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HOUSE COMMITTEE PROCEEDINGS**

COMMITTEE: STANDING COMMITTEE ON PUBLIC ACCOUNTS

DATE: Wednesday, November 10, 2004

SUBJECT(S) BEFORE THE COMMITTEE:

Equalization - Discussion of principles, impact on the finances of the province, and current issues.

NOTE:

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COMMITTEE

MEMBERS PRESENT: Ronald MacKinley, Chair
Jim Bagnall, Vice-Chair
Wayne Collins
Wes MacAleer
Andy Mooney replacing Wilbur MacDonald
Eva Rodgerson replacing Cletus Dunn
Hon. Robert Ghiz

COMMITTEE

MEMBERS ABSENT: Dr. David McKenna

MEMBERS PRESENT: Richard Brown

GUESTS: Part I - Shawn Murphy MP
Part II - Colin Younker, Auditor General
Allan Moore, Audit Director

STAFF: Marian Johnston

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Wednesday, November 10, 2004
2:00 p.m.

Guest: Part I - Shawn Murphy, MP for Riding of Charlottetown

Ron MacKinley (L) (Chair): We'll call the meeting to order. First of all, I'd like to welcome everybody here. A special welcome goes out to former Provincial Treasurer Pat Mella, I see is in the background there. No, she's here for advisement, give us some advice. I want to welcome Mr. Murphy before us. He's the parliamentary secretary to the Minister of Fisheries. Am I correct in that handle?

Shawn Murphy MP: And Member of Parliament for Charlottetown and I welcome everyone to Charlottetown.

Ron MacKinley (L) (Chair): Member of Parliament for Charlottetown. It was this committee that requested you to come here. How would the committee like to proceed with Mr. Murphy who is here?

Jim Bagnall (PC): I think we should give him. . .

Honourable Robert Ghiz (L): I'd say we'd let him make a presentation and then we'll ask some questions of him.

Ron MacKinley (L) (Chair): Is that okay with you, Mr. Murphy? Mr. Murphy, if you'd like to take anybody up with you, that's fine too.

Shawn Murphy MP: It's up to Barry, if you want to come up or not.

Ron MacKinley (L) (Chair): So Mr. Murphy, if you'd like to start, then with your presentation.

Shawn Murphy MP: Yes, thank you very much, Mr. Chairman, and thank the committee for the invitation to be here. This issue that you're examining presently, the equalization of the federal/provincial financial arrangement regarding equalization is extremely complicated. It's complex but on the other hand, it's an extremely important issue especially for the four Atlantic Canadian provinces.

Mr. Chairman, I asked Minister Goodale if there

was anyone in Ottawa that understood completely the equalization formula and how it works on the different components and he said there was three people and as far as he was concerned, they should be locked away forever.

I asked Mr. Martin the same question a couple of years ago and his answer was that there was one lady in the Department of Finance. She was the only person that understood the concept and she had passed away by that time. (Laughter) So if this committee collectively or individually is able to master the concept, you'll be joining a very select and small group of Canadians and certainly I don't want to—I follow the issue as closely as I can but I don't want to appear before you and suggest that I'm the font of all knowledge as far as equalization.

What I've done, Mr. Chairman, is just circulate a summary of the remarks that I will make and what I've done or what I've attempted to do, I should say, is I've spent three or four pages describing the equalization formula that it presently exists and also I've highlighted the changes that were agreed to by the First Ministers.

It started, Mr. Chairman, on the health discussions which occurred September 12th, 13th, and was concluded on an additional meeting on equalization on October 26th. So that presentation has been circulated and what I will do briefly, and I'll try and be as brief as possible, Mr. Chairman, because I believe you may have got similar presentations before from other parties.

What the present formula—it can be concisely described in three steps. The first step involves measuring fiscal capacity of each province and the chart on the top of page 2 in the presentation reflects the present fiscal capacity and this is the 2004/05 fiscal period and that is calculating each amount that the province could raise if they had the same tax system and that is what is referred to as a representative tax system and that does not say or suggest that the provinces do, in fact, tax at these levels because Alberta as we all know, they have the capacity to impose sales tax but they don't. They're on the representative tax system.

They're deemed to have imposed a tax system.

We're presently looking at in excess of 30 different tax basis, some very important corporate income, personal income tax. Some aren't as important as others. So it's fairly comprehensive and again, this is one of the most complicated areas of the equalization formula. There's always arguments back and forth as to what should or should not be included in these tax coverages. Again, as I pointed out before, it's based on fiscal capacity, not based upon the actual revenues that an individual province may choose to raise.

In Prince Edward Island's case, you'll see from the chart that the fiscal capacity is \$4,386 per person in Prince Edward Island, and I'm not aware exactly what the actual tax amount is. That would have to come from the Office of the Provincial Treasurer. In Alberta's case, it's substantially more, \$10,325 and of course, that figure was probably derived when oil was probably 27 or 28, \$27/28 per barrel and I would estimate that it would be considerably higher at this point in time.

The second step, Mr. Chairman, is to develop a provincial standard and that is in the chart on top of page 3, and you can see that the provincial standard for the 04/05 fiscal year is \$6,217 and that would be the standard against each province's fiscal capacity as compared. As you can see from the chart, it's extremely, it's about nine per cent less than Ontario's and it's extremely close to the fiscal capacity of the Province of British Columbia and the Province of Saskatchewan.

I should point out that all the information I've been receiving from the Department of Finance officials would suggest that both British Columbia and quite possibly, Saskatchewan will be leaving the equalization formula. British Columbia, almost certain; Saskatchewan probably over the next 12 months.

This current standard has been in use since 1982 and it uses the five middle income provinces - Quebec, Ontario, Manitoba, Saskatchewan and British Columbia, and of course, the standard is \$6,173 for each provincial resident.

The third and final formula, Mr. Chairman, involves payments to each province to bring them up to the standard. Each of the receiving provinces and there are eight—there are presently eight receiving

provinces—ends up with the same fiscal capacity to fund reasonably comparable services and they end up with a capacity that is almost identical, as I said, to British Columbia.

Anyone that's on this committee that's followed this, equalization is a very dynamic program and it does respond to change. I believe the discussion two and a half years ago on equalization was the cap on the equalization formula that was in place then. It was around \$10 million and there was a very forceful push by a lot of provinces to eliminate the cap. That was eliminated, I believe, in the 91/92 fiscal period but unfortunately, it really didn't—it was of no assistance to any province when the cap was removed. Although it would have helped if it had been removed perhaps two years before it had been removed.

