Wednesday, December 11, 2019 — 1:00 p.m.

Chair: Stacey Hassard

STANDING COMMITTEE
ON PUBLIC ACCOUNTS

Chair:	Stacey Hassard
Vice-Chair:	Paolo Gallina
Members:	Ted Adel Don Hutton (substituting for the Hon. Richard Mostyn) Wade Istchenko Kate White
Clerk:	Allison Lloyd, Clerk of Committees
Witnesses:	**Office of the Auditor General of Canada** Karen Hogan, Assistant Auditor General Lana Dar, Principal Charlene Taylor, Director **Department of Finance** Chris Mahar, Acting Deputy Minister Ralph D'Alessandro, Comptroller

EVIDENCE
Whitehorse, Yukon
Wednesday, December 11, 2019 — 1:00 p.m.

Vice-Chair (Mr. Gallina): I will now 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. The 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 January 12, 2017, the Yukon Legislative Assembly adopted Motion No. 6, which established the current Public Accounts Committee. In addition to appointing members to the Committee, the motion stipulated that the Committee shall "… have the power to call for persons, papers and records and to sit during intersessional periods…" Today, pursuant to Standing Order 45(3) and Motion No. 6, the Committee will investigate the Yukon Public Accounts for 2018-19.

I would like to thank the witnesses from the Department of Finance for appearing here today. They are Chris Mahar, Acting Deputy Minister, and Ralph D'Alessandro, comptroller.

Also present are officials from the Office of the Auditor General of Canada, and they are: Karen Hogan, Assistant Auditor General, Lana Dar, principal, and Charlene Taylor, director. Welcome.

I will now introduce the members of the Public Accounts Committee. I'm Paolo Gallina, vice-chair of the Committee and a Member of the Legislative Assembly for Porter Creek Centre. To my left is Don Hutton, Member for Mayo-Tatchun, who is substituting for the Hon. Richard Mostyn; to his left is Kate White, Member for Takhini-Kopper King; to her left is Ted Adel, Member for Copperbelt North; and to his left is Wade Istchenko, Member for Kluane.

To begin this afternoon's proceedings, Ms. Hogan will give an opening statement regarding the Office of the Auditor General's audit of the consolidated financial statements. Ms. Mahar will then be invited to make an opening statement on behalf of the Department of Finance. Committee members will then ask questions. As is the Committee's practice, the members devise and compile the questions collectively. We then divide them up among the members. The questions that each member will ask are not just their personal questions on a particular subject, but those of the entire Committee.

After the 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 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, witnesses, and officials from the Office of the Auditor General wait until they are recognized by me before speaking. This will keep the discussion more orderly and allow those listening on the radio or over the Internet to know who is speaking. We will now proceed with Ms. Hogan's opening statement.

Ms. Hogan: Thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Yukon for the 2018-19 fiscal year. I am accompanied today by Lana Dar, who is the principal responsible for the audit, and Charlene Taylor, who was the director on the audit.

The consolidated financial statements are a key government accountability document that can help the Legislative Assembly members understand the results of the government's financial transactions. We audit these financial statements and provide an opinion on them. The financial audit matters because it supports the Legislative Assembly's oversight of the government, promotes transparency, and encourages good financial management. The Committee's review of the Public Accounts is a significant 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 shortly after the release of the consolidated financial statements while the information is still current.

The 2018-19 Public Accounts were tabled in the Legislative Assembly on October 30, 2019. The government carries out its accounting and financial reporting responsibilities through its Department of Finance. The Deputy Minister of Finance will answer questions about the preparation of the consolidated financial statements. We will focus on our audit opinion and our audit observations.

Our primary responsibility as the auditor of the Government of Yukon is to form and express an opinion on the consolidated financial statements based on our audit.

Our independent auditor's report is on pages 21 to 24 in part 2 of the Public Accounts. We have issued an unmodified audit opinion on the consolidated financial statements. We assess the consolidated statements against Canada public sector accounting standards. We found that the statements conformed in all material respects, which means that the information in them is reliable. It should be noted that this is the 11th consecutive year for which the Government of Yukon has received a clean audit opinion on its financial statements.

During our audit, we focused on two areas: the presentation of the government's pension plans, and the impact of management's estimates on the consolidated statements. I will now briefly address both of those matters.

The government has multiple defined benefit and pension plans. Four of the plans are in a deficit position, and two are in a surplus position. In previous years, the government presented these plans on a combined basis in one net liability amount on the statement of financial position.

For the year ended March 31, 2019, this information was disaggregated. In our view, the new presentation provides better information to the users of the financial statements. To prepare the consolidated financial statements, the government needed to make estimates and assumptions that affected the amounts reported therein. In our audit, we reviewed these accounting estimates. We challenged the estimates and the assumptions that the government used, and we considered whether the amounts included in the financial statements were accurate, complete, and properly supported. On the basis of our work, we found these estimates to be reasonable.

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

Once again, thank you for the opportunity to help support the Committee in its oversight of government's finances. We look forward to appearing before you again next year.

Mr. Vice-Chair, this concludes my opening remarks, and I will be pleased to answer any questions from the Committee.

Vice-Chair: Ms. Mahar, did you have an opening statement?

Ms. Mahar: My name is Chris Mahar, as you know. I'm Acting Deputy Minister of Finance. With me today is Ralph D'Alessandro. He is our new comptroller as of just two months ago — learning quickly through this process.

I would like to begin by thanking the Committee for this opportunity to report on the Public Accounts for the year ending March 31, 2019. I would also like to thank Karen, Lana, and Charlene from the Office of the Auditor General of Canada for joining us today and providing their expertise and insight into the Public Accounts. We always appreciate the assistance from the Office of the Auditor General staff, not only during the process of compiling the Public Accounts, but throughout the year on all issues of an accounting nature that require wise counsel.

The Department of Finance is very proud of our Public Accounts process and this resulting document. We're humbled to have received an A-minus rating from the C.D. Howe Institute in its annual rating of fiscal accountability of Canada's senior governments.

In the 2018 report, that rating was not only an improvement year over year, but it was only outdone by New Brunswick and Alberta, matching or beating the ratings of remaining jurisdictions. Maintaining and improving transparency and accountability is critical to growing public trust in this government. Efficiency and effectiveness of our fiscal spending and planning are the pillars of the Yukon Financial Advisory Panel's final report. Through the Public Accounts, we are better able to assess and evaluate our spending across government in relation to the budget and to identify opportunities for cost-savings, process improvements, and revenue generation. This work ensures responsible use of public monies to provide Yukoners with effective, sustainable programs and services.

We're excited that the Committee is reviewing this document not just for the revenues and expenditures, but also assets and liabilities. Together, all of this information builds a complete picture of the government's financial health and well-being. In fact, the Public Accounts are an important contributor to the data used by the global credit rating agency Standard & Poor's, which recently affirmed Yukon's AA credit rating for the 10th year in a row.

While it takes into account private sector economic performance and demographic trends, it is also a measure of government finances. Overall, we know that most financial reports presented in the Legislature revolve around budgets and specific projects; however, debates are often about impact and public needs. While this is a book of numbers, it also tells a story made up of hundreds of smaller stories directly related to those same public needs. Often, what jumps out and makes the news are figures like surplus, deficit, and the financial assets, but what the Public Accounts builds is how we got to those outcomes.

Few in-year reports speak to where the Government of Yukon stands now in a financial sense. That is because it takes substantial resources to compile a complete and accurate picture. A report that indicates that cash balances are increasing but does not also show that accounts payable balances are also increasing has the potential to be misleading about the health of government finances. This makes the Public Accounts that much more essential to understanding the Government of Yukon's financial stability.

Credit is due to the office of the comptroller staff, who do a wonderful job of pulling together the numbers, processing eliminations in the consolidation process, and generally ensuring that all public sector accounting standards, Yukon government financial policies, and the *Financial Administration Act* are complied with. This is not just a task of compiling data, but requires a high level of expertise, as they are engaged in every major transaction by the government. This oversight is essential to maintaining public trust in our financial processes. However, they do not claim full credit for the final product. Certainly, they provide the quality and compliance assurance and are the keepers of the accounts, but as departments, where much of the action truly happens — figuratively and literally — it is the departmental directors and managers of finance who make sure that the front-line activities are properly recorded and do not stray from budget or estimates. They are required to ensure that any deviation from plan is reported, mitigated, offset, and explained. They are the staff tasked with keeping all the details straight and balancing all the individual projects and programs. They are the true holders of the knowledge of what, when, where, why, and how — which only makes sense in an organization the size of the Government of Yukon.

