



Freedom To Create. Spirit To Achieve.

Finance and Enterprise

Annual Report
2010–2011

Government of Alberta ■

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Annual Report 2010–2011

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Table of Contents

Preface	3
Minister's Accountability Statement	4
Message from the Minister	5
Management's Responsibility for Reporting	6
Results Analysis	9
Ministry Overview	11
Ministry Financial Highlights	18
Review Engagement Report (Auditor General Report on Performance Measures)	21
Performance Measures Summary Table	22
Discussion and Analysis of Results	24
Ministry Expense by Function	29
Financial Information	31
Financial Statements of the Ministry of Finance and Enterprise	33
Financial Statements of the Department of Finance and Enterprise ..	65
Regulated Funds	97
Provincial Agencies and Non-commercial Crown-controlled Corporations	205
Commercial Enterprises	297
Commercial Crown-controlled Corporation	407
Other Information	417
Supplementary Information Required by Legislation or by Direction of the Minister of Finance and Enterprise	419
Appendix: Performance Measures Methodology	553

Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta contains Ministers' accountability statements, the consolidated financial statements of the Province and the *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

This annual report of the Ministry of Finance and Enterprise contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the Ministry business plan. This Ministry annual report also includes:

- **the financial statements of entities making up the Ministry including the Department of Finance and Enterprise, regulated funds, provincial agencies and Crown-controlled corporations for which the Minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report; and,**
- **financial information relating to trust funds.**

Minister's Accountability Statement

The Ministry's annual report for the year ended March 31, 2011, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 13, 2011 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

"Original signed by"

Lloyd Snelgrove
Minister of Finance and Enterprise
and President of Treasury Board
June 13, 2011

Message from the Minister



2010-11 was a year of gradual recovery, with continued economic challenges to Alberta and to governments around the world. As a resource-based economy, Alberta is significantly impacted by swings in commodity prices, which continue to be volatile.

In spite of this, the Alberta government continued to prudently manage through the global recession. Alberta maintained its fiscal strength during the economic downturn, owing more than we owe, and retained a top credit rating. Alberta's economy is once again gaining strength, with economic growth forecast at 3.3 per cent in 2011.

Alberta Finance and Enterprise assisted in the development of Budget 2011 by providing fiscal and economic forecast and advice, and co-ordinating production of the Budget 2011 Fiscal Plan. The budget aimed at building a better Alberta by maintaining funding for Alberta's priority programs and protecting economic competitiveness.

After the federal government's move to establish a single national securities regulator in place of the existing provincial passport system, government challenged the federal move to create a national securities regulator by filing a reference with the Alberta Court of Appeal. Alberta also intervened in a similar challenge by the Quebec government to the Quebec Court of Appeal, and in the federal government's reference to the Supreme Court of Canada. Both provincial Courts of Appeal released their opinions in March 2011 and concluded that the federal government lacked the legislative authority to enact its draft securities legislation.

The ministry developed several pieces of legislation including the *Alberta Securities Amendment Act, 2010*, which continued work to streamline and harmonize securities legislation under the 2004 Provincial-Territorial Memorandum of Understanding Regarding Securities Regulation.

The *Alberta Competitiveness Act, 2010*, also developed by the ministry, ensures Alberta remains competitive on the global economic stage. The ministry then implemented the Competitiveness Initiative, which developed a shared strategy to measure the province's overall competitiveness, and identified gaps where improvements can be made. The Alberta Competitiveness Council was created and a benchmark report was issued in December 2010. Productivity Alberta services were also expanded to connect business and industry with the latest productivity improvement tools.

The ministry continued to provide quality economic, financial, and fiscal policy advice to government, as well as effective tax and regulatory administration. Government will continue to work hard to ensure Alberta's present and future prosperity.

"Original signed by"

Lloyd Snelgrove
Minister of Finance and Enterprise
and President of Treasury Board

Management's Responsibility for Reporting

The Ministry of Finance and Enterprise includes:

- Department of Finance and Enterprise
- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund
- Alberta Capital Finance Authority
- Alberta Insurance Council
- Alberta Investment Management Corporation
- Alberta Local Authorities Pension Plan Corp.
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- ATB Financial
- ATB Insurance Advisors Inc.
- ATB Investment Management Inc.
- ATB Securities Inc.
- Credit Union Deposit Guarantee Corporation
- N.A. Properties (1994) Ltd.
- Gainers Inc.

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Finance and Enterprise. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in

accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability – Information agrees with the underlying data and the sources used to prepare it.
- Understandability and Comparability – Current results are presented clearly in accordance with the stated methodology and are comparable with previous results.
- Completeness – Performance measures and targets match those included in Budget 2010.

As Deputy Minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the Province under Ministry administration;
- provide Executive Council, the President of Treasury Board and the Minister of Finance and Enterprise information needed to fulfill their responsibilities; and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executives of the individual entities within the Ministry.