Mr. Chairman, on page 5, you'll see the provincial equalization payments and what happens is the standard, the capacity of each province is subtracted from the standard and you give the amount, and you can see Newfoundland is \$1,304. The amount for each respective province is then multiplied by the number of residents and that under the what I call, the pre-October 26th formula gives our estimate on the equalization for the fiscal period of 04/05.

Now what I've shown in the chart numbers on page 6, Mr. Chairman, is just the equalization that has been paid to the equalization receiving provinces since the fiscal period 89/92, the fiscal period 04/05. Historically, it has grown probably each and every year from 89 to 01/02 but we've had a decrease over the last four years as you can see in that particular chart. In 04/05 using the pre-October 26th formula equalization payments to the various provinces were estimated to be \$9.2 billion and of course, Prince Edward Island's share of that was expected to be \$246 million.

Mr. Chairman, there has been a—and I'm not going to suggest for a minute, that there has not been problems with the equalization formula. There has been fundamental problems as far as I am concerned. One of the biggest problems is the predictability of the funding mechanism. What happens is the Provincial Treasurer or Minister of Finance in each province is given an estimate in February of each year, but this estimate is then adjusted again in October of this year and they can go back to previous years depending on the actual

economic performance of each individual province. And the way the equalization formula works, the economic performance of the Province of Ontario is so important and so vital to the equalization amount that's globally given to each and every province.

So what happens, Mr. Chairman, and I've seen it happen in this province over the years, going back 15 years where the Minister of Finance is given a figure in February. He or she plugs that number into the projected, budgeted financial statements of the province and the expenditures are based upon that amount. Then in October of that year, and sometimes it seems to happen, it seems to be—there's an adjustment made and sometimes as any previous Minister of Finance will tell you, these fluctuations can be quite dramatic and that has been one of the biggest problems with the equalization formula. A finance minister getting a call on a Friday afternoon and expecting an equalization payment of, let's use an example, of \$250 million and being told that the actual payment is not \$250 million but \$210 million.

The budget is planned on the projected revenue of \$250 million and this, as everyone in this room can appreciate, causes enormous problems for a provincial government. Also, Mr. Chairman, and this may come as a little surprise for a politician to say this but going the other way, can cause severe problems too and I've seen this happen, that the provincial finance minister or the Provincial Treasurer will receive a call on a Friday afternoon and instead of being told that the equalization is \$40 million more than what they expected. The call states that the equalization payment is \$40 million more than what was budgeted, and that leads to problems too.

Because if you look at the financial statements of this province over the last 20 years—I'm not going back two or three, I'm going back over the last 20 years—this has happened on many, many occasions. And this equalization formula which is extremely complicated, that additional money finds its way into the A-base funding of the province by hook or by crook and the government, the executive that's in power, feels that that same amount of money will be there next year which if you can see the charts and you read the submissions, is not always the case.

So predictability getting less than what they thought they were going to get causes problems, but also

and I think this is an important consideration for this committee, getting more than what they were told causes problems equally.

Also Mr. Chairman, if you look at the graph on page 6, you'll see another—that's the issue of predictability. It's my submission that going forward and I think the government in its October 26th agreement has corrected 50 per cent of that problem. But the second problem that was there before was the dramatic swings in equalization. If you look at the chart going back, I think that's a 15-year chart, it wasn't too bad from 89 to 94. Then we had a kind of a swing upwards to 99/2000. But then we had a fairly dramatic increase for a three-year period ending in 01/02. But then we had a dramatic decrease in the global amount of equalization and that has—I submit, Mr. Chairman, that that is caused mainly, not totally but the biggest contributor of those dramatic swings is caused by the economy of the Province of Ontario.

The formula is like if Ontario, I think in 01/02 didn't have as good a year as from a GDP point of view as they first thought and this has caused a lot of problems from the stability of the program. You can see the charts and this is basically to put it bluntly, when Ontario sneezes, a lot of other provinces get a cold.

What I'd like to do now, Mr. Chairman, is just move to the—and I'll be as brief as I can—on the new framework for equalization, the key points. As I indicated, the discussion started at the First Ministers meeting on healthcare on September 13th-15th. It was concluded on September 26th and what the basic tenets of the agreement are that the equalization amount and as you can see, this fiscal period up until October 26th, the base amount was projected to be \$8.9 billion.

The first item was that that base amount would be increased to \$10 billion. In actual fact, it's probably increased to closer to 10.7 when you consider the individual floor and prior year adjustments. Next year, it's increased to \$10.9 billion and then the formula will have it growing at the global amount by 3.5 per cent each and every year after that.

So Mr. Chairman, that I submit will eliminate some of these stability issues. You're not going to see a situation that the Canadian provinces have seen in the fiscal period 02/03 when equalization probably dropped on a global basis by at least 20 per cent. A second component of the arrangement reached

in by the First Ministers was that once a province received its projection in February of each year, it would not receive, no matter what happened from the GDP of Ontario or the Ontario economy or the economies of other provincial provinces, that province would not receive a lesser amount which introduces a certain amount of predictability into the equalization formula.

But again, there's other issues that the provinces want to discuss and that is they've also established a panel of experts to review totally the whole equalization formula, how it's derived, how it's managed and come forward with recommendations and that, according to the published releases will be hopefully in effect by 06/07 fiscal year.

Now Mr. Chairman, in the case of Prince Edward Island, the additional amount for this fiscal period, the fiscal period ending March 31st, 05 that means an additional 32 million for this fiscal year and when they get their amount in next year, it will be in February, the Provincial Treasurer will be given an amount and that will not decrease from that amount that's there. So that eliminates the—I think it certainly stabilizes the global fund greatly. It introduces a certain level of predictability. But coming back from my earlier comments, the dramatic increases can cause problems too, and it hasn't corrected that and that's something that will have to be dealt with either collectively by the formula or perhaps by the individual receiving provinces on their own.

Mr. Chairman, I'll just make a few additional comments before I close. There's been a lot of discussion in the last, I guess, six months anyway and perhaps before that on this whole notion of fiscal imbalance and I caution these smaller Atlantic provinces to—I submit there's a lot of confusion on it. We had Premier Charest in Charlottetown Monday and that certainly is his message. Now what's he talking about, Mr. Chairman, is a vertical imbalance, and the equalization formula talks about and deals with a horizontal imbalance.

The vertical imbalance would basically mean and the argument on that notion is that the federal government should just automatically with no strings or questions, no strings attached, questions asked, transfer funds to the provincial government to be used by them as they see fit. That is the fiscal, the vertical fiscal imbalance argument. I don't think it would be beneficial for the, what I call,

the equalization receiving provinces such as Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island, Manitoba and perhaps Quebec also. But again, the equalization formula deals with what I call a vertical imbalance where we have certain regions of the country, certain provinces that do not, for one reason or another, do not have the fiscal capacity to provide basic services to their residents as would you would expect to be provided to each and every Canadian and as everyone is aware, is set out in our Canadian Constitution.