Many hands are needed to make the enormous task of guiding the machinery of government possible. Each year, these many hands begin in January, well before the fiscal year ends, to gather data, count inventories, reconcile bank accounts, calculate outstanding amounts receivable and payable, reconcile ledgers, estimate liabilities, and ensure all balances. Then the work can begin on consolidation and related elimination and classifications, all under the watchful eye of the Auditor General.

Finally, several months later, the Public Accounts are ready. The C.D. Howe Institute has tasked Yukon with finding the means to shorten that timeline if our rating is to continue improving. We are eager to comply — not just for the rating, but to provide a more accurate representation of government finances for other reporting and increased transparency.

We recognize that it will be a substantial amount of work and very much a much better coordinated effort with the Office of the Auditor General of Canada.

Moving on to the document itself, you will find that the Public Accounts is presented in three parts. Part 1 contains the financial statement discussion and analysis. It is an overview of the highlights and an analysis of the Public Accounts — an executive summary of sorts. It helps to explain some of the more important numbers in the Public Accounts and provides comparison and graphs. Essentially, this is where the financial accounting staff have done the bulk of data mining and presented it in relatively plain English. The Public Accounts are intended for use by both external and internal users, but those users may not be financial experts, so this section attempts to give an intelligent and motivated reader the salient points to concise review.

Part 2 is the audited consolidated financial statements. It includes the report from the Office of the Auditor General of Canada, which is responsible for verifying that the consolidated financial statements of a jurisdiction fairly present its financial results. The audit is not an opinion on the status of the jurisdiction's finances. The Public Accounts have been audited by the Auditor General of Canada and have received an unqualified audit opinion.

The consolidated statements include, based on the Public Sector Accounting Board rules for consolidation, the complete financial activities of Yukon College, Yukon Housing Corporation, Yukon Hospital Corporation, and a recognition of the equity position held in the Yukon Development Corporation and Yukon Liquor Corporation. It should be noted that the Workers' Compensation Board financials are not included in any set of statements for the Government of Yukon. They are stand-alone.

Part 3 is the bulk of the document. It has three sections itself. Section 1 is non-consolidated financial statements, complete with supporting notes. By "non-consolidated", we are talking about the figures for the 18 departments of the Government of Yukon as debated in the Legislative Assembly. While Yukon Housing Corporation, Yukon Development Corporation, and Yukon Liquor Corporation are debated in the House, for this breakdown, the corporations are not included in this summary. As well, it does not include the financial results for Yukon College or the Hospital Corporation.

Section 2 contains supplementary financial information in 11 schedules, showing revenues and expenses by various groups — for example, a type or a department — as well as other specific items such as restricted funds, legislated grants, and bad debts. These schedules attempt to answer questions like: How does this year compare to last? How do the actual results compare to budget? What are the specifics of a special item?

Section 3 contains copies of the individual audited statements for Yukon College, Yukon Development Corporation, Yukon Hospital Corporation, Yukon Housing Corporation, Yukon Liquor Corporation, and the compensation fund. The Office of the Auditor General audited each of these entities individually and the audit reports are included with their respective financial statements.

In total, the Public Accounts are over 400 pages of numbers and facts that together tell the story of what the Government of Yukon did in the past fiscal year to get from where it was to where it is. This document ahead of you, unlike the budget, is the true tale of government spending, but it's important to recognize the quantity and depth of this information.

I trust that you are understanding of this as we take your questions. No one person or small group, for that matter, could possibly know every detail. Fortunately, there is a large and knowledgeable team of financial staff across the departments who have intimate experience with their operations. With the office of the comptroller coordinating the movement of information, together, we are able to produce the Public Accounts. This collaborative effort showcases the inner workings of government — the gears in motion that few generally see — to keep the lights on, the brush cleared, and the paycheques flowing. We are here to shine a light on all those inner workings, and if the story isn't at our fingertips, we will endeavour to find out answers from the financial branch staff across government.

Thank you. I will be pleased to take any questions.

Vice-Chair: Thank you for those introductions.

Ms. White: I would like to thank the witnesses as we move into this brave new world of actually publicly discussing the Public Accounts. It is fantastic to have the Department of Finance here as well as the Auditor General. Thank you, of course, for the walk-through. As we attempt to dive in, we look forward to getting better at this as we progress.

My first questions are for the Office of the Auditor General of Canada. Could you please explain the role of the Office of the Auditor General in the preparation of the Public Accounts?

Ms. Hogan: The Auditor General of Canada is the auditor of the Government of Yukon, pursuant to a subsection of the *Yukon Act*. It is subsection 34(1). 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. Those statements are then included in the Public Accounts, but they are prepared by the Department of Finance and not by our office. We simply audit the financial statements and issue an opinion on them.

Ms. White: Thank you for that answer. You have provided an unqualified opinion. Can you explain what that means and why it is important, and can you describe scenarios where one would likely qualify an opinion?

Ms. Hogan: The objectives of our audit are to express an opinion on whether the financial statements are free of material misstatement. We do that by comparing them to accounting standards that have been issued by an independent standard-setting body. Those standards are the Public Sector Accounting Standards of Canada. When the financial statements conform with those standards is when you would issue an unmodified, clean, or unqualified opinion — whatever words you would like to choose to describe it. Why that's important is that it gives users of the statements confidence that they can rely on the information contained within the financial statements.

What kind of situations would we come across where we might decide to qualify or modify our opinion? There are several, and I could give you just a couple of examples. For example, 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 the government would not do that — then that would be an instance when we would consider qualifying or modifying our opinion.

Another example that would typically happen is if we want to audit a certain balance or a certain item and just could not obtain the evidence in order to satisfy ourselves that it was an accurate number being included in the statements. That would be called a "scope limitation" and we would typically qualify or modify an opinion at that point 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? Can you explain the rationale behind that assessment?

Ms. Dar: Thank you for the question. To prepare the consolidated financial statements, the government needed to make estimates and assumptions that affected the amounts that are recorded and reported in the statements. Key management estimates are identified in note 2(g), which is found on page 35 in part 2 of the Public Accounts. Key management estimates include post-employment and retirement benefits and environmental liabilities. By their nature, these estimates are subject to measurement uncertainty. This means that changes to such estimates and assumptions in the future could significantly affect the financial statements. In other words, history has shown that actuals and estimates can vary significantly. In our audit, we review these accounting estimates due to their risk of material in the misstatement. We challenged the estimates and assumptions that the government used and we also considered whether the amounts included in the financial statements were accurate, complete, and were properly supported. On the basis of our work, we found that these estimates were reasonable.

Ms. White: What do you think the strengths are of Yukon government's current Public Accounts? What are the opportunities for improvement?

Ms. Dar: Overall, as the Deputy Minister of Finance has articulated, the Public Accounts, are very transparent in regard to the financial results of the government. The accompanying notes and schedules included in various parts of the Public Accounts to the financial statements provide detailed information about the government's finances.

The Public Accounts also include supplementary financial information and supplementary financial statements for various government sector entities.

On the whole, the Public Accounts are comprehensive and complete, and we see that as a key strength. Where we see an opportunity for improvement is with regard to part 1, the section called "Financial Statement Discussion and Analysis". This section of the Public Accounts can be found on pages 1 to 16 in part 1. The financial statement discussion and analysis from a publication perspective is a good summary of the government's financial statements. It is an example of best practice to include such information in the Public Accounts. However, one of the main purposes of the financial statement discussion and analysis is to supplement and complement the information that is provided in the financial statements. In our view, this is lacking in the current form of the government's financial statement discussion and analysis. For example, including a discussion about key risks and how the government mitigates those risks would be and could be beneficial for readers of the financial statements.

In connection with our audit of the consolidated financial statements, we will continue to work with the government to make improvements in this area.

Mr. Adel: Thank you everyone today for coming and providing your expertise. My questions are for the Department of Finance.