“Original signed by”

Tim Wiles, C.A.
Deputy Minister of Finance and Enterprise
June 13, 2011

RESULTS ANALYSIS

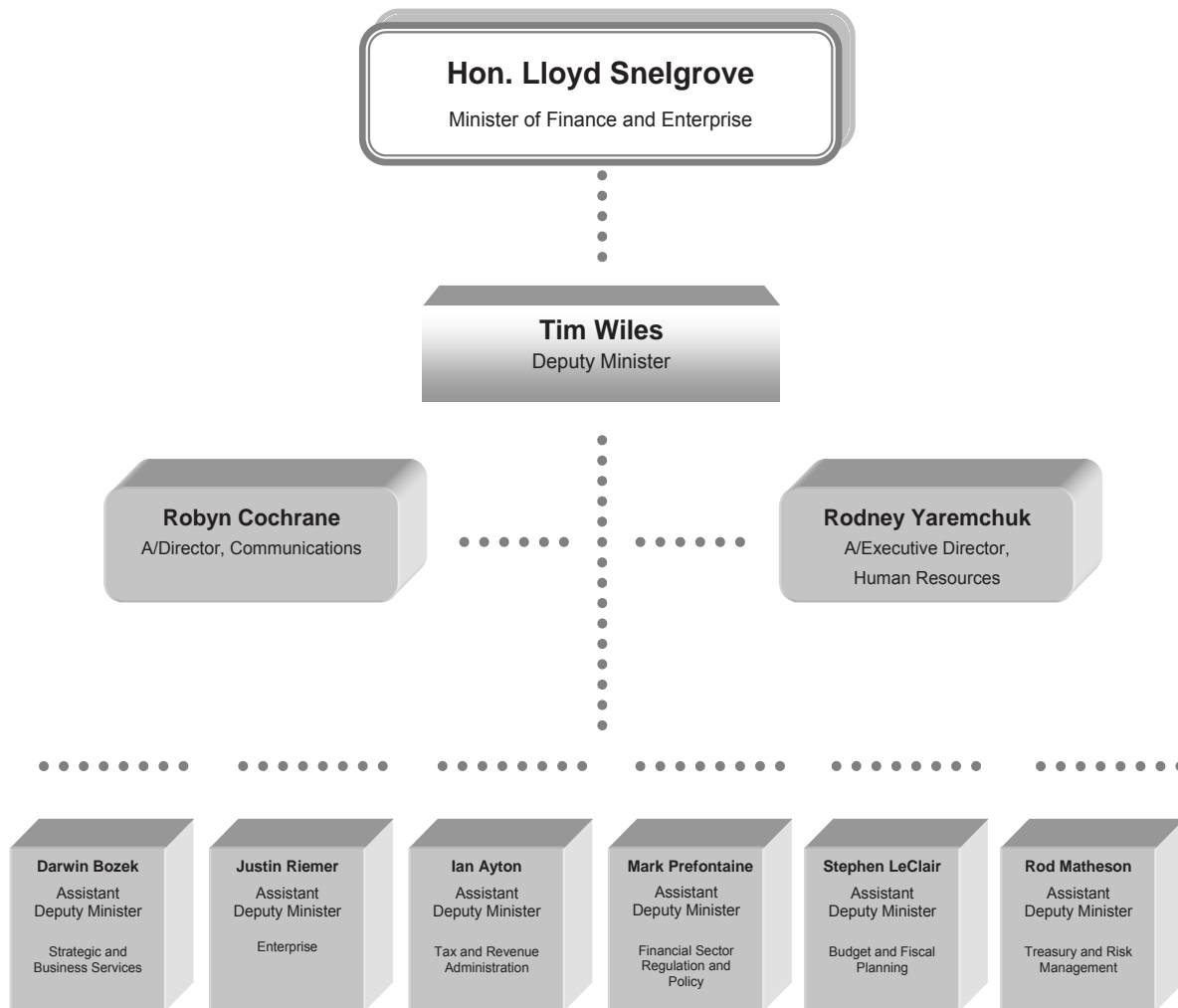


Results Analysis

Table of Contents

Ministry Overview	11
Organizational Chart	11
Ministry Vision, Mission, Core Businesses and Goals	12
Operational Overview	13
Summary of Key Activities in the Past Year	16
Ministry Financial Highlights	18
Review Engagement Report	21
Performance Measures Summary Table	22
Discussion and Analysis of Results	24
Core Business: Fiscal Planning and Economic Analysis	24
Core Business: Enterprise	25
Core Business: Tax and Revenue Management	26
Core Business: Investment, Treasury and Risk Management	27
Core Business: Financial Sector and Pensions	27
Ministry Expense by Function	29

Organizational Chart



Ministry Vision, Mission, Core Businesses and Goals

Vision

Financial and economic leadership that strengthens Alberta.

Mission

Provide expert economic, financial, and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity.

Core Businesses and Goals

Core Business: Fiscal planning and economic analysis
Goal 1 – Strong and sustainable government finances
Goal 2 – Sound tax and economic policy

Core Business: Enterprise
Goal 3 – Alberta has a competitive and productive economy

Core Business: Tax and revenue management
Goal 4 – Revenue programs are administered fairly, efficiently and effectively

Core Business: Investment, treasury and risk management
Goal 5 – Sound investment, treasury and risk management

Core Business: Financial sector and pensions
Goal 6 – Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans
Goal 7 – Accessible financial services for Albertans

Operational Overview

FINANCE AND ENTERPRISE www.finance.alberta.ca			
Terrace Building	Haultain Building	Commerce Place	Norcen Building
9515 – 107 Street	9811 – 109 Street	10155 – 102 Street	1100-715-5th Avenue SW
Edmonton, Alberta	Edmonton, Alberta	Edmonton, Alberta	Calgary, Alberta
T5K 2C3	T5K 2L5	T5J 4L5	T2P 2X6

Budget and Fiscal Planning Division (BFP)

The Budget and Fiscal Planning division is responsible for advising the government on overall fiscal, economic and tax policy issues. This includes advising on federal-provincial fiscal relations and supporting federal/provincial/territorial funding transfer discussions. BFP co-ordinates the preparation of the province's annual budget and quarterly fiscal updates and prepares the Executive Summary of the province's Annual Report. BFP also prepares population projections for use within the Government of Alberta and forecasts tax revenue and major federal funding transfers. The division presents the overall fiscal position of the Government of Alberta to the Treasury Board Committee, Cabinet and Caucus as part of the budget and quarterly update processes. BFP also is primarily responsible for the province's legislated fiscal framework. BFP has three branches: Budget Planning and Integration, Economics, Demography and Public Finance, and Tax Policy.