Another downside to the equalization formula that this committee may want to delve into and it's—the debate is taking place somewhat between our prime minister and Premier Hamn, Premier Williams now and that is the non-renewable resources. The equalization formula does provide or has built into it certain disincentives for economic development and I don't plan to talk about the off, the Atlantic Accords for the offshore oil but I will give you an example of how this can affect perversely provincial decisions and perhaps the best example is the Voisey's Bay development in Newfoundland. Voisey's Bay is a large nickel initiative that was discovered in Newfoundland and Newfoundland, of course, would be if it was developed and I believe it is being developed now but after a four or five-year delay, Newfoundland would normally be entitled because it's their own resource revenue, be entitled to receive millions and millions of dollars of royalty revenues.

However, because of the equalization formula there was absolutely no incentive whatsoever to develop Voisey Bay because if they got \$10 million in royalty revenue from that project, they would lose, that province would lose \$10 million or close to \$10 million from their equalization formula. I'm not exactly—it would depend on capacity—but that would be the basic argument against the development of that project. And of course, you had the argument that the only way the Province of Newfoundland would support it would be the construction of a smelter in the province for jobs and that was the debate that was going on. I didn't follow it that closely but that was the reason behind a lot of that discussion.

So hopefully, when the expert panel is commissioned and they get into this and I assume the province will be making a submission to the panel, that some of these disincentives can be

dealt with and a couple of other issues that I assume the committee will want to talk about is some of the disparities in different provinces for the cost of services. Especially in a rural based province where—like to give you an example, to provide health, education and social services to an area such as Toronto where you've got a very close population, it's much more expensive in a rural area where people are spread out and that is something, I think hopefully this panel of experts will look at and also too, Mr. Chairman, the whole issue of demographics. We're seeing some demographic shifts, especially in the Atlantic Canadian provinces that should be taken into consideration as this concept goes forward.

Mr. Chairman, I tried as best I can just to summarize how I see the matter proceeding. I think the enclosed and I think the October 26th agreement drills into the agreement a certain amount of stability, a certain amount of predictability but again, I'm not suggesting for a minute that the formula can not be improved and enhanced. Thank you very much for your time and attention.

Ron MacKinley (L) (Chair): I want to thank you very much for your presentation. I guess we'll start with Richard down there and we'll work our way up around. Any questions?

Richard Brown (L): Not at this time.

Ron MacKinley (L) (Chair): Robert.

Honourable Robert Ghiz (L): Just a couple of questions. You mentioned how Saskatchewan and British Columbia could be coming off of the equalization formula within the next 12 months. If they come off the formula, will that benefit Prince Edward Island? Like creating more of a pool within the equalization fund?

Shawn Murphy MP: Well that's a good question and again, this is how complicated this formula can get. Under the historic formula, maybe not. But under the new money, as we call it, equalization has a projected pot for this fiscal year of \$8.9 billion. That's been increased to ten or ten something. That additional money is being divided among the provinces on the historic entitlement formula.

For the 05/06 fiscal period, there's been

discussions amongst the provinces on October 26th as to how that is being done, with the idea that there might be a whole new formula 06/07. For that intermediate financial period, the agreement appears to be, among the provinces that is going to be done, 50 per cent is for entitlement, 50 per cent for. . .

Honourable Robert Ghiz (L): That hasn't been done yet.

Shawn Murphy MP: . . . I'm getting conflicting—I think if it hasn't been done, I think it's near done, put it that way. I understand the provinces have agreed to it. It hasn't been formally announced yet but I understand it's just a matter of. . .

Honourable Robert Ghiz (L): Has Prince Edward Island agreed to it?

Shawn Murphy MP: Oh, you'd have to ask somebody else that question, but that's where it's heading. If, to answer your question, if there's any kind of a per capita basis and if Saskatchewan is within, even if they're \$10 within, it could effect it—you can see the province there so that's. . .

Honourable Robert Ghiz (L): So it could in fact effect us in a good way?

Shawn Murphy MP: It could impact you in a good way, yes.

Honourable Robert Ghiz (L): Now one other quick one here. Nova Scotia and Newfoundland are currently trying to work out special deals with regards to their offshore. Let's—I saw it in here—let's say, Nova Scotia gets a billion dollars a year. It's a little bit more than that but let's just say they get a billion dollars a year but they're being—right now, let's say they have \$200 million in royalty revenues coming in off the offshore and they're supposed to lose \$200 million off their equalization because they have that coming in. Now I'm just simplifying things right now. But they want to be able to keep the 200 million in offshore royalties plus they want to be able to keep their billion dollars, correct? That's basically what they want right now.

Shawn Murphy MP: Basically, an over simplification but basically.

Honourable Robert Ghiz (L): Yeah, if that in fact happens and they do in fact get to keep their

royalties and keep all their equalization, that would be bad for Prince Edward Island as well, wouldn't it? Because that would take more money out of the equalization pot?

Shawn Murphy MP: I guess you could make that argument but again, it wouldn't be—well perhaps I should go back—the first, the agreement was reached some time ago. They're entitled to keep 30 per cent of their offshore oil revenues.

Honourable Robert Ghiz (L): Yes.

Shawn Murphy MP: And under the most recent agreement and it depends who you listen to what the terms of the agreement are, it's increased to 100 per cent. But that would not—it really wouldn't, it basically would state that that revenue would not effect their equalization.

Honourable Robert Ghiz (L): Exactly, which is not good for Prince Edward Island. It takes money out of the pot.

Shawn Murphy MP: I guess you could make that argument but again. . .

Honourable Robert Ghiz (L): Well, if there's \$10.9 billion to be distributed amongst the provinces and you take out \$200 million, it's obviously that's too—and you could have an extra 200 million, well we're going to get a portion of that \$200 million.

Shawn Murphy MP: No, you would only get what you're entitled to get.

Honourable Robert Ghiz (L): Exactly, but it's still on a per share.

Shawn Murphy MP: Yeah, if you wanted to do the arithmetic, you'd have to do the arithmetic.

Honourable Robert Ghiz (L): Exactly, but it could hurt us.

Shawn Murphy MP: And I think you point out exactly how complicated the equalization formula can be when you get into these things.

Honourable Robert Ghiz (L): That's it for now. I might have some more later.

Richard Brown (L): Wes should have some pretty tough questions.