What do you think the strengths are of Yukon government's current Public Accounts, and what are the opportunities for improvement?

Ms. Mahar: In any strong organization, there are sort of three areas that make up a strong system: people, process, and technology. In this case, there are two that are strengths and one is an opportunity for improvement. I think one of the strengths of the current Public Accounts is the process that we use to compile the consolidated statements and supporting schedules. We use standardized methods to ensure accuracy and accountability. The stability of that data collection and its presentation is consistent and easily comparable and produces a reliable document. Users are able to look at multiple years and see continuity and find trends in specific areas easily. C.D. Howe Institute cited this as a strength, plus there is the comparability of the results with the way our budgets are presented.

However, this is labour intensive and requires time and effort to complete. Thankfully, we have dedicated and experienced staff who pull together over a dozen thick binders full of worksheets. These are compiled using Excel files of general ledger information extracted from our corporate financial system, so critical details such as tangible capital asset data are kept in a separate stand-alone system.

All of this data in its various repositories has to be compiled, summarized, and verified manually to create the Public Accounts. This speaks to the hard work of staff. One opportunity for improvement would be to digitize the annual Public Accounts. This could create a database for use in trend analysis and multi-year reports.

While the database concept is straightforward, we expect that this could reduce a significant manual workload in order to ensure that slight differences in schedules are caught in the process. It is challenging, but it is not impossible to achieve.

C.D. Howe Institute also identified — and I have already mentioned the timelines in preparing Public Accounts. I think that waiting until October before they are ready is too long. But, of course, it involves a lot of various areas all having to be timed properly, so we are working now — and certainly with the Auditor General's Office — on improving those, and we will keep doing that.

I do agree with the comments from the Auditor General about a bit more of an explanation or the story on the numbers. I know that questions have been asked around explanations, and I think that is worthy. One of the things that we are trying to balance is finding a way to share that kind of information that is both easy to compile — again, with our lack of technology — but also finding the means in which we can do that. This is already a book that is bursting at the seams, so finding a way that it doesn't become so monstrous that folks don't draw attention to it as well. That is another area that we are working on now.

Ms. White: I really appreciated that, in your opening statements, you said that there was the effort from the Department of Finance to speed up the reporting time and how the Department of Finance says that it is about transparency and that good government is about transparency. When you just highlighted the three processes — people, process, and technology — you highlighted that technology is what is hindering our ability to do that. When you mentioned the digitization — so, I guess one of my questions is: If it exists elsewhere, is that something that we can replicate here? Would that help the department with the reporting timeline? So, instead of being the seven months that was referenced, would we be able to shorten that so the Department of Finance could achieve their goal, as stated by the C.D. Howe Institute?

Ms. Mahar: Yes, it would certainly help the timeline — for sure. We are starting. We have a Questica — we are putting it in place as we speak — as a budgeting system. As far as I'm concerned, if we can sort of get the plan right to begin with — as far as the plan is followed, then we know what that Public Accounts looks like. We'll be able to utilize some of the budgeting system to also help and support the Public Accounts piece.

Our corporate financial system is old. It has been in use for many years, but it's a mission-critical system. That would be another area that we would be looking at modernizing. It's not cheap, and if we ever did it, we would want to do it right, so it's multi-years of planning. We are starting to look at that now, though. I think there are even minor changes that we can make in terms of integrating more of the stand-alone data bases that we're using now that will help along the way.

Mr. Adel: What does the comptroller do in their work with the Auditor General?

Ms. Mahar: The comptroller is the main liaison with the Office of the Auditor General of Canada. They coordinate the audit team's visits, collection of data, and inquiries for explanations from the operational departments. They are the main advocate for the policies and accounting procedures of the Government of Yukon. The comptroller develops policies and procedures relating to the standards for the Public Sector Accounting Board, and they ensure compliance with those standards through the Office of the Auditor General.

As I mentioned earlier, this relationship is not just a one-year contact. It is maintained throughout the year. Visits for next year's audit have been booked and final responses for this year are still being compiled. Should there be any updates to policies throughout the year, especially to the *Financial Administration Act* or regulations, the Office of the Auditor General is informed to ensure that they can adjust their plans and we can get their advice if necessary.

On occasion, they may also indicate issues that should be reviewed prior to implementation to ensure that compliance with standards are maintained. Often, when the new system or standards are being implemented, the comptroller will seek advice from the Auditor General about whether methodology or systems meet compliance and reflect best practices. They also provide insights into the interpretation of complex accounting issues which allow the Yukon government to avoid problems during the annual audit and not hold up the timelines for completion.

When dealing with complex issues, there are occasional disagreements, and the comptroller and Office of the Auditor General have the occasional agreement to disagree. Through frequent and transparent contact, these occasions are few and the comptroller strives to continue developing a frank and strong relationship with the Auditor General of Canada.

Mr. Adel: Okay, I know you touched on it briefly in your opening statement, but what does an AA rating with Standard & Poor's mean? How does that affect the function of the Yukon government finances?

Ms. Mahar: Standard & Poor's defines their issuer credit rating system as a forward-looking opinion about an issuer's overall creditworthiness. So, according to Standard & Poor's, this opinion focuses on the issuer's capacity and willingness to meet its financial commitments. An organization rated AA has a very strong capacity to meet its financial commitments. This differs only slightly from the highest rating of AAA given to organizations that have an extremely strong capacity.

Factors that can influence the rating include speculative nature of revenues and timeliness of payments. Speculative nature of revenues means the stability of revenue sources and the organization's level of control over its revenues. While Yukon scores high on revenue stability, its major revenue source is one provider, so it may be considered a slight weakness.

Timeliness of payments deals with whether commitments are met on time and if any are allowed to fall into arrears. Yukon scores well in this category. In essence, it means that Standard & Poor's believes Yukon has the capacity to pay back its debts and increase the likelihood of obtaining favourable financing or borrowing.

Mr. Istchenko: Welcome to all the witnesses who are here today.

I have a couple more follow-up questions for the Department of Finance. In your introduction and highlights, page 3 includes an increase in expenses by $123 million. So, what is the reason? Can you explain the net result when you factor in the increase in revenue?

Ms. Mahar: If I can direct your attention to pages 64 and 65, you'll see schedule B, which is the Consolidated Schedule of Operations by Function for the year. This report shows seven different main functions for government: Health and Social Services; Community and Transportation; Education; General Government; Natural Resources; Justice; and Business, Tourism and Culture. It provides a quick high-level review of revenues and expenses with prior years comparators.

So, on page 65, the total columns indicate total expenses increased from $1.276 billion in 2018, to $1.399 billion in 2019, the difference being the $123 million in question.

By reviewing the columns for each of the various functions, the bulk of that increase occurs in community and transportation for $80 million and health and social services for $33 million. Breaking that down further, community and transportation — thanks to spending in private sector and government transfers — $37 million was in contracts, materials, and other expenses and another $37 million was in government transfers. These government transfers are generally contributions, at least in this area, to municipalities and First Nation governments, often for the replacement of aged infrastructure. The work itself often — even though it's flowed through those municipalities or First Nation governments — is still done by the private sector.

The $37-million contracts related to transportation and property management projects. Some examples are: bridges, including the Nares Lake bridge that was recently near completion; clearing the Campbell Highway; airport runways; airport facility maintenance; and major transportation building maintenance projects. The government transfers component is the community development projects — specifically, an increase in the clean water and waste-water fund projects — the $17 million. New Building Canada, which became the small communities fund, has a $9.2-million increase. Then there is a number of smaller one-time projects, such as the Vuntut Gwitchin First Nation community centre, which made up the balance.

As for the Health and Social Services increase of $33 million, the majority is the Whistle Bend extended care facility and getting that up to 100-percent capacity, the Whitehorse General Hospital expansion, and early learning and childcare funding.

Mr. Adel: I think the back part of that question and what I would like to see are the recoverables. When you put them against the expenses, what were the recoverables?

Ms. Mahar: Some of both the transportation and property management projects — particularly the bridges — as well as all of the transfer payment items all came under the small community federal infrastructure funding agreements. Therefore, Yukon government contributed 25 percent; 75 percent of those dollars were received from the federal government.

What you see here under the expenses is 100 percent of the cost, but what you'll see in the revenue side of things is where we've recovered 75-cent dollars. So, that $123 million looks — I guess, larger than what it is — what would have otherwise been.