Tax and Revenue Administration Division (TRA)

The Tax and Revenue Administration division administers tax and related programs under the Alberta Corporate Income Tax, Tourism Levy, Fuel Tax, and Tobacco Tax acts on behalf of the Minister of Finance and Enterprise. TRA also administers the Unclaimed Personal Property and Vested Property program, and contributes to the development of Alberta tax policy. The focus of TRA's activity is to ensure a fair, efficient and effective provincial tax and revenue system. TRA has five branches: Tax Services, Revenue Operations, Audit, Strategic and Client Services and Business Technology Management.

Treasury and Risk Management Division (TRM)

Treasury Management (TM) is responsible for the management of short-term borrowing and investments, banking and cash forecasting, arranging financing for the government and provincial corporations and monitoring and managing loans and guarantees. TM is also responsible for providing investment policy advice to the Minister of Finance and Enterprise as well as portfolio planning and evaluation for the investments of the General Revenue Fund and the government endowment funds. The division provides financial and banking advice to other government departments including active involvement in the Province's Public Private Partnership (P3) projects. TM is divided into the following two areas: Capital Markets and Banking and Cash Forecasting.

Risk Management and Insurance (RMI) collaborates with ministries and agencies throughout government to assist them with identifying, measuring, controlling and financing the risk of accidental loss. The program is responsible for all "participants" subject to the Financial Administration Act. RMI is divided into two areas: Risk Management Operations and Claims Management.

Financial Sector Regulation and Policy Division (FSRP)

The Financial Sector Regulation and Policy division is responsible for the regulation and oversight of credit unions, loan and trust corporations, insurance companies and private sector pension plans. FSRP also provides policy support and analysis to the Minister of Finance and Enterprise in these areas, as well as for ATB Financial, public sector pension plans, capital markets and the Canada Pension Plan.

Enterprise Division (ENT)

The Enterprise division and its entities work with industry and communities to enhance sustainable economic development by improving their competitiveness, innovation and productivity. The Enterprise division has staff working throughout the province. The division advocates and is a catalyst for new investment, increased competitiveness, value-added industry development, and improved productivity within Alberta's key manufacturing and service sectors; co-ordinates economic development policy efforts and resources; provides Alberta's regions, communities and organizations with information, advice and support to achieve regional economic viability and enhanced prosperity; and supports the Alberta Economic Development Authority (AEDA), Northern Alberta Development Council (NADC) and Regional Economic Development Alliances (REDAS).

Regulatory Review Secretariat (RRS)

The Regulatory Review Secretariat is a three-member MLA committee established to lead regulatory reform within the Government of Alberta. To ensure the regulatory environment remains effective, efficient and responsive to the needs of business stakeholders and citizens, the RRS provides oversight for the ongoing review of regulations. The Regulatory Review Secretariat provides support to ministries to identify areas for regulatory improvement, and encourages stakeholder engagement and coordination between ministries. The RRS supports departments through a consultative, capacity-building approach to assist with the comprehensive assessment of regulatory impacts.

Strategic and Business Services Division (SBS)

The Strategic and Business Services division is responsible for supporting the ministry's operations. SBS provides leadership and oversight of the ministry's business planning and annual reporting activities, as well its enterprise risk management, pandemic and business continuity emergency management programs. SBS provides a full range of financial advisory, planning, accounting and reporting services to the ministry and to the Pension Plan Boards. The division is also responsible for providing technology services and administrative and information services, including facilities management, information and records management and the administration of the Freedom of Information and Protection of Privacy processes.

Human Resource Services (HR)

Human Resource Services plans, develops and delivers strategic human resource programs as well as day-to-day human resource services. The division's responsibilities include: promoting strategic HR planning in alignment with business goals and objectives; supporting the attraction and engagement of high-calibre staff; and building employee capacity to achieve business plan goals. HR provides service and guidance in the areas of staffing, classification, recognition, wellness, learning and development, compensation and employee relations.

Communications

Communications advises and supports the Minister of Finance and Enterprise and the ministry by providing clear and timely information to the public about key initiatives, programs, and services of Alberta Finance and Enterprise. Communications also provides consulting services in issues management, strategic planning, media relations, writing, publishing, and website content.