Wes MacAleer (PC): Yeah, I just want—I have four questions or four points to what I'm making. One is really, I think we can discuss the economics of this situation in depth and be snowed under by all the numbers but really this is a political decision that has to be made on the part of the governments involved and there's one item I just want to clarify because I don't think it's true but I'll make the statement and then I want it clarified. The perception is that the federal MP's that we have are not concerned with this issue, that you don't want more money to come to PEI.

Now I want to make that statement because I think that it's untrue, but I want to hear it from you, Shawn, that in fact you're really interested in this issue and that you're prepared to defend the issue on behalf of the residents of PEI.

Shawn Murphy MP: Oh definitely.

Wes MacAleer (PC): Yeah, well I know that's a very. . .

Shawn Murphy MP: If I can go back to the debate that was taking place three years ago and I've had this discussion with the finance committee. The finance minister was, at that point in time, the ceiling was the big issue and that was—there was a lobby, not only from myself but basically all Members of Parliament from Manitoba, Reg Alcock, Andy Scott, myself to get rid of the ceiling that was in equalization which, when it was finally taken off, didn't really help Prince Edward Island any. But if it had of been taken off two years before that, would have helped Prince Edward Island.

Wes MacAleer (PC): Okay, well I think the fact that you've come here indicates your interest in this. The one area—I want to go back and deal with the historical aspect of this but let's just look ahead in the future here. My understanding of the formula, as is currently created, that my concern is for 05/06. Granted we should all be thankful that in 04/05 we are going to get 32 million additional money, but when you talk about budgeting and setting expectations and meeting those expectations, as I understand it, the additional moneys that are being put in the pot which is the difference between 8.9 and 10.9 billion which is a lot of money, when that is divided in 05/06 that in fact, we'll be getting as a

province less money than we will in 04/05 because the formula will have been changed to distribute the money on a per capita basis.

So the current formula whereas the perception is that the federal government is putting more money into the pot which is true—we in fact as a province, will be receiving less.

Shawn Murphy MP: Well to answer that question, it's not going to a per capita, but the leaning in the way it's my understanding the discussions are headed, it's 50 per cent on a per capita, Mr. Chairman, and 50 per cent on the historic entitlement basis. The province will be given a number and I'm surprised that exact number would be calculated now, but the province would be given a number in February and it will not be less than that number. Whether it will be less than. . .

Wes MacAleer (PC): Less than 32 you mean?

Shawn Murphy MP: . . . well, again whatever the entitlement is this year, it's 279. Whether it will be less than 279, I don't know. I don't know, Mr. Chairman, and I'll be surprised if the federal government would know but they probably have some idea.

Wes MacAleer (PC): Well I'd be concerned that we're not going backwards in this exercise. Now I guess the other—just to go back in time here and because this cuts across all political parties because I think Premier Callbeck was faced with this issue or situation, so I don't think it follows political parties but in 95/96 we had a change in a fiscal arrangement in Canada. We had the CHST created so we had CAP and EPF, Canada Assistance Program and Established Program Funding. We had created such that, that was all rolled into one.

Shawn Murphy MP: That's right.

Wes MacAleer (PC): And in order to meet their fiscal requirements, the federal government decided that they were going to provide less money and everybody was unhappy with that, but that was the base we started from. And then in about 99/2000 they changed the system but the understanding at the time, I'm sure, was that in some way equalization would pick up the shortfall of the moneys that were as a result of the change

in the fiscal formula because the CAP and the EPF program gave a lot more money to the have-not provinces than the CHST because the CHST focused on per capita, per capita allocations.

So your provinces with increasing numbers of people got more money and now if we go to an equalization formula which has a per capita, that aspect is going to be accentuated. And the problem you have is a problem that is recognized by the federal government in terms of us dealing with the north because there's a different formula when they're dealing with the north, with the Territories and it is an expenditure base system. It's formula financing on the cost of providing services and I would hope that in taking a look at this formula that the federal government would look at the cost of delivering services as a part of the formula so that when you talk about what it is, we want to describe this base funding the provinces have to have in order to provide equal services, whether you call it entitlement or whatever, that that's a part of the formula.

And the other point I want to make is that it would seem that what you have in terms of a distortion in the system is accentuated by the fact that the provinces have three programs which are creating them the greatest cost, namely health, education and social services. Whereas the only real major cost for the federal government is the old age security which I realize is growing. But the three major expenditure areas in the country are those which the provinces have to deal with and yet, the organization that has the greatest capacity to raise money is the federal government. And the Conference Board of Canada says just that, that the federal government has this tremendous capacity and that capacity is going to increase over time. So that by 2010, the surplus that the federal government will have will be considerable.

So I'm just saying that there are arguments here that say that there should be a reassessment of this and I would hope that when that happens, you people who represent us in the federal system will argue very strongly on behalf of the citizens to maintain some type of formula that is going to ensure that we meet our constitutional requirements.

Shawn Murphy MP: Mr. Chairman, if I may respond to that. There's a lot of areas covered there but there's one thing I do want to clarify very

strongly is the—and Mr. MacAleer is quite correct that there was a change put forward in 95/96 going to the CHST and there were—there's no question about it, there was some cutbacks at that time. But if anybody made a suggestion at that time that equalization would fill in the gap, they either were not being totally honest with you—didn't understand the equalization formula and that is the problem with the debate, Mr. Chairman.

The term more equalization really is a meaningless term because if everyone is equal, there's nothing. If the fiscal capacity of all ten provinces is equal, if it's all \$6,273 or whatever it is, then nobody gets anything. So that's—but not in the present formula, but I mean that was the pre-October 26th so there's, there could be no suggestion that that was going to be there because no one would predict what the Ontario economy would do, nobody could predict what the economies of Atlantic Canada could do, totally different arrangements there.

I, like Mr. MacAleer, would be disturbed if the discussions continued with equalization being done on a per capita basis. I agree with you there. That's not the way the formula was built. It's not the way it should continue and it's not—we have now, for fiscal 04/05 and 05/06, we have a situation where there's a vacuum. The formula covers the first 8.9 million and then we have the so-called surplus and that has to be dealt with. The way it's being done for 04/05, I agree with. I would rather have it dealt with by—on a historic entitlement formula for 05/06. Apparently, that's not going to happen. But if it continues after 06 on any kind of a per capita basis, then we've basically changed to our detriment the equalization formula and I agree with that.

The third point in Mr. MacAleer's statement is this. It goes back to the fiscal imbalance argument. I don't know if there's any point in continuing that discussion. That is the fiscal capacity of the federal government which—we could debate all afternoon. Every province in Canada and I've read the Conference Board report, but every province in Canada has access to the same taxing powers basically. In fact, the provinces' taxing powers is greater because of lottery revenue and some other forms of revenue. But you're quite right, the services that the provinces are responsible for, health, education and social services are greater and growing at a greater rate than the services that the federal government are responsible for.