Mr. Istchenko: What does a positive net debt — so your net financial assets to gross domestic product — what does that mean for Yukon's overall financial picture?

Ms. Mahar: Turn to the graph on page 15. It depicts how large a net debt position each jurisdiction has. Since bigger economies tend to have bigger net debt, net debt is scaled by gross domestic product — the standard measure of an economy's size to make it comparable to regions of different sizes. In effect, this number estimates what share of the annual income of all households and businesses would be required to pay off the public debt. For example, according to Statistics Canada, in 2018, the Government of Ontario had net debt of $338 billion. This was almost twice the public debt of the Government of Québec, which had $178 billion. But Ontario's economy is twice as big as Québec's, and in general, the larger the economy, the larger its public debt. So, if we adjust net debt by dividing it by GDP, we see that Québec and Ontario are actually in a similar fiscal position, with net provincial debt of around 40 percent of GDP.

Yukon and Nunavut were the only provinces or territories with net financial assets in 2018 which means, crudely speaking, that if the Government of Yukon sold all of its financial assets, it could pay off all the money it owes and still have some left over. This puts Yukon in an advantageous position and gives the government flexibility in responding to unforeseen events and economic downturns. When hard times come, the government has the flexibility to draw down assets or borrow to meet emergent needs. Without this cushion, government would be forced to respond to unforeseen fiscal demands with tax hikes and/or spending cuts. For example, when oil prices collapsed, the Government of Alberta was like Yukon today — in a net asset position. Alberta responded to the oil shock by borrowing more. By contrast, Newfoundland and Labrador's public debt was already 30 percent of GDP when oil prices fell. Since the government didn't have the fiscal room to respond to lower oil revenues, it was forced to hike taxes and slash spending.

Yukon is currently enjoying a period of fairly rapid economic expansion with low unemployment rates, rising wages, and higher incomes. But economic growth in the territory is volatile, as are the government revenue streams. This makes it all the more important that the government be vigilant in defending its fiscal position when times are good, as they are now.

Mr. Istchenko: My next question is for the Office of the Auditor General. The government has a net fiscal position of $218 million. That was at March 31, 2019.

What does it mean to be in a positive net financial position?

Ms. Dar: I may well add to the Deputy Minister of Finance's description, which was a very good picture of the current financial status for the Yukon. So, on a technical definition, the net financial assets are the amount by which the government's financial assets exceed the value of its financial liabilities. In other words, it informs the reader whether there are enough financial assets to cover the liabilities. We focus on it here because it is a key financial indicator.

On the converse side, as you see, that is the case for the majority of the other provinces in Canada. They are in a net debt position, which means that those governments must rely on future revenues to discharge their current liabilities.

Mr. Hutton: On page 4, the 79 percent recommendation in the planned surplus is rationalized by higher than expected expenses in community and transport. Can you explain what caused the extra expenses in these departments?

Ms. Mahar: The planned surplus of $11 million was based on an original budget of $1.396 billion in revenues and $1.385 billion in expenses. Instead, 2019 actuals were $1.4 billion in revenues and $1.398 billion in expenses. That is netting out to the $2-million surplus. The resulting $9-million reduction in surplus was caused by the $4-million increase in revenues, offset by a $13-million increase in expenses. The $4-million increase in revenues is due primarily to more-than-anticipated taxes in general revenue.

Community and transportation had the largest increase compared to the original budget, and in fact, five areas were below, which helped to mitigate the overall increase. By itself, Community Services was over its original budget by almost $55 million. It should be noted at this point that, during the year, the supplementary estimates added $59 million to that main budget, so they did not go over their final vote appropriation. Some of the items that caused that increase were $5 million in Protective Services due to the busy fire season, as well as the $37 million in infrastructure development and $9 million in the cost of land developed.

Mr. Hutton: You also answered the third part of that question, which was to explain why revenue came in $4 million higher than expected. I'm not sure if you hit on the reason that the surplus went from the planned $11 million down to the actual $2 million.

Ms. Mahar: The $9-million reduction is the $11 million planned versus the $2 million actual, and that's because of the $4-million increase to revenue, which I have explained. There was also $13 million more in expenses than budget.

Mr. Hutton: In the Consolidated Statement of Financial Position on page 25, can you explain the reasons for the variations in cash and cash equivalents from $32 million last year to $117 million this year?

Ms. Mahar: The noted variation in cash and cash equivalents is directly related to the variation in temporary investments. A number of term deposits and GICs matured near year-end and were converted to cash and cash equivalents. Since the consolidated statement of financial position is "as at" March 31, 2019, it captures balances on those specific dates. So, the director of investment and banking monitors the markets to identify the right options for investing Government of Yukon funds with daily, monthly, and yearly active management according to the investment strategy and the investment policy.

The first five items listed under Financial Assets — namely cash and cash equivalents, temporary investments due from Canada, accounts receivable, and portfolio investments — are the government's most liquid assets and constitute the working capital. Working capital totalled $322 million in 2018, and it dropped to $278 million in 2019. This $44-million drop related to: $18 million in increase to long-term financial assets; a $3-million increase in liabilities; a $32-million increase in non-financial assets, which are essentially tangible capital assets; and nets to the $3-million increase in accumulated surplus.

So, essentially, liquid working capital was converted into the longer term assets, which is commensurate with the investment into aged infrastructure.

Ms. White: I appreciate that. In my case, anyway, it feels like financial boot camp. I do appreciate the language choices you are making.

When you just said that the cash and cash equivalent — it talks about note 3, so if we go to page 35, it shows us that there. You specified that it was — as the date of March 31. Does that mean that, for example, after the money had been reinvested, would that number reflect differently?

Ms. Mahar: Yes, it would. What happened is that, right near the fiscal year-end, some investments were cashed in. They were still sitting in our bank account waiting for a better opportunity to just post.

Ms. White: I thank the deputy for that answer. Just to help us understand — and anyone who might be looking at this book right now in a similar fashion — when the assets were then converted to cash and held in a bank account until the decision is made to reinvest them based on the expertise of the person who does that — you are nodding, but if you could just say "yes", that would be helpful.

Ms. Mahar: Yes, it would. At that point, cash and cash equivalents would be decreased, but we would see it higher again in temporary investments.

Mr. Hutton: Why are the liabilities down to $218,450,000 from $247,631,000?

Ms. Mahar: As mentioned, the net financial assets decreased by $29 million. This figure is calculated by subtracting liabilities from financial assets. In this case, financial assets were down and liabilities were up.

It is important to note that financial assets do not include the value of tangible capital assets owned by government or any supply inventories that we have. The category only includes assets that are or can be converted to cash relatively easily.

Overall, financial assets decreased by $26 million. They went from $746 million in 2018 to $720 million in 2019. Liabilities increased by $3 million from $498 million in 2018 to $501 million in 2019, so therefore, we get the net $29-million decrease.

Looking closer at the financial assets, there is definitely again the movement between cash and cash equivalents and temporary investments that we noted in the last question. These together — if we combine the cash and the temporary investments — totalled $195 million in 2018 and reduced to $161 million in 2019. That's a decrease of $34 million.

We can also identify inventories for resale — in other words, the land inventory — as another big shift. In this case, the movement went from $67 million in 2018 to $76 million in 2019 — an increase of $10 million. There were various other small changes. It's fair to say that some of that cash was used to invest in land development operations and capital assets through 2019.

If we change our focus to the liability side, the largest decreases year over year were the categories of due to the

Government of Canada, accounts payable, and accrued liabilities — these are all short-term liabilities that decreased by $11 million. But the other big area that was mentioned before as a material estimates area that we watch is the employee future benefits and retirement obligations. Both of these are long-term liabilities; in other words, we're not expecting to have to pay a big chunk of those out anytime soon. That increased by $14 million. Those financial asset changes as well as the liability changes are what amounts to that $3-million increase.

It's interesting to note that the government has reduced both its short-term financial assets and its short-term liabilities but has increased its long-term financial assets and long-term liabilities. We can also note that, when we look at the changes on the tangible capital assets and inventory sections — in other words, the non-financial assets — those increased by $32 million in 2019. Again, that's where some of that cash was invested over the year.