Summary of Key Activities in the Past Year

- ▶ Developed and coordinated Budget 2011: Building a Better Alberta, which maintained funding for priority programs, continued to invest in infrastructure, and protected our economic competitiveness. In the face of continued fiscal uncertainty, the government used its savings to honour the commitment to funding growth for Alberta Health Services, and invested in infrastructure to provide facilities to meet the current and future needs of Albertans and support economic growth.
- ▶ Despite fiscal challenges, the budget maintained the province's tax competitiveness, with Albertans and Alberta businesses paying \$11 billion less in taxes each year than they would in any other province. This was accomplished, in part, by limiting spending increases over the three-year fiscal plan to less than the growth in population plus inflation.
- ▶ Provided Albertans with up-to-date information on the province's fiscal and economic situation with the release of quarterly fiscal updates; a report on Alberta's Net Contribution to the Federation; Alberta Population Projections by the Census Division for 2010-2050; and the weekly/monthly release of key economic information.
- ▶ Challenged the federal move to create a single, federal securities regulator by filing reference questions with the Alberta Court of Appeal to test the constitutional soundness of the federal plan. The government also intervened in a similar challenge by the Quebec government to the Quebec Court of Appeal and in the federal government's reference to the Supreme Court of Canada on the validity of its draft legislation. Both provincial Courts of Appeal released their opinions in March 2011 before the federal reference was heard by the Supreme Court of Canada in mid-April 2011. The Alberta Court of Appeal and the majority of the Quebec Court of Appeal concluded that the federal government lacked the legislative authority to enact its draft securities legislation.
- ▶ Passed a number of pieces of legislation, including the *Alberta Competitiveness Act* 2010, to help promote a more competitive provincial economy. Legislative amendments included the *Alberta Fuel Tax Amendment Act*, 2010, the *Alberta Corporate Tax Amendment Act*, 2010, the *Securities Amendment Act*, 2010, the *Personal Income Tax Amendment Act*, 2010, and the *Fiscal Responsibility Amendment Act*, 2010.
- ▶ Worked with the federal, provincial and territorial governments to review the retirement income and savings system. Achieved agreement on a common framework to enable the private sector to create a new type of pension plan, the Pooled Registered Pension Plan, to provide an additional retirement savings option for Canadian workers who do not currently have access to a workplace pension plan.
- ▶ Enabled thousands of workers affected by the restructuring of the health sector to have continuity in their pension plan participation by allowing inter-plan transfers, while ensuring that their pension plans were not negatively affected.
- ▶ Launched the Alberta Superintendent of Pensions Online Filing System, allowing private sector pension plan administrators to file annual information returns and pension plan actuarial valuation information electronically.

- ▶ Led the Competitiveness Initiative, to develop a shared strategy between government and industry to measure the province's overall competitiveness against other jurisdictions – and identified gaps where actions need to be taken to improve Alberta's competitiveness, as detailed in the benchmarking report Report on Competitiveness – Alberta 2010, released in December 2010. The Alberta Competitiveness Council was established to support a productive government-industry partnership and lead the analysis of the province's competitiveness overall and in four key industry sectors.
- ▶ Expanded the services of Productivity Alberta, which is an industry-guided service that works collaboratively with organizations across Alberta, connecting them with the latest in productivity improvement tools, resources and services. Last year, Western Economic Diversification Canada also announced their support for \$2.4 million in matching funds for Productivity Alberta services and programs for business.
- ▶ Developed and incorporated the Regulatory Cost Model into Alberta's framework for regulation impact reporting to facilitate estimates of compliance costs to stakeholders and ensure costs are balanced against the risks and benefits of regulating. Other jurisdictions are working to adopt the Alberta model, on a customized basis, as part of their reform initiatives, including the Governments of Canada and Ontario.
- ▶ Collected \$5.3 billion in revenue through the work of Tax and Revenue Administration, from sources like the tourism levy, as well as fuel, tobacco, insurance, and corporate income taxes. Corporate and commodity returns processed exceeded 287,000, and more than 25,000 benefit claims were processed in the same period.
- ▶ Recovered \$116 million in 2010-11 through audits of commodity and corporate tax programs. The audit branch continues to work co-operatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.
- ▶ Amended the *Fuel Tax Act* and Regulation to facilitate implementation of the government's Renewable Fuels Standard. The Tobacco Tax Regulation was amended to encourage compliance and improve enforcement.
- ▶ Presented Tax and Revenue Administration's first two provincial tax avoidance cases in provincial court in 2010.

Ministry Financial Highlights

Revenue

(millions of dollars)

2010–2011		2009–10
Budget	Actual	Actual
16,112	15,612	18,355

Revenue for the Ministry is \$2,743 million, or 15 per cent, lower than in 2009-10.

(Actual–Actual)

- Personal income tax revenue is \$361 million down from the prior year due to lower personal income and lower than expected assessments.
- Corporate income tax revenue is \$1,479 million lower than the prior year due to lower corporate income impacted by the economic downturn.
- Other tax revenue is higher than the prior year by \$8 million. Tobacco tax is up \$29 million, fuel tax down \$39 million, insurance tax up \$12 million, tourism levy up \$5 million and other up \$1 million. Overall, other taxes are consistent with the prior year, but there has been some impact as a result of the economic downturn.
- Net investment income is \$1,058 million lower than the prior year. It is lower than the prior year by \$929 million for the Alberta Heritage Savings Trust Fund, \$110 million for the other endowment funds, and \$53 million for the Department of Finance and Enterprise. There was a minor offset of \$34 million due to higher interest income reported by the Alberta Capital Finance Authority (ACFA). Global equity markets contributed good returns in 2010-11, although they were lower than last year.
- Net income from commercial operations is \$76 million up from the prior year with \$71 million from ATB Financial and the balance from all other commercial operations. ATB Financial net income was up \$71 million from the prior year due to increased net interest income and other income along with a recovery on asset backed commercial paper and reduced provisions for credit losses.
- Premiums, fees and licences are \$41 million more than the prior year mainly due to increased payment in lieu of taxes and increased other premiums, fees and licences.
- Other revenue is up \$31 million from last year due to \$25 million in service fee revenue mainly for Alberta Investment Management Corporation (AIMCo) external manager and service revenue fees, and \$7 million in pension administration revenue, less a \$1 million decrease in security settlements.

Revenue for the Ministry is \$500 million, or 3 per cent, under budget.