But again, I think you could make the argument, and this is my own view and again, it's been discussed in great length by everyone in Canada, it appears now, you can make the policy argument that federal taxes are too high. You can make the argument that the federal government should abandon or get out of—reduce their taxes to allow the provincial governments to increase their taxes so they can—in a better position to fund these services. That is the workable imbalance that's being discussed. But I don't want to lose sight of the horizontal imbalance that is the purpose and intent of our equalization formula that's in the constitution. That's something—if we lose sight of that, we do so at our own peril.

Jim Bagnall (PC): Just relating to your last statement, but hasn't your government done that by changing it from a ten province standard to a five province standard? You've taken the balance away because you've made it so that.

Shawn Murphy MP: There's people in this room more qualified than I am but I don't think . . . (Inaudible)

The change was made long before my time, it was in 82 that there was change from a five province standard.

Jim Bagnall (PC): So do you support the five province standard rather than the ten province standard?

Shawn Murphy MP: No, I think we'd be better served by continuing with the five province—Alberta is so skewed that—the chart there, you'll see it on page 2, I believe.

Jim Bagnall (PC): Just Mr. Murphy, before you move on, you said we'd be better with the five province standard rather than the ten?

Shawn Murphy MP: Oh no, the cost would be out of the roof. It would probably be another six billion or something like that if they went to a ten province standard.

Jim Bagnall (PC): I don't think you're right.

Shawn Murphy MP: Well, are you factoring in the \$55 oil price now? Like Alberta's economy is so volatile and so successful. Well right here now, it's—the chart I'm looking at is on page 2. . .

Jim Bagnall (PC): No, he's not right.

Shawn Murphy MP: . . . has it at \$11 thousand, the fiscal capacity of Alberta and that would be done with the lower priced oil. I have no idea what it is now but it would be much higher than what is shown on that chart.

Jim Bagnall (PC): My understanding, if we were still with the ten province standard, rather than the five that our figure would be instead of 6,000 or whatever that figure was, it would be much higher. So it's really affected our province going to a five standard? We've been really knocked down like.

Shawn Murphy MP: You're quite right. If you went to a ten province standard, whatever that amount would be, it would be higher than the \$6,217 but it would, it would. . .

Jim Bagnall (PC): So why would you favour a five province standard if it was going to effect us?

Shawn Murphy MP: Well again, I just don't see it working in the long run. Like this has to be—like the Province of Alberta, the economy is so. . .

Jim Bagnall (PC): Why would it not work then? Okay, I'll take that as an answer but why it not work?

Shawn Murphy MP: First of all, you'd have to have agreement from all Canadians and the—like equalization is not paid for by any—there's a misconception that equalization is paid for by the rich provinces or the poor provinces, paid by Canadians in every province and it would increase the costs from 10 billion or 10.9 billion to an amount that somebody could determine which I can't determine at this point in time. Like equalization is basically agreed to by all provinces and that was the purpose of the meeting on October 26th. I don't foresee an agreement that they would agree to another six billion put into it.

Jim Bagnall (PC): Okay, you've made reference to new money of \$32 million that we did receive.

Shawn Murphy MP: Yes.

Jim Bagnall (PC): But you know, when I look at 98/99 standards, we were at \$11 billion and so now we're doing standards at 8.9 or 9.2, I mean we're

not even up to the standards we were in 98/99. How can this be new money? I mean, money you've taken away from us from the last, from 99 on, we dropped in 2000; we dropped in 2001; we dropped in 2003; and then here in 2004, you're saying we're getting new money. Well I think we're just starting to get back some of what we were actually entitled to. So how can you say it's new money?

Shawn Murphy MP: Well Mr. Chairman, that again goes right to the root of this equalization debate where a lot of provinces and a lot of members, they want more equalization but that's not the way the formula works. The formula works, Mr. Chairman, if all—and I stated this previously—if all provinces are equal, there's no money. There's no money period. There's no cheque for anybody and the member makes an interesting point. We did get a dramatic shift in basically, it went in 02, from fiscal 02 to fiscal 03 where you seen that drop. But that is the stability problem that was there.

Go back to 99/2000, we had that dramatic increase that was never seen before and that in and of itself, caused problems. And I've got a chart here and I should circulate it, Mr. Chairman, just showing the—I'll get it here, if you just want to give me a second, Mr. Chairman—showing the amount of equalization that was projected to be paid to this province and the amount of equalization that was actually paid and the dramatic differences that are seen.

Richard Brown (L): Mr. Chairman, while he's getting that, may I request the committee ask for the two separate, those dramatic increases in 2000/2001/2003, how much of those adjustments were prior year adjustments? You know, our formula is done in February and October and there's substantial prior year adjustments, just right now. Like I'd like to know how much of that is prior year adjustments, like if a billion or two billion of that is prior year adjustments.

Jim Bagnall (PC): I think, didn't we ask the Auditor General to bring that to us already?

Richard Brown (L): Prior year adjustment loans?

Ron MacKinley (L) (Chair): You can request it of Mr. Murphy. He's got staff, all kinds of staff, save us some money.

Shawn Murphy MP: Mr. Chairman, I'm circulating a graph showing—the blue chart on the graph shows the original—no, excuse me, that's not the right chart.

Ron MacKinley (L) (Chair): There's more money coming to the province now than there was in 94/95/96, yes.

Jim Bagnall (PC): There's less.

Ron MacKinley (L) (Chair): There's more.

Jim Bagnall (PC): Less.

Ron MacKinley (L) (Chair): I believe if we went to equalization back in 93/94 years, 95 we were probably 170 to 200 million. You guys were roping in dough, you just blew it.

Jim Bagnall (PC): There's your chart from Mr. Murphy. It shows. . .

Ron MacKinley (L) (Chair): I don't care. . . I remember when you went back to the budget books, you were rolling in dough. You just blew the money. You don't know what you did with it. That's the biggest problem. No, that's it.

Jim Bagnall (PC): Like you keep going back, Mr. Murphy to across the board, that would be zero funding.

Shawn Murphy MP: Pardon me?

Jim Bagnall (PC): You keep going back to if we got equalization across the board and it was all leveled off, that nobody would be getting anything because we'd be—well if we were working on a ten province standard, then that might be possible. But when you take half of the provinces out of the mix, and the ones that are producing some dollars, how can you have across the board equalization, that's the question I'm trying to get but I can't get an answer to it.

Ron MacKinley (L) (Chair): Well you should read number six because you said you were getting more, but you were saying you were getting more in 92/93. If I look at the chart, your highest is 2001/2002. You're rolling in dough since 96, it's gone up every year, look. It's the chart, you're trying to mislead the chart.