Vice-Chair: I will just make note at this point for the Committee members and witnesses that, if Committee members want to ask questions of the comptroller, they can pose questions to the comptroller. Mr. D'Alessandro is with us today; however, they can — between Ms. Mahar and Mr. D'Alessandro — decide who responds, but I just wanted to let people know that this option is available.

I have a question for the Department of Finance on page 26, Consolidated Statement of Operations and Accumulated Surplus. Under Expenses, Community and transportation increased from 2018 actuals of $280 million to 2019 actuals of $362 million. Can you explain why that increase took place?

Ms. Mahar: The short answer is that our expenses increased year over year as the government increased spending on replacing, updating, and maintaining infrastructure in our rapidly growing territory. Let me also give you the long answer by clarifying something on page 26 in note 1(b). It is referenced under the budget column title on page 29. It states that the budget figures are based on the consolidated budget of the government reporting entity as published in the government's 2018-19 O&M and capital estimates. In other words, the audited statement uses the mains for comparison to budget rather than the revised totals after any supplementary estimates that the Legislature might have approved. This is standard practice and provides the opportunity to evaluate the accuracy of the government's budget process rather than the government's ability to mitigate issues throughout the fiscal year.

It should be noted that, at this point during the year, the supplementary estimates add $59 million to the department's original budget, so they did not go over their final vote authority. Back to those increases of expenses which are in community and transportation, I will reiterate that it is the same as before. The private sector — $37 million in contracts and $37 million in the government transfers. It is for the same pieces — bridges, clearing the Campbell Highway, the clean water and waste-water, and all of those federal funding investments.

Mr. Gallina: In the Consolidated Statement of Cash Flow on page 28, why was there a decrease of surplus for the year of $52,855,000 in 2018 to $2,312,000 in 2019?

Ms. Mahar: The surplus for the year values in this cash-flow statement is taken from the consolidated statement of operations and accumulated surplus on page 26.

The 2019 surplus is $51 million less than the 2018 surplus because of the revenue increase by $72 million year over year, offset by $123 million in expenses year over year.

On the revenue side, the increase of $72 million was driven by an increase of $36 million from Government of Canada. This would be the amount we received under federal infrastructure funds, as well as our territorial funding transfer. We had another $30 million in taxes and general revenues year over year. The taxes and general revenues further breakdown would be $13 million that we got from increased sale of land, $12 million in additional personal income taxes, and $5 million in corporate income taxes.

On the expense side of the $123 million was the $80 million, year over year, community and transportation increase, $33 million was the Health and Social Services increase, and it is the same as the previous answers in terms of infrastructure revenue, as well as the Whistle Bend, hospital expansion, and early learning and childhood funding.

Vice-Chair: Why was there an increase in net proceeds from temporary investments of $51,339,000 in 2018 to $119,392,000 in 2019?

Ms. Mahar: Temporary investments include term deposits, GICs, floating rate notes, and treasury bills. Temporary investments are precisely that. They turn over several times over the course of a fiscal year, if not more. Therefore, those lines are reported in the statement as net proceeds received from those temporary investments.

In 2019, a number of term deposits and GICs matured at or near March 31, and suitable investments for reinvesting those proceeds were not available at the time, so they were held as cash. This resulted in unusually high net proceeds from temporary investments in 2019. The situation explains not only the increase of $68 million in net proceeds from temporary investments, but also the increase, year over year, of cash balances at year-end.

Again, the director of investments and banking is the one who monitors and chooses the investments.

Vice-Chair: Can you provide an explanation for operating transactions cash, which are down in 2019 to $79,178,000 from 2018 at $110,544,000?

Ms. Mahar: So, the comparison of cash provided by operating transactions between 2018-19 begins with the surplus for the year. That alone, between the two years, differs by $50 million, so that's a big start of it. This is the primary reason.

The largest stand-alone difference between the two years was a result of assuming the Salvation Army shelter. This was considered a contributed capital asset to the Yukon government amounting to $13.3 million, and it was a transaction that did not involve cash. So, this whole statement is to illustrate to users where Yukon government both used and received cash through the year and tells a slightly different story. This was one transaction that's included in surplus deficit where no cash changed hands, so it's in there as a stand-alone.

Collectively, the non-cash items included in the surplus for the year adjustments required in the 2018 and 2019 years were almost identical, so there was very little impact year over year. Cumulatively, the change in non-cash assets and liabilities changed from a reduction of cash flow of $1 million in 2018 to an increase in cash flow of $18 million in 2019, resulting in an overall net increase of $19 million. The largest change to liabilities were due from Government of Canada and the accounts receivable. Therefore, year over year change of cash provided by operating transactions can be explained by that $50 million reduction for the surplus for the year, plus the $19 million increase in change in non-cash assets and liabilities, netting out to a reduction of $31 million.

Vice-Chair: Can you provide an explanation for investing transactions which are up to $105,261,000 in 2019 from $39,928,000 in 2018?

Ms. Mahar: Cash provided by investing transactions totalled $105 million in 2019, which was $65 million higher than the $40 million provided in 2018. There were several investments that the government utilizes and all had fluctuations in 2019. So, temporary investments — again, I think we've explained in previous answers — also noting the impact that changes in temporary investments had on cash.

Portfolio investments consist mainly of marketable securities that are of a longer term than temporary investments. Unlike temporary investments which are presented as net proceeds, portfolio investments are presented as proceeds separately from acquisitions, so this reflects their longer term and less frequent transactions.

In 2019, portfolio activity netted to a use of cash of $2 million compared to the $6 million used in 2018. This means a $4-million increase in cash flow into portfolio investments.

The other one stand-alone $1 million was repayment of advances from Yukon Development Corporation. A new agreement for — what was that? — a $39-, $38-million advance now requires a $1-million principal repayment each annual year. This was the first year and that was reflecting the $1 million cash flow that we received.

Loans receivable has two impacts on cash flow — we get proceeds from repayment of loans and there's also cash outflow where we issue new loans. Yukon Housing Corporation mortgages account for more than half of that total. For the past five years, the net impact of loans receivable has been to increase cash flow. This means repayments have been larger than issuances, providing a net increase to cash flow in the year. Despite the volume of activity in 2019 being higher than 2018, the net impact on cash flow — approximately a positive $12 million — had negligible change year over year.

Finally, investment in land inventory is the final component of the investment transactions. Lands developed for resale and/or future development and the investment in land inventory in the consolidated statement of cash flows reflects the cash used to procure and/or develop the land held of resale and the volume of activity fluctuates as development projects are approved or implemented.

Amounts that we have invested in land have increased since 2015, with significant jumps in 2018 and 2019. Investments by year since 2015 have been $2.8 million, $3.8 million in 2016 — it jumps up to $8.2 million in 2017, $17.7 million in 2018, and $24.9 million in 2019 — needed for housing. Therefore, investment in land inventory has always been a use of cash, but in 2019, it increased significantly. As originally mentioned, there are a lot of fluctuations in the 2019 values compared with the 2018, but the largest driver of the increase in the cash provided by investing transactions was net proceeds from temporary investments.

Mr. Gallina: Can you provide an explanation for cash and cash equivalents, which are up to $117,824,000 in 2019 from $32,336,000 in 2018?

Ms. Mahar: The consolidated statement of cash flow on page 26 provides an interesting example of the fact that surplus is not necessarily a guarantee of money in the bank. In 2018, a $53-million surplus, when converted to a cash base, has resulted in cash provided through operating transactions of nearly $111 million. Another $40 million in cash came from investing activities — primarily cashing in temporary and portfolio investments — and a total of $151 million in cash was received through the year. It looks pretty good. Then it comes to the cash used for capital transactions of $145 million and cash used for financing transactions of $4 million. Suddenly, a prosperous year only manages a nominal $1-million increase for cash and cash equivalents.

On the other hand, 2019 is definitely the corollary of 2018. A modest surplus of $2 million provides cash provided by operating transactions of only $79 million. Cash provided by investing activities is at a healthy $105 million, and again, things are looking really good. Now comes the cash used for capital transactions at $94 million and cash used for financing transactions of $5 million. Suddenly, a modest year provides a stunning $85-million increase in cash and cash equivalents.