(Budget–Actual)

- Personal income tax revenue is \$1,132 million lower than budget due to lower personal income and lower than expected assessments.
- Corporate income tax revenue is \$162 million higher than budget due to higher than expected corporate profits.
- Other tax revenue is \$120 million lower than budget mainly due to an \$80 million accrual for the discontinuance of the Tax-Exempt Fuel Use (TEFU) and Prescribed Rebates Off-Road Percentages (PROP) programs, \$18 million less in Fuel Tax, and \$39 million from insurance tax both slightly offset by a \$17 million increase in other taxes.
- Net investment income is \$396 million above budget as overall the global equity markets performed better than expected.
- Net income from commercial operations is \$105 million over budget as ATB Financial's profitability is higher than expected.
- Premiums, fees and licences are \$47 million over budget. This is primarily attributed to the increased payment in lieu of taxes and increased other premiums, fees and licences.
- Other revenue is \$39 million over budget. Service revenue was higher than budget by \$38 million mainly due to higher than expected recovery of AIMCo external investment fees.

Expenses*(millions of dollars)*

2010–2011		2009–10
Budget	Actual	Actual
2,085	1,915	1,730

Ministry expenses are \$185 million, or 11 per cent, higher than in 2009-10.

(Actual–Actual)

- Investment, treasury and risk management expenses are \$34 million higher than the prior year due to a \$27 million increase in operating costs for AIMCo along with higher expenses of \$5 million in the Alberta Risk Management Fund for increased insurance claims.
- Financial sector and pensions expenses are \$48 million higher than the prior year. ACFA borrowing costs are up \$31 million due to increased loan activity, and there has been a \$10 million increase in operating expenses for pension administration by Alberta Pensions Services Corporation. There are also \$7 million more has been incurred in other expenses such as government pension plan contributions and regulatory costs.
- The Teachers' Pension liability funding is \$77 million higher than the prior year since 2010-11 was the first full year of paying benefits to retired teachers, which were higher than the contributions paid during a portion of the prior year.

- Valuation adjustments are \$11 million lower as pension obligations did not increase as much year over year.
- Debt servicing costs are \$60 million higher than the prior year due to increased borrowing requirements starting last year for capital borrowing and the repayment of the loan to the Teachers' Pension Plan.

Expenses for the Ministry were \$170 million, or 8 per cent, under budget.

(Budget–Actual)

- Investment, treasury and risk management expenses are \$18 million higher than budget mainly due to the higher than estimated external manager fees incurred by AIMCo.
- Financial Sector and Pensions expenses are \$12 million over budget mainly due to increased debt service costs of \$17 million for ACFA, slightly offset by \$4 million from the Alberta Securities Commission due to the lapsing of their contingency funds and savings in manpower due to vacancies.
- The Teachers' Pension liability funding is \$19 million below budget due to fewer than expected retirements, and a lower amount of benefits payable as a result of slower economic conditions.
- Valuation adjustments are \$130 million under budget due to pension plan obligations that are not as high as estimated.
- Debt servicing costs are \$42 million lower than budget as the government did not proceed with all anticipated borrowings that were budgeted for in 2010-11.



Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as “Reviewed by Auditor General” in the *Ministry of Finance and Enterprise’s 2010-11 Annual Report*. These performance measures are the responsibility of the Ministry and are prepared based on the following criteria:

- Reliability – Information agrees with the underlying data and with sources used to prepare it.
- Understandability and Comparability – Current results are presented clearly in accordance with the stated methodology and are comparable with previous results.
- Completeness – Performance measures and targets match those included in Budget 2010.

My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to my Office by the Ministry. My review was not designed to provide assurance on the relevance of these performance measures.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measures.

Based on my review, nothing has come to my attention that causes me to believe that the “Reviewed by Auditor General” performance measures in the Ministry’s 2010-11 Annual Report are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability, and completeness as described above. However, my review was not designed to provide assurance on the relevance of these performance measures.

[Original signed by Merwan N. Saher, CA]

Auditor General

June 6, 2011

Edmonton, Alberta

Performance Measures Summary Table

Core Businesses/Goals/Performance Measure(s)

Note: for Methodology, Source and Notes, see Appendix

Core Businesses/Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual
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CORE BUSINESS: FISCAL PLANNING AND ECONOMIC ANALYSIS

Goal 1: Strong and sustainable government finances

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
1.a. Alberta's credit rating (blended credit rating domestic debt)	AAA	AAA	AAA	AAA	AAA	AAA
	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
1.b. Sustainable operating spending growth (operating spending relative to population plus CPI) (new measure 2009-12 BP)	N/A not comparable		9.6%	4.4%	5.6	6.3
Operating spending growth			5.2%{r}	1.8%{r}	n.a	2.4
		Population plus CPI				

Goal 2: Sound tax and economic policy

	Result ¹ 2007	Result ¹ 2008	Result ¹ 2009	Result ¹ 2010	Target	Result ¹ 2011
*2a. Provincial tax load for a family of four	¹ Lowest in Canada	¹ Lowest in Canada	¹ Lowest in Canada	¹ Lowest in Canada	¹ Lowest in Canada	¹ Lowest in Canada
¹ Results are by calendar years, which reflect the personal income tax filing period.						
	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
2.b. Provincial tax load on businesses	Lowest in Canada	Third Lowest in Canada	Second Lowest in Canada	Fourth Lowest in Canada	Lowest in Canada	Lowest in Canada