Shawn Murphy MP: As you can appreciate, Mr. Chairman, equalization in this province did start around back seven or eight years ago at \$182 million and then Mr. Chairman, it did go up every year and it was quite substantial till it reached 282, but the member is right, it did drop after that. The swings, and I appreciate the frustrations, we've seen these dramatic increases that were there and then they dropped off and it would have been better I think, for all concerned if we had a more—if it went up on a level rather than the spikes because that does create a lot of problems.

Ron MacKinley (L) (Chair): You're saying that. . .

Jim Bagnall (PC): I've got the floor.

Ron MacKinley (L) (Chair): No, I've got it now. He made a statement. You said it dropped off.

Shawn Murphy MP: Yes, it did, Mr. Chairman.

Ron MacKinley (L) (Chair): But since 96/97, equalization was 183 million going by your chart that you give us and even though it dropped off, it's still a way higher in 2002/2003/2004 than it was in 96/97, but it never really dropped—it dropped off from the high of 2001 to 2002, you could say it dropped off that. But it didn't drop off of from what previous used to be given was 183 million in 2002. So in equalization over the number of years, if you take the average of it, has gone away up. Do you know how much it has gone up since 95/96?

Shawn Murphy MP: Well Mr. Chairman, the figures are right there. It went from 183 to 202 to 265, 256, 270, 282, 239, 243 and 279. But the point I'm making is and yes, you're quite right, Mr. Chairman. It did from 2002/2003 from 96/97 there was a dramatic increase.

Ron MacKinley (L) (Chair): Yes.

Shawn Murphy MP: I agree with that but I think it would have been better for the Provincial Treasurer to see a more—like that, what I'm suggesting to this committee, that spike in 98/99 probably caused as many problems as the spike that occurred in 02/03. Now there maybe people disagree with me but I think if you look at the finances of the province, you'll see that. And Mr. Chairman, I'll circulate another chart too.

Ron MacKinley (L) (Chair): Well just before you

circulate that, I believe that the Provincial Treasurer at the time put money into what they call a trust fund or something, a special slush fund, so it really didn't—in order to keep the bump from coming. So really they didn't spend all that money that year. No, they balanced it out. I'll ask Mr. Murphy here. Mr. Murphy. . .

Jim Bagnall (PC): I still have a couple of questions there that I would like to ask.

Ron MacKinley (L) (Chair): Yeah, we'll let you on there in a few minutes. Mr. Murphy?

Shawn Murphy MP: Yes.

Ron MacKinley (L) (Chair): Would you go back to that high of 270 or 256 or whatever those numbers were, the Provincial Treasurer at the time and I stand to be corrected, put a special fund aside and then they took out of those special funds over a period of years. They just didn't go and write cheques out of that extra money that year. I believe, I think I'm right and that would help to balance out the ups and the downs. So the thing I see here is there's been a tremendous increase in equalization money coming to the province since 96/97/98 here. I mean it's just gone up and up. Now I know it took a drop in 2002/2003, 2003/2004 but it's still 20-30 per cent higher than it was in 1996/97 which means that's a lot of money. Anyway Mr. Bagnall has the floor.

Jim Bagnall (PC): Thank you, I appreciate that. Okay another question I guess I have. We're talking about formula changing.

Shawn Murphy MP: I beg your pardon?

Jim Bagnall (PC): We're talking about the formula changing and how equalization is doled out for 2005/2006 going from entitlement to per capita. Am I correct with that?

Shawn Murphy MP: I have to say that you're going to probably have to ask somebody else that question. I can give you what I understand. The formula for 04/05 is on a historic entitlement basis formula. It's my understanding that the premiers have agreed to these 50 per cent entitlement on the historic basis, 50 per cent on a per capita for that one year only 05/06 with the understanding that the so-called new, the new panel will be convened immediately. They will file a report and there will be

further discussions with the new formula starting in 06/07.

Jim Bagnall (PC): Are you supportive of the per capita based on entitlement?

Shawn Murphy MP: I am, I would be disturbed if there's any long term discussions about equalization being paid on a per capita basis. That is not the intent of the original formula as stated in our constitution.

Jim Bagnall (PC): So you're opposed to moving to per capita?

Shawn Murphy MP: Well again, we're only talking the one year and again, I wasn't part of the discussions with the premiers. But all I can say from what I know of the subject, I would be disturbed if this were continued, yes, but I am opposed to it.

Jim Bagnall (PC): Yes, okay so if we moved to per capita and you realize this is going to be a drastic effect to PEI.

Shawn Murphy MP: I would agree with that, yes.

Jim Bagnall (PC): Because we could lose up to 18 or 20 million bucks a year if that goes to per capita.

Shawn Murphy MP: Well I think you might be comparing apples and oranges a bit here. I cannot see a situation at all where our premier would agree to any kind of a long term, that equalization is done on a per capita basis. He would not agree with that.

Jim Bagnall (PC): No, but I'm asking, do you? So are you going to be fighting against that, for us?

Shawn Murphy MP: Oh definitely, yes.

Jim Bagnall (PC): So how are you are going to do that? Like I'm just curious because you'll hear—Wes made a comment before that we're not getting the support that we need so I'm going to ask you, how are you going to help us?

Shawn Murphy MP: Well I will speak with anyone on this issue. Definitely, I'm totally opposed to that, discussion taking place that any kind of a

long-term basis that equalization. . .

Jim Bagnall (PC): So how are your discussions gone to date?

Shawn Murphy MP: Well again, I wasn't part of the agreement that was made on October 26th, and this was. . .

Ron MacKinley (L) (Chair): You got to become a provincial premier to do that.

Jim Bagnall (PC): Wayne Easter (Indistinct).

Shawn Murphy MP: . . . this arose from the First Ministers meeting and--again the point has to be made, Mr. Chairman, that the formula that's in place right now covers \$8.9 billion and that hasn't changed of course. The agreement was made to top that up. The formula doesn't cover that increase and for the 04/05 fiscal year, they did it on a historic entitlement basis. Now, and I wasn't part of the discussions, I'm not privy to the rationale but--and I'm not even sure that they've come to a final agreement but my understanding is that the discussions are leading to the so-called top up amount, the amount between the \$8.9 billion and the \$10.9 billion being dealt with on a 50 per cent per capita and a 50 per cent historic entitlement.

Jim Bagnall (PC): Well then that way, we could stand to lose \$10 million.

Shawn Murphy MP: I don't know the exact figure.

Jim Bagnall (PC): So if that's your understanding, have you done anything on our support on that?

Shawn Murphy MP: No, I'm just getting the results of the First Ministers meeting on October 26th.