This cash flow statement provides an eye-opening example of why the Public Accounts are so important in their presentation of a complete picture of what is happening in government finances, rather than just a revenue and expense focus.

Ms. White: I think that this is one where we had a briefing and a walk-through from the Office of the Auditor General, with Ms. Dar walking us through this. I think that you will appreciate the answers I am sure we are going to get from here.

This is to the Office of the Auditor General: Why is it important to study the notes on accounting methods that precede the actual financial statements in the Public Accounts?

Ms. Dar: The accompanying notes and schedules to the consolidated financial statements are an integral part of the overall picture.

It's so important that, as a subheading under each of the financial statements, there's actually a note to refer the reader to read the accompanying notes and schedules. It's very important, because they provide a lot of additional information. They are also required because not all relevant financial information can be communicated through the numbers that are shown on the face of the financial statements.

One of the main notes is the summary of the entity's significant accounting policies. For the government's consolidated financial statements, this can be summarized and found in note 2, which is on pages 29 to 35 in part 2 of the Public Accounts. The remaining notes contain details and various schedules for financial statement line items, such as cash and cash equivalents, investments, and accounts payable, to name a few.

Ms. White: I think what we saw from the Deputy Minister of Finance was the incredible ability to take that information and bring it back to the questions that we were asking about the line-by-line, but getting that walk-through from the Auditor General's office was illuminating for me, because I didn't fully understand. We have been tabling Public Accounts for a number of years, but this was the first time that there has been such a deep dive. I appreciate the answer from Ms. Dar.

This is also a question for the Office of the Auditor General: In note 2, there are significant accounting policies. We have from pages 29 to 35, and it describes the method of consolidation. Can you explain what "consolidated" is and the difference between "full" and "modified" equity methods and what determines which method is used?

Ms. Taylor: Consolidation combines the financial results of the entities that are controlled by the government, and they include them as part of their reporting on the financial statements. The government's consolidated figures include the financial results of a number of entities, as indicated in that note.

Full consolidation is used for entities that are financially dependent on the government, such as the Government of Yukon departments, Yukon College, Yukon Hospital Corporation, and Yukon Housing. For example, the government might be able to be included in various aspects of decision-making, such as the direction and use of resources by the government.

What you do in the consolidation process is you actually go on a line-by-line basis. The entities are transferred into the government and added to the government's basic numbers there. That would include revenue, expenses, assets, liabilities, and all the cash transactions.

Now, to ensure that there's no double-up, we actually do eliminate inter-entity revenue, expenses, accounts payable, and accounts receivable balances. It's a line-by-line transfer.

The modified equity basis actually differs a little bit in the sense that the government entity actually has autonomy, and it is economically self-sustaining to carry on a business. This would include Yukon Development Corporation and Yukon Liquor Corporation. They are usually called a "government business enterprise" as defined by PSAS, or Public Sector Accounting Standards.

With the modified equity method, what you do is you hold the investment and entity — you know, the assets and liabilities — I guess, their net surplus is included on one line on the statement of financial position, as is their profit and loss in the statement of operations. So, it just has one line that is reflected.

Anyway, it just follows the accounting standards. I think that there is another note in the financial statements where you can see the details. If you wanted to look at note 11, where you can see on the line-by-line basis what is transferred — all the assets, liabilities, revenues, and expenses.

Ms. White: I thank Ms. Taylor for that answer. This is why going to Public Accounts meetings is so exciting, because people are fired up about the Public Accounts.

This is a question for both the Department of Finance and the Auditor General's office. How is the estimated useful life of tangible capital assets determined, and how do we know if they are accurate? What are the consequences of inaccuracies?

Ms. Taylor: The useful life of a tangible capital asset is generally estimated based on the historical usage trend that has been observed in the past. Each year, the estimates are reviewed and reassessed to determine whether there is any new information that would suggest that maybe the useful lives of certain assets require revision. One area that an auditor might review is — for example, if there is a significant amount of fully amortized assets that are still in use. If that is the case, then the estimated useful life may not be accurate, and so that should be reassessed.

I think that, just a couple of years ago, there were some that were revised by the department. It went from 40 to 50 years on some of the assets, but generally speaking, if the useful lives are not accurate, then the annual amortization would be greater or less than it should be, and the annual surplus or deficit would be impacted as well.

Ms. Mahar: Estimated useful lives for tangible capital assets are determined based on industry averages and are not expected to be exact for every individual item, but rather across the total group. This is governed by our tangible capital asset policy, which has been in effect for some time.

The policy identifies estimated lives of assets, which is normally the shortest of physical, technological, commercial, and legal life. The system is reliant on a department maintaining the asset and monitoring the remaining useful life during preventive maintenance and repairs. If a significant deviation from the average is noted, then the remaining life of the specific asset should be adjusted, as was mentioned.

As experience is built with various assets and asset types, the estimated useful lives used should be reviewed and adjusted, if required, to obtain best practice. Since the asset is already purchased, inaccuracies in the estimated useful life will not alter the total cost to be expensed. Any adjustment to the useful life will only alter when those costs are recognized through the amortization process. The underlying objective is to spread the cost of the asset across the life of the asset. Hence, inaccuracies manifest themselves as timing issues as the asset is amortized.

Where we do run into problems is when the life of an asset is decreased substantially and sometimes suddenly. That means the amortization amount shifts considerably into current or upcoming years rather than being spread across the previous expected life of the asset. It can be done for a variety of reasons, including economic, technological, obsolescent, just decision. This result, thankfully, we see infrequently.

Generally speaking, we're confident in the assessments made by departments regarding their tangible capital assets. We continuously work with departments to ensure the accuracy of their planning.

The entire tangible capital asset system and policy will be undergoing close scrutiny as a new public sector accounting standard is implemented over the next two years. Similar to landfill closure requirements, the new asset retirement obligations will focus on recognizing the retirement or remediation costs that an owner is obligated to incur at the time of disposal of a tangible capital asset. So, these costs are now to be capitalized at the time of purchase or embedded at the time of purchase and amortized over the life of the capital assets. There is a lot of work to be done. This won't just focus on our tangible capital assets. We'll be looking at all of our assets and all of those that have liabilities at the end of their lives. We're just starting that work.

Ms. White: So, just when we look at the useful life of a tangible capital asset, for example, if we are talking about a building that was, for example, construction on permafrost or something that could be affected by climate, is climate change now going to be taken into the calculation of the possible life of the asset?

Ms. Mahar: Yes, I think that this is a real possibility. We have already seen some of those buildings that we have had to adjust. That will become the new norm. It is certainly an area that we are going to be looking more closely at.

Ms. White: So, when we're talking about the close scrutiny that we're going to be having on how those tangible capital assets are amortized over time, will part of that new way of looking at it include climate?

Ms. Mahar: Yes, we will be having to redo our whole tangible capital asset policy, which will be looking at all the assets — so how do we define materiality level, which assets would be included and which wouldn't? We will be taking a new look at what the lives are and what kinds of things would impact that, with climate change certainly being one of the lenses we would look at.

Mr. Adel: So, we take a new look at our tangible assets as they exist right now — I am not talking about the ones going forward; I am talking about the ones we have now. If we eliminate their lifespan by 20 percent, how is that going to affect our net debt position? We include all of our assets in that, right? Are we just going to take a one-year hit on those when we redo them? Are we going to do them over time so that we don't get a big hit to our net financial position?

Ms. Mahar: In that case, I highly doubt we would — we wouldn't likely apply that lens arbitrarily to all buildings. For example, we would be looking at them building by building. Supposing we had one or two or even three buildings that were in an area where suddenly the life went from 40 years to 20 years, there wouldn't be an immediate hit, but there would definitely be an increased annual cost in terms of amortization over the next 20 years for that shortened life.

Mr. Adel: Note 4, "Temporary investments", is on page 35. Temporary investments have declined in the year by approximately $119 million. What is the reason for such a decline and do you expect the trend to continue? I know that we have touched on this already. Is there anything you would like to add?

Ms. Mahar: I think we have covered all of it in a previous question. Again, we're continually looking at the best investment methods and also looking at when we need the cash to invest in financing activities or assets, et cetera.

Mr. Adel: For the line "Term deposits and GICs", why was there considerable decrease in carrying value and market value from 2018 to 2019?