CORE BUSINESS: ENTERPRISE

Goal 3: Alberta has a competitive and productive economy

	Result 2007	Result 2008	Result 2009	Target	Result 2010
3.a. Manufacturing and business service industry GDP: the value of real Gross Domestic Product of manufacturing and business services (in chained 2002 dollars) ²					
GDP	\$56.5 billion {r}	\$57.4 billion {r}	\$53.9 billion {r}	\$58.4 billion	\$56.0 billion
% change	2.3%	1.7%	-6.2%	2.5%	4.0%
	Result 2006	Result 2007	Result 2008	Target	Result 2009
3.b. Manufacturing and service industry investment: the value of new capital expenditures on construction and machinery and equipment in Alberta's manufacturing and business services industry ²					
Capital Expenditures	\$10.9 billion {r}	\$11.9 billion {r}	\$13.8 billion {r}	\$12.3 billion	\$11.1 billion {r} ³
% Change	19.5%	9.5%	15.5%	2.0%	-19.6%

² These two measures were changed to better reflect the department's priority sectors and the sectors identified in the Competitiveness Initiative. Both measures now include the following sectors: Manufacturing; Transportation & Warehousing; Information & Cultural Industries; Finance & Insurance; Professional, Scientific & Technical Services; Administrative & Support, Waste Management; Arts, Entertainment & Recreation; Accommodation & Food Services.

³ Preliminary results for 2010 are available from Statistics Canada, as are expectations for 2011. However, we have chosen to only report on data that have been finalized, and because a portion of the calendar-year 2010 surveying was completed before year-end 2010, the 2010 number cannot be considered 'final'. 2009 numbers are used instead.

{r} These results have been revised

Core Businesses/Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual
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CORE BUSINESS: TAX AND REVENUE MANAGEMENT

Goal 4: Revenue programs are administered fairly, efficiently and effectively

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
4.a. Ratio of amounts added to net revenue to costs of administration (as a measure of efficiency)	15:1	13:1	25:1	12:1	12:1	13:1
4.b. Percentage of revenue obtained through self-compliance (as a measure of effectiveness)	92.8%	94.2%	88.1%	95.0%	92.0%	92.2%

CORE BUSINESS: INVESTMENT, TREASURY AND RISK MANAGEMENT

Goal 5: Sound investment, treasury and risk management

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
*5.a. The Alberta Heritage Savings Trust Fund policy portfolio will achieve at least a five year annualized rate of return of CPI plus 4.5 per cent. ⁴	N/A Not Comparable		2.9% (3.5% below target)	4.7% (1.6% below target)	6.30%	3.8% (2.45% below target)

⁴The wording of the measure has changed from that presented in Budget 2010 to better reflect the nature of the measure as a measure of policy portfolio performance.

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
5.b. Value added through active investment management, for the endowment and pension funds, annualized over a five-year period ⁵	⁵ pension under rest over target	over target	under target	under target	Various	All under target

⁵Pension funds not included in this measure in 2007-08.

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
5.c. Client satisfaction with the services provided by the Risk Management and Insurance branch (survey issued every three years) ⁶	86%	N/A	86%	N/A	N/A	N/A

⁶The results for 2009-10 and 2010-11 are not applicable as the survey frequency has changed from every 2 years to every 3 years.

CORE BUSINESS: FINANCIAL SECTOR AND PENSIONS

Goal 6: Policy and regulatory oversight for the financial, insurance and pensions sectors

Note: Performance Measure under Development

Goal 7: Accessible financial services for Albertans

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
7.a. ATB Financial return on average assets	1.44%	0.14%	0.03%	0.62%	0.46%	0.99%
7.b. Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan	Met (in both cases compared)			Met	Met	Met

Note: For additional detail please refer to the appendix

*These performance measures were selected for Office of the Auditor General (OAG) review by ministry management based on the following criteria established by government:

- Enduring measures that best represent the goal and mandated initiatives;
- Measures for which new data is available; and
- Measures that have well established methodology.

Discussion and Analysis of Results

GOAL 1 Linked to Core Business 1 – Fiscal Planning and Economic Analysis

Strong and Sustainable Government Finances

A component of Alberta's fiscal planning and budgeting is the legislated fiscal framework, enshrined mainly in the *Fiscal Responsibility Act*. The fiscal framework reflects the rules and limitations the government places on itself for budgeting purposes. Responsibility for the framework rests with Alberta Finance and Enterprise. The fiscal framework was amended in 2009-10 to provide flexibility to deal with the global economic downturn, and to simplify it.

In 2010-11, Alberta Finance and Enterprise provided updates to 2010-11 forecasts and advice on the province's fiscal and economic situation to Treasury Board Committee, Cabinet and Caucus. While economic recovery took hold in 2010-11, the government's revenue position remained mixed with global economic prospects still uncertain. Overall, revenue was higher than budgeted, but certain revenue sources were stronger than expected while others were weaker.

The volatility of Alberta's economy and revenue base present challenges in maintaining the sustainability of government finances. In 2010-11, revenue was \$0.9 billion higher than originally forecast in Budget 2010, but there were some large changes in a number of individual major revenue sources. Land lease sales, oil sands royalties and investment income were higher than originally forecast, while natural gas royalties and personal income tax revenue were lower. Operating expense increased 6.3 per cent in 2010-11 compared to population growth plus inflation of 2.4 per cent, but was less than originally budgeted. Total expense was also lower than budgeted with lower-than-expected 2010-11 capital grants. These were somewhat offset by providing significant in-year increases for emergency and disaster assistance – mainly for floods, forest fires and to the agriculture sector.