Jim Bagnall (PC): Okay, a question here now that I was going to ask. We talked about and the Leader of the Opposition brought it up a few minutes ago and that was based on Nova Scotia and Newfoundland's resources. Like keeping 100 per cent of their natural resources and receive the equalization too. Are you in favour of that?

Shawn Murphy MP: I really haven't formed an

opinion. The reason, the rationale behind it, I'll give the rationale behind it--the argument being made by Nova Scotia and Newfoundland/ Labrador that these resources are non-renewable and these wells or gas lines have a finite life and in some cases, I assume it's determined. But their argument is that at the end of eight years, nine years, ten years, it's over. We don't get any revenue. It's basically analogist to if you have a farm of 100 acres and every year you sell ten acres and this is your income. But at the end of ten years, you don't have any further income and that's the argument they're making. Again, this is part of the discussions that are taking place between the First Ministers and the prime minister.

Ron MacKinley (L) (Chair): These First Ministers meetings. . .

Jim Bagnall (PC): Well let's take a. . .

Ron MacKinley (L) (Chair): Just hold it a second now until I get this cleared out. These First Ministers meetings is between the First Ministers and the prime ministers. The First Ministers meet, they come up with an agreement. You MP's are not involved in that, is it, when the agreements are being made or are you?

Shawn Murphy MP: We're not involved, Mr. Chairman, but the equalization formula, there's been a lot of debate and discussion and committee hearings with the finance committee and with the Senate finance committee. They've written a report there back in--published in 2002. It's an important issue for everyone living in certainly Atlantic Canada and it's something followed very closely.

Ron MacKinley (L) (Chair): But it's done by the premiers go in, they sit down and they come out with an agreement among themselves and they present that to the federal government. Is that not how it works?

Shawn Murphy MP: The agreement that was reached on October 26th would have to be approved by parliament, yes.

Ron MacKinley (L) (Chair): Yes, but it's an agreement that's come up by the federal government. If the premiers came in with a split decision, some of them say, six of them, four of them wanted to go with equalization by need and the other provinces decided no, we want to go by

the amount of people you got, would that, that wouldn't come, those two ideas wouldn't come to parliament. There would only one come to parliament, wouldn't it?

Shawn Murphy MP: It wouldn't be a majority rule of premiers; it would come to parliament, yes.

Ron MacKinley (L) (Chair): Both?

Shawn Murphy MP: No.

Ron MacKinley (L) (Chair): No, it would only be one would come to parliament.

Shawn Murphy MP: That's right.

Ron MacKinley (L) (Chair): And that would be—so you wouldn't have any decision on that until it came to parliament?

Shawn Murphy MP: You're correct, Mr. Chairman, but you certainly can make your statements.

Ron MacKinley (L) (Chair): Oh, you can make your statements known but still and all, you wouldn't have any decisions. So our thing here is to make sure that the premier stands up for us and takes on like the Premier of Newfoundland—the vice chairman asked you how you felt on this 100 per cent being returned to Newfoundland and Nova Scotia, well I would think you should back what our premier is backing and that's 100 per cent return to those two provinces. I would think that federal MP's would go along with the province here because we'll probably need their votes in something else, especially on this here population.

Shawn Murphy MP: I don't have a major problem with it myself.

Ron MacKinley (L) (Chair): Mr. Mooney.

Andy Mooney (PC): Two points I want to make—basically your graph shows increased money coming to the province every year and that's what you're trying to perceive, push out into the meeting the whole nine yards but one thing, the federal government used to cover 50 per cent of the health costs and now it's under 16 per cent. So I don't give a hoot on the amount of money that's coming, it's not in check with what the cost of health care is

that the province is delivering.

In this whole report that you've handed out, the biggest concern I have in the whole thing is the statement that says finally the Government of Canada will convene a panel of experts to provide advice on the future allocation of payments among the provinces. Some of the people who claim which is true. There's only a handful of people in this country that have a full understanding of this equalization formula. But the one thing is clear, the formula is the formula and the experts that are in the different provinces can chart how much money should be coming.

In essence, they've been given heads up that after 2005/2006, basically in essence, the prime minister would like to have a panel of experts, and this panel of experts will be chosen by the prime minister to determine what the province shall get. So it's not going to be based on any formula. So if for political reasons, they want to give more money to certain provinces, that can happen.

When a formula is put in place, like the formula that is there, at least if they monkey with it, every province is going to know. Like I tell you, if there's any concern in this whole report you've put out, it's that and I don't think any prime minister—I don't care what the political stripe—should be able to put a panel of experts in place to say this is what you're getting this year but it's not based on any formula. I've got a major concern with that.

The only other point I just want to throw out. . .

Ron MacKinley (L) (Chair): If you'd like to react to that and then we'll go on to your other point.

Shawn Murphy MP: Perhaps I'll make a few comments, Mr. Chairman. One, I didn't intend to, if I did, suggest that there's been annual growth in equalization, and that's what we're here to talk about. The chart clearly indicates that in 02/03, there was what I considered to be, when equalization went from 282 to 239, that constituted a dramatic decrease in the amount of equalization and again, that caused a lot of pressure and challenges to the Provincial Treasurer of this province as they would testify to. I don't know if you want to—the member made a statement on healthcare. I really, that's been debated and debated. The 16 per cent figure certainly is not—anyway it's not Prince Edward

Island's case but I'll leave that. The point, one point I do want to make, Mr. Chairman, is the panel of experts, again that would be a recommendation only to look at the thing and try and deal with some of the very complex and complicated problems that is still remaining with these formulae and that would be recommendation only and that again, that would have to come back to parliament.

But again, before it got near Parliament Hill, there would be extensive discussion with the First Ministers, the premiers and that would just be a recommendation to go to the First Ministers and then come to parliament with the final application. But there would be a lot of discussion in the meantime by a lot of people on that one.

Andy Mooney (PC): I personally think you can chisel that to stone and you'll find out what will happen and after 2006, from what I understand at most of the meetings that the bureaucrats are attending that they basically told that this formula is in fact, going to be going by the wayside and there will be a panel determining on what provinces receive and I think it's a slippery slope that's going to cost our province and a lot of the smaller provinces a lot because it leaves too much leeway for government to determine based on elections or whatever, where they want to spend money and I don't think it's—and I'm just completely and utterly opposed to it myself.

One other point, I just want to throw one other thing in—whenever this conversation is done, since we have the Secretary to the Minister of Fisheries here and as far as public accounts, our fisheries business is very important to the Island. I just want to throw a few questions out after we're done and before you leave. I'm finished.

Ron MacKinley (L) (Chair): I'll go onto Robert there and then back to Wayne.