Ms. Mahar: Again, it's the same answer. I guess I'll just elaborate a little bit on the difference between carrying value and market value. In this particular note, the two are the same. However, if the market value — all of our investments are on the books at the carrying value. If, at some point in time, the market value suddenly dropped significantly and we weren't likely to realize those carrying values, at that point, you would see two different values and we would be reducing the asset value on our books. In this case, it's the same.

Mr. Adel: These are questions for the Office of the Auditor General. Note 13, page 43 to 45, is "Environmental liabilities". Environment liabilities for 2018-19 amount to $29 million. What does the term "environmental liabilities" mean to the layman or to someone looking at this?

Ms. Taylor: Environmental liabilities are the estimated costs related to the remediation or risk management of contaminated sites for which an entity is obligated or will likely be obligated to incur costs. So, for the government, it accepts responsibility for the environmental liability and includes the estimated cost for remediation of environmentally contaminated sites, as well as the present and future closure and post-closure costs for landfill sites.

Mr. Adel: These questions are coming back to the Department of Finance, the last three or four here. What are environmental liabilities?

Ms. Mahar: The Site Assessment and Remediation Unit in Environment — otherwise known as SARU, led by Paul Inglis — are the experts and best able to respond to detailed questions on this topic. They are certainly the experts we look to.

They apply a two-phase approach to sites identified for assessments. Phase 1 consists of reviewing the documented history of the site and providing a visual inspection. Phase 2, if recommended, includes taking samples and doing in-depth analyses on the site.

The result of phase 1 obviously informs phase 2, whether it is even required, and the result of phase 2 will inform whether remediation is recommended. Using the data obtained during the phases of the assessments, SARU was able to begin investigating the potential liability, if any, for the sites. As the unit has become more experienced, it has been able to identify sites where remediation is just not required, but rather they just initiate a monitoring program to ensure that there is no migration of contamination.

Many sites are self-contained and will, over time, self-remediate. SARU uses a formula to estimate a liability. It takes into account the volume of material required to remediate the site, along with the cost of labour or contract services and disposal charges. So, some sites merit building a land treatment facility on the location. These parameters are estimated based on their past experience and professional knowledge. At the end of note 13 on page 45 is a table that lists the number of sites and also the estimated liability. The liabilities for 99 contaminated sites total $29 million. There are also liabilities at 28 landfill sites totalling $9 million and one type 2 site — a mining site — for $5 million.

Overall, we have 128 sites that we have identified as having a liability and where we have an estimate of what that estimate is, totalling $43 million.

Mr. Adel: We have territorial environmental liabilities. Do we also have federal environmental liabilities contained within the Yukon?

Ms. Mahar: Yes, pursuant to the devolution transfer agreement, the Government of Canada retained responsibility for the cleanup of waste sites that were identified on lands transferred, effective April 1, 2003. The Government of Canada also accepted the financial responsibility for remediation of impacts attributable to activities that took place prior to April 2003 on the mine sites identified as type 2 sites where they had been abandoned by their owner or operator. Once a type 2 site becomes abandoned, the DTA requires that an independent assessor assesses the condition of the site and develop a remediation plan. The Government of Yukon is responsible for the cost of that assessment.

Then, under the DTA, the Government of Canada accepts financial responsibility for remediation of impacts attributable to activities that were permitted by Government of Canada.

So, Government of Yukon would be financially responsible for remediation of impacts of activities that it permitted after devolution. Broadly speaking, territorial environmental liabilities relate to impacts attributable to activities that it allowed after April 1, 2003, while federal environmental liabilities relate to impacts prior to that time. We're also liable for the assessment cost as well. It's only the territorial liabilities that you'll see in these documents, not the federal components.

Mr. Adel: What is contained in the $29-million amount listed on page 43 under "Environmental liabilities"?

Ms. Mahar: The $29-million value relates to environmental liabilities for 99 contaminated sites. The contamination primarily includes petroleum, hydrocarbons, salts, and occasionally some metals.

The values are broken down in a table at the top of page 45. We have highway maintenance camps and airports. There are 36 such sites; 23 highway maintenance camps are located throughout Yukon, and they are totalling about $10 million in liability — not surprising. There are also 13 different airports and aerodromes — including in Old Crow, Ross River, and the Whitehorse air tanker base — that is $2 million in total. There are other storage tanks and buildings. There are 53 sites in total. These can be a range of different environmental contaminations from a small heating fuel spill to other pieces. So, we have buildings in that category such as offices, fire halls, and administration buildings. We have sewage lagoons in Carmacks, Ross River, and up the Dempster Highway. Then we have the Marwell tar pit site, which accounts for about $1 million of the total, and that's currently in the remediation phase. There are also nine other sites that account for about $7 million, and that includes oil and gas wells, Wellgreen mill and tailings, and some old lease lots in McCrae.

So, again, SARU applies that two-phase approach. As they're working through, the liability obviously increases and decreases as remediation is done.

Mr. Adel: I have just one more. On page 45 — can you explain why the environmental liability has decreased with the Marwell tar pit from 2018 to 2019?

Ms. Mahar: The Marwell tar pit was formerly designated as contaminated under the *Environment Act* and the contaminated sites regulation. The Government of Yukon is not a responsible party as defined by that act and regulation. The Government of Canada was the landowner when this contamination occurred.

In September 2010, the Government of Yukon and the Government of Canada entered into an agreement to remediate the site over an 11-year timespan, with an estimated total cost of $6.8 million. The Government of Yukon is to fund 30 percent and the Government of Canada is to fund $4.76 million. The site was originally added to the list of contaminated sites at just over $2 million as the estimated environmental liability to Yukon government. Since then, as remediation work is completed, the liability is reduced to reflect the work done. So, in 2019, we had $679,000 worth of work incurred, and the liability was reduced at that point to $810,000. As further remediation is done, that amount should reduce further.

Mr. Istchenko: I have a question about post-employment benefits and compensation absences. Note 15 — "Post-employment benefits and compensation absences" — is on page 46 and 47. Where is the money held to cover these liabilities?

Ms. Mahar: Generally, there are no assets held or restricted specifically to pay for these future liabilities. However, it is important to note that, because we do have net financial assets, the Government of Yukon would be able to pay these liabilities and others should we discontinue operations today.

The one exception to that rule is the severance benefits for Members of the Legislative Assembly as provided under the *Legislative Assembly Retirement Allowances Act*. The government has designated a portion of assets to pay for these future severance benefits, which total about $33 million of cash portfolio investments and temporary investments that are set aside to pay future obligations under part 3 of the supplementary plan and the severance.

Post-employment benefits and compensated balances include severance benefits. These are calculated based on the number of years an employee has worked and their current salary and their category of employment.

At present, that's just the management category and Yukon Employees' Union. Sick leave is payable upon retirement or termination at one-third of the amount accrued by employees if they have a certain number of years' service in, and it also includes unused vacation time.

The liabilities are estimated using actuarial estimates, since many of these payouts will not occur for many, many years, if at all. There are some uncertainties reflected in those actuarial estimates and whether those actually will become realized as actual payouts.

In reality, as these types of leaves are utilized or paid out as employees retire, the cost is actually just usually reflected in the cost of operations. Departments are able to absorb the cost of payouts as employees resign or retire within the departments, and often, when certain types of employees take leave, there's often no need for replacement during the leave. It's not always the case in, say, a 24/7 operation where you always need that replacement, but many times, in office and nine-to-five kinds of environments, everybody else accepts the work.

What it illustrates is that, although there's a value that exists in these books for the liability, it doesn't actually mean that it will be paid out. In the past, we have made some efforts to reduce that actuarial value and to reduce the liabilities in total. One of the ways that we reduce the risk and make it easier to actually estimate is not to have long-term — have these expand so far out in the future.

A recent example is the current Yukon Teachers' Association collective agreement. Teacher severance accruals are frozen as of June 30, 2018. As they put in additional years, they're not accruing additional severance. Over time, this will reduce the liability, and estimates will become more accurate. I think some other examples of ways we've done that is to cap sick leave, cap the amount of annual leave that employees can take, and the other piece was under the collective agreement — voluntary payout of severance if employees wish to take part in that.

Mr. Istchenko: Note 16 from page 47 to 51 is about retirement benefits. On page 49, it says that the government has issued letters of credit to the hospital and college. Can you explain that a little bit?