Alberta Finance and Enterprise contributes economic, tax and fiscal policy analysis on government initiatives, and on provincial, national and global events and issues, as they arise. The ministry also provided economic and fiscal advice on such initiatives as the Athabasca Oil Sands Regional Comprehensive Regional Infrastructure Sustainability Plan and the Investment Competitiveness Review, and on energy, climate change, carbon capture, storage policy issues and the Land-use Framework. The ministry also began working with its federal/provincial/territorial counterparts to prepare for the renewal of major federal funding transfers.

GOAL 2 Linked to Core Business 1 – Fiscal Planning and Economic Analysis

Sound Tax and Economic Policy

The tax system must be fair and promote self-reliance. The system must also be competitive with those in other provinces and countries in order to attract investment and skilled workers to Alberta. The government's policy of broad tax bases with low tax rates leaves more money in the hands of Albertans and Alberta businesses to spend and invest and promotes strong economic growth. Overall, Alberta has the lowest taxes of all provinces with its low single-rate personal income tax, low corporate tax rates and the

lowest tax on gasoline. Alberta also has no capital tax or general payroll tax, and is the only province without a general provincial sales tax.

Despite the economic recession and the province's fiscal situation, Alberta did not introduce any new taxes, nor did it raise taxes. In 2010, the province was able to cut education property tax rates by more than 13 per cent, marking the 17th consecutive year that rates have either been frozen or fallen. Alberta had the lowest overall provincial tax load on a family of four (performance measure 2a) and the lowest provincial tax burden on business (performance measure 2b).

GOAL 3 Linked to Core Business 2 – Enterprise

Alberta has a competitive and productive economy

Alberta Finance and Enterprise led the Competitiveness Initiative to develop a shared strategy between government and industry that measured the province's overall competitiveness – and identified gaps where actions need to be taken to improve Alberta's competitiveness. The Alberta Competitiveness Council was established to support a productive industry-government partnership, lead the analysis of the province's competitiveness overall and in four key industry sectors, as well as identify immediate actions that government and industry can undertake. Sectors reviewed include: Agriculture (Grains and Oil Seeds), Financial Services, Manufacturing, and Petrochemicals/ Chemicals. A Competitiveness Forum was held in June 2010 with government officials and senior industry leaders. The inaugural Competitiveness Council benchmarking report was issued December 2010, comparing Alberta's performance across 60 measures and 14 jurisdictions, demonstrating areas for action and continued focus under the initiative.

Services of Productivity Alberta were expanded. Productivity Alberta is an industry-guided service that works collaboratively with organizations across Alberta, connecting them with the latest in productivity improvement tools, resources and services. In 2010/11, more than 20,000 visitors used the Productivity Alberta website, with nearly 250 companies using the Productivity Assessment Tool to analyze their productivity improvement opportunities. In addition, 3000 people attended presentations and events, including the inaugural Productivity Summit Series Luncheons, garnering satisfaction ratings in excess of 96%. Last year, Western Economic Diversification Canada also announced their support for \$2.4 million in matching funds for Productivity Alberta services and programs for business.

Programs were launched in the metal fabrication, building products and aerospace sectors to drive company-specific improvements in productivity practices, process and technology systems, innovation adoption and supply chain development.

Economic growth in all regions of the province was supported by partnering with regional economic development alliances, business organizations and others on economic development initiatives to identify and capture key opportunities to diversify local economies, add value to resource-based industry sectors and support local business growth and expansion. Implementation of the Land-use Framework was supported and strategic advice was provided on economic growth and diversification opportunities in Lower Athabasca Region and South Saskatchewan Region.

Alberta Economic Development Authority released several publications this past year, including "Building Alberta's Financial Services Industry" report which identified major goals, strategies and recommendations for building and expanding Alberta's financial services

industry. It also released the “Accelerating Broadband Enablement in Rural Alberta” report which outlined the benefits of competitive broadband enablement in the province.

The Northern Alberta Development Council (NADC) continued to support the development of Alberta’s north. NADC continued to work closely with regional stakeholders to advance northern transportation corridors. In addition its return service bursary program continues to be very successful with an 85 per cent return service success rate.

In 2010, the real gross domestic product (GDP) for manufacturing and business and commercial services was \$56.0 billion. The measure exceeded the established target of 2.5 per cent as it increased by 4.0 per cent from 2009, because of the global recovery, rising oil sands investment and increased drilling activity. The manufacturing sector increased by 8.7 per cent over the same period.

The strongest growing manufacturing sectors were machinery and fabricated metals (rising oil sands investment and drilling activity in Alberta and increased international demand for oil and gas field machinery and equipment), non-metallic mineral products and wood products, such as lumber and oriented strand board (OSB) (rising domestic demand), and chemicals (global recovery).

GDP for business and commercial services rose by 2.5 per cent in 2010; the strongest growing sector was finance and insurance.

For a comparative frame of reference, Alberta’s overall GDP increased by an estimated 3.8 per cent in 2010.

Goal 4 Linked to Core Business 3 – Tax and Revenue Management

Revenue Programs are Administered Fairly, Efficiently and Effectively

The Ministry of Finance and Enterprise designs tax and revenue programs, collects revenue owing to the Province, administers tax and revenue laws, makes payments of refunds and rebates, and provides information to stakeholders, taxpayers and claimants.