Honourable Robert Ghiz (L): Thank you very much, Mr. Chair. A few points I now want to make. One is going to be, and I'm not sure if Wes was trying to say that our tax system is unfair because the federal government is doing the taxation and he thinks the provinces should be in charge of more the taxation because I definitely disagree with that. I agree with your views on, I believe, it's the horizontal imbalance that some people say that we have and I don't think we have it either. I would much rather see the federal government do the

taxation and disperse it out fairly amongst the province. I'm sure there's people in Alberta that disagree with that. But coming again, someone from Prince Edward Island realizing that we benefit by the federal government implementing the taxation system, I totally agree with your assessment of the vertical versus the horizontal.

Another point I wanted to make was it's kind of odd, for example, Mr. Bagnall somehow thinks there's an entitlement to equalization money and that if we hit a kind of a floor, we shouldn't go any lower than that. But I'd like to point out that based by his argument, while British Columbia that is probably going to be coming out of equalization within the next 12 months as you said, based on those arguments would argue well okay, yes, we're back up to the average of a tax standard of 6,173, but we're used to having our equalization so we still want our equalization on top of that.

I think we have to realize, Mr. Chair, that at the end of the day, equalization is there because we don't have the same economic base that some of the other provinces have. If we improve our economic base, then we'll no longer need equalization and I think that that's something we should be striving for instead of our, as you say on this, before equalization, the fiscal capacity of the provincial government this year ranges in Prince Edward Island 4,386. I think we should be striving to increase that to the 6,173 so that we no longer need equalization. Instead of saying, give us more, give us more, give us more, we should be trying to say, we want less, we want less. But until that happens, and we will get to that if we try and increase our fiscal capacity.

There was a lot of questions on where you stand on equalization and do you believe in the ten province standard or do you believe in the five province standard. Do you believe in per capita? You know, I believe in whatever is best for Prince Edward Island as I'm sure you do, and if someone is going to show me that the ten province is better for Prince Edward Island versus the five province, well I'm going to say, let's go with whatever is best. I don't think anyone from Prince Edward Island is going to say, okay, if per capita is going to give us less money, well we should be for per capita.

My question is, do you sit around the First Ministers table when they negotiate that?

Shawn Murphy MP: No, Mr. Chairman.

Honourable Robert Ghiz (L): No, no you don't.

Shawn Murphy MP: But Mr. Chairman, if I could make one other point on this equalization, the members have to be aware that this is in the constitution. Whether I, this is very much in the constitution. It's an entitlement to every province and it is to deal with the horizontal fiscal imbalances of this country, not the vertical but the fiscal imbalances.

Honourable Robert Ghiz (L): Exactly, and my last point that I want to make and Mr. Mooney is concerned about who's the panel that's going to be put in place. Well I'd be willing to recommend someone from Prince Edward Island and we've got Pat Mella here. I'm sure she'd make a great representation on that committee and she'd be fighting for Prince Edward Islanders. I'll take, you know, partisan politics aside, we're all on the same side on it.

Unidentified: Maybe he's been thinking of his own party too much, see what they do.

Honourable Robert Ghiz (L): I'd be willing to make a motion on that.

Jim Bagnall (PC): Maybe we should ask the minister to take her name forward.

Richard Brown (L): We'll recommend it.

Ron MacKinley (L) (Chair): Now we've got Mr. Collins, Wayne. He's been waiting for this for a long time to get here. So Mr. Collins, I'm going to give you the floor. You made some allegations earlier about the infrastructure program. Now is your time to ask the minister.

Wayne Collins (PC): I thought we were here to talk about equalization right now.

Ron MacKinley (L) (Chair): No, you can talk about whatever you want to.

Wayne Collins (PC): I'm pleased to hear you say that.

Ron MacKinley (L) (Chair): But you made allegations here that they were directing the

infrastructure money out. I got it right in front of me so here's your chance. I hope you weren't media showing that day.

Wayne Collins (PC): Thank you, Mr. Chair. I want to apologize for being late today. I was in the good company of the residents of the Beach Grove Home during their Remembrance Day ceremonies and I guess I should have heeded the advice of your old friend, Bill Gaudet. When I told him I was headed back to Public Accounts, he says, don't go down there, you're only going to annoy the chairman.

Ron MacKinley (L) (Chair): You're not annoying me. I'm just making sure you get your say.

Wayne Collins (PC): So it's good to be here and it's good to see you here, Mr. Murphy, and I do apologize for missing the formal part of your presentation today, and please forgive me if any of my questions seem somewhat redundant here. But I do, looking at this graph here, Growth and Equalization, I will take exception to the title of the graph. I think it should be more fluctuation in equalization over the years because there have been a number of dips there. It looks like a Coney Island roller coaster at times.

I do want to ask you a couple of questions though related to the next year following this graph. If we were to go to 05/06, and this is the time when I understand there's going to be the floor of 8.9 billion, is that correct? And then there's going to be another two billion on top of that, half of which is going to go on an entitlement basis and half of which is going to go on a per capita basis. Am I correct?

Shawn Murphy MP: I believe you are, through you Mr. Chairman, that is the information I've been given. That is not and we've checked with the Department of Finance website, we've checked with our sources. That has not been formalized yet but that's—I do understand that that has been the agreement reached on October 26th.

Wayne Collins (PC): If that goes ahead, do you know what the overall effect will be on this graph? Which way is it going to go - up or down in 05/06?

Shawn Murphy MP: I don't know what the final numbers would be, Mr. Chairman. It could possibly be that they probably wouldn't, may not know until

they get more accurate economic numbers in from all provinces, especially of course, the Province of Ontario.

Wayne Collins (PC): I've heard others say that what we're going to do is we're going to see a decline in 05/06 in the amount of equalization coming to Prince Edward Island, in 05/06 based on the fact that half of that top-up is going to be distributed on a per capita basis, which brings us to the important principle of the measurement of fiscal deficiencies and this is the whole thing on which the equalization is based. Why is your government entertaining the idea of abandoning that principle in years beyond 05/06 in terms of structuring or striking this committee of a panel of experts? Why is the government thinking of going in that direction? Can you give me the rationale for that?

Shawn Murphy MP: Well the rationale, as I understand it, Mr. Chairman, is on the invitation of the ten premiers, that this is the—there is, you know, there's been always difficulties with the equalization formula and I indicated in my formal presentation before that the biggest difficulty was predictability, that the Provincial Treasurers and provincial Ministers of Finance really didn't know when they entered the fiscal year what the bottom number was going to be, the final number and the stability of the program which you can see from the graphs but again there are still discussions going on. There's talks about user fees, lottery revenue, there's a whole host of detailed, complicated discussions going on behind the scenes and they felt—and this is not our government, this is the provincial premiers also