Ms. Mahar: The Yukon College and the Hospital Corporation both have their own defined benefit pension plans for employees. They are required to maintain enough assets in the pension plan to ensure that future payment obligations will be met. Based on actuarial values of the plans which use the current asset balance, current staff demographics, current funding levels, and forecasted interest rates to determine whether the plan has sufficient funds to meet future payouts, both the hospital and college pension plans have required cash injections by the Yukon government to remain solvent.

Prior support for solvency funding was made in the form of transfer payments. This is the first year that the funding has actually taken the form of a concessionary loan. The loans will be repayable when and if the solvency deficit is eliminated. The amount of repayment will be subject to applicable federal laws.

A solvency deficit is an estimate of how much a defined benefit pension plan's liabilities exceed assets in the event that the plan is terminated. Many provinces provide an exemption from solvency testing for pension plans of hospitals and post-secondary institutions. The primary reason for that exemption is the unlikely probability that these institutions would shut down operations.

There are no equivalent exemptions in the federal legislation, which is what these fall under. However, in jurisdictions such as Alberta, the exemptions have led to higher regular funding. So, as we consider other options in Yukon, we are committed to the necessary due diligence to make sure that employees' pensions will be appropriately managed and protected.

Mr. Adel: Just to clear something up for me, it says that they issued letters of credit, and yet you said they were loans. To me, they are two different things. Can you explain the difference in the context of the pension plan?

Ms. Mahar: So, the federal legislation allows a portion of that liability to be made good by using lines of credit. So, if Yukon government has permitted lines of credit to be available to the college and the hospital, should that plan dissolve, the line of credit would be utilized to pay the liability. But there is a maximum to the amount that we could do that. The cash infusions were over and above the line of credit amount. The line of credit amount had changed. I think it increased in the year before last. It gave us a bit of a reprieve, but we've used all that we can right now.

Mr. Adel: So, we're not, as a government, paying any interest because of the lines of credit. They are just there in case we need to use them.

Ms. Mahar: I have been told that they are letters of credit, so, no, there has been nothing drawn on them yet.

Mr. Hutton: Note 17 is "Borrowings" — on page 54, it talks about the government's borrowing limit. Could you explain the nature of the outstanding loans?

Ms. Mahar: Yukon's current borrowing limit is \$400 million. It is allocated between the Government of Yukon and the corporations — Yukon Development Corporation, Yukon Energy Corporation, Yukon Housing Corporation, and Yukon Hospital Corporation. The limit is set by two regulations under the *Yukon Act* — Canada act. Borrowing limits of all three territories are set by regulation under the respective territorial acts, and increases to these borrowing limits must be submitted in writing to the federal government and are granted through federal regulation amendments.

These requests are made infrequently and are a normal part of government operations. In 2009, the borrowing limit was increased to \$300 million from \$138 million. Then, in 2012, it was increased to our current \$400 million. The definition of "borrowing" includes borrowed money received, capital leases and sale-leaseback agreements, and loan guarantees extended to third parties. Borrowing does not include the letters of credit for pension solvency funding.

Three of the corporations account for the bulk of the total external debt of \$209 million. The Yukon Development Corporation accounts for \$157.8 million, the Yukon Housing Corporation accounts for \$35.9 million, and Yukon College accounts for \$1 million. Of the \$400-million borrowing limit set by the Yukon borrowing limits regulations, $190.5 million, or 47 percent, is still available to fulfill outstanding and future approvals of debt. At March 31, 2019, that outstanding debt consisted of: $100 million for the Yukon Development Corporation for the Mayo B transmission line bond; $58 million for other Yukon Development Corporation debt, including interest swaps and investment trusts for Na-Cho Nyäk Dun and Tr'ondëk Hwëch'in First Nation; and a Chu Niikwän Limited partnership loan. There is also an $8.3-million line of credit for YTC as listed as "credit facilities". The $33 million for the Yukon Hospital Corporation was split three ways between the Watson Lake hospital, the Dawson City hospital, and the Crocus Ridge building; $2.6 million in loans and mortgages for Yukon Housing Corporation; $5.2 million in capital leases for Government of Yukon, and that includes buildings such as 10 Burns Road, housing, much of the Department of Environment, the Teslin School building, the Kluane building, and a lease on Queen's Printer equipment; and $1.3 million in accrued interest.

As well, the government has agreed to support additional financing to Yukon Energy Corporation of $28 million for the Mayo-to-McQuesten transmission line upgrades and $15 million for additional capital infrastructure.

Mr. Adel: On page 54, we're borrowing money to pay interest. Do we have accrued interest payable, or do we pay that out of operating expenses? I have $1.268 million.

Ms. Mahar: It's the accrued interest up to March 31 — so, April-ish, we would have paid that.

Mr. Hutton: Note 21 on page 58 is about expenses by object. Transfers increased year over year by 19 percent. Can you provide an explanation for this?

Ms. Mahar: Overall, government transfers increased from $220 million in 2018 to $261 million in 2019, an increase of $41 million, or 19 percent. Turning to pages 64 and 65 — that wonderful Schedule B that has revenue and expenditures by function — on the expense section, there's a line specifically for government transfers. The bulk of these, again, occurred in the community and transportation function. Many of these projects are the capital using the federal infrastructure funding to provide infrastructure for First Nation governments and municipal governments. Where the First Nation or municipality manages that project itself, the payment is classified under a "transfer payment". If we were to oversee the construction of those projects ourselves, it would fall under "contracts".

Nearly the entire amount of the increase is attributable to these projects.

Again, we talk about the $17 million of all the different projects under clean water and waste-water funding. That is $9.2 million in small communities funds; additional Yukon Housing Corporation transfer payments of $4.3 million; $1.9 million went to YuKonstruct Makerspace Society; the Vuntut Gwitchin community centre at $1.6 million; and the new innovative renewable energy initiative at $1.5 million. Then there are a whole bunch of small transfers across the board.

Mr. Hutton: Under "Government transfers", there is an increase from 2018 from $219,698,000 to, in 2019, $261,418,000. Do we know where that was transferred to?

Ms. Mahar: The previous answer that I read is the same — that is what it is.

Vice-Chair: That concludes the questions that Committee members have for our witnesses. If there are closing remarks that any of the witnesses would like to make, now would be the opportunity.

Ms. Hogan: I would just like to reiterate our thanks to the Deputy Minister of Finance and the comptroller. I know that our audit teams enjoy a very good collaborative relationship with all of your staff and those at all of the territorial corporations that we audit throughout the year.

Reviewing the financial statements is a very important step in the accountability relationship between a government and Canadians. I believe, Ms. White, you called this "accounting boot camp". While this is just the first hearing on the Public Accounts, I hope that it is the first of many. I assure you that it will get easier. This was a first great step in trying to make financial information easier for citizens of Yukon to understand. Please don't be disillusioned by the numbers and the length of the notes. It will absolutely get better.

I do want to thank the Committee for giving the Public Accounts the attention that they very much deserve.

Ms. Mahar: Yes, I too, want to thank you all and thank the Auditor General's team. I think it is also really, really important that we are spending time on looking at the Public Accounts. I know that it is not easy to sit there and listen to all of this, but I do think it is important. We spend a lot of time reviewing budgets, which are plans. Plans are great and they say a lot of things, but I think that it is also really, really important to show and talk about what was actually done as well. This is the forum that I think will allow that expansion. We will do our very best to try to explain that simply and easily and to share a lot more information that allows you to do so.

I think this is a great first step, and I think it's a really important one. Our objective is very definitely to get Yukoners understanding more of what Yukon finances are all about and what it means to them. Having these kinds of conversations is really important, so thank you for doing so.

Vice-Chair: I agree with the remarks made. I think we've taken a step in helping Yukoners understand the state of the territory's finances. I think this process was good.

Before I adjourn this hearing, I would like to make a few remarks on behalf of the Standing Committee on Public Accounts. First of all, I would like to thank the witnesses who appeared before the Public Accounts Committee this afternoon. I would also like to thank the officials from the Office of the Auditor General of Canada and the Committee Clerk for their help.

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 to communicate to the Committee their reaction to it.

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

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

The Committee adjourned at 2:49 p.m.