- The Ministry collected a total of \$5.3 billion in revenue through the work of Tax and Revenue Administration, from sources like the tourism levy, and fuel, tobacco, insurance, and corporate income taxes. Corporate and commodity returns processed exceeded 287,000 and more than 25,000 benefit claims were processed in the same period.
- The *Alberta Corporate Tax Amendment Act*, 2010 and corresponding regulation were passed in 2010. The Tobacco Tax Amendment Regulation was approved by the Lieutenant Governor in Council in November of 2010 to support recent amendments to the Act and enhance enforcement. The Fuel Tax Amendment Regulation was approved in March of 2011. The *Fuel Tax Act* and Regulation were amended to facilitate implementation of the government’s Renewable Fuels Standard.
- Tax and Revenue Administration’s audits recovered \$116 million in commodity and corporate tax programs in 2010-11. Audit continues to work cooperatively with tax administrations across Canada to ensure compliance with Alberta’s tax laws.
- Tax and Revenue Administration has presented its first two provincial tax avoidance cases in provincial court this year.

Goal 5 Linked to Core Business 4 – Investment, Treasury and Risk Management

Sound investment, treasury and risk management

The Minister of Finance and Enterprise sets the long term asset allocation policies and guidelines for the funds under his administration, based on advice from the Treasury and Risk Management division and Alberta Investment Management Corporation (AIMCo). The asset allocation decisions are responsible for most of the funds' returns. AIMCo implements these asset allocation policies through a wide range of investment products that they have developed to meet their clients' needs with respect to returns and risk tolerances. AIMCo also adds incremental returns through its tactical asset allocation and security selection decisions.

During 2010-11, the un-matured debt of the Province decreased \$67 million to \$4,712 million at March 21, 2011. The associated debt servicing costs increased by \$81 million to \$295 million in 2010-11.

Other activity in the Investment, Treasury and Risk Management business included:

- Maintained a strong position for recovery with nearly \$11.2 billion in emergency savings in the Sustainability Fund at March 31, 2011. The Fund protects priorities and Alberta's competitiveness in tough times, setting the stage for building a better Alberta. The Fund will be replenished when cash becomes available;
- Postponed 2010-11 planned borrowing of \$1.1 billion to 2011-12; (Budget 2009 announced a three year plan to borrow \$3.3 billion for capital purposes. During 2009-10, about \$1.5 billion of this amount was raised primarily by borrowing in the Canadian capital markets. The amount borrowed also included \$79 million which was raised by selling Alberta Capital Bonds to Albertans in February 2010. The province is not borrowing to support operating expense.)
- Transferred \$48.4 million to Advanced Education for the Access to the Future Fund;
- Transferred \$18.75 million from the Alberta Cancer Legacy Prevention Fund to Alberta Health and Wellness; and
- Drew down \$6,021 million from the Sustainability Fund in 2010-11 to support the operating expenses of the Province and other cash requirements.

Goal 6 Linked to Core Business 5 – Financial sector and pensions

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

Alberta Finance and Enterprise, through the office of the Superintendent of Pensions, currently monitors 760 private sector pension plans. Of these, 676 are active, seven are in the process of being registered, six are suspended, and 71 are in the process of winding up. These plans have 239,855 active members. Total contributions for the year ended March 31, 2011 were approximately \$2.3 billion and the total market value of assets was approximately \$25.9 billion for the year ended March 31, 2011.

During 2010-11, Alberta reached agreement with our federal and provincial counterparts on a policy framework that will allow the private sector to create a new type of voluntary Pooled Registered Pension Plans, to provide an additional retirement savings option

for Canadian workers who do not currently have access to a pension plan through their workplace.

In addition, Alberta initiated a reference to the Alberta Court of Appeal regarding the constitutionality of the federal government's proposal for a single federal securities regulator, and intervened in support of Québec in a similar reference to the Québec Court of Appeal. Alberta also intervened in the federal government's reference to the Supreme Court of Canada to determine the validity of its draft securities legislation. Both provincial courts of appeal released their opinions in March 2011 before the Supreme Court hearing in mid-April 2011. The Alberta Court of Appeal and a majority of the Quebec Court of Appeal concluded that the federal government lacked the legislative authority to enact its draft securities legislation.

Goal 7 Linked to Core Business 5 – Financial sector and pensions

Accessible financial services for Albertans

Alberta's dynamic economy and entrepreneurial spirit requires readily accessible and technologically advanced financial services and products. In addition to private sector financial institutions, the Alberta Treasury Branches (ATB Financial) and the Alberta Capital Finance Authority (ACFA) make financial services and products available to Albertans and local authorities.

ATB Financial is a full-service financial institution serving over 680,000 Albertans through 167 branches and 130 agencies in Alberta. About 58 per cent of its loans are in residential mortgages and consumer loans, with the balance divided between commercial, agricultural and independent business loans.

ATB's net income increased to \$198.5 million for 2010-11 from the previous year's result of \$127.5 million. This net income is after deducting a payment in lieu of tax of \$59.3 million and \$38.1 million in 2010-11 and 2009-10 respectively.

ATB's return on average assets before payment in lieu of tax was 0.99 per cent for the year. This exceeded the targeted return of 0.46 per cent and was driven by credit losses coming in \$56.5 million under plan, and stronger than expected net interest spreads.

ACFA provides financing for capital projects to a variety of local authorities including municipalities, health authorities, school boards, post-secondary institutions and airport authorities throughout the province. The cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan was the lowest of comparable cases for 2010.

Ministry Expense by Function

Expense by Function

(Millions of dollars)

	2010–11 Budget	2010–11 Actual	2009–10 Actual
Health	31	19	104
Education	91	88	38
Agriculture, Resource Management and Economic Development	128	135	52
Regional Planning and Development	170	187	154
Protection of Persons and Property	42	37	33
General Government	860	857	807
Debt Servicing	288	246	186
Pension Provisions	475	346	356
Total Expense by Function	\$2,085	\$1,915	\$1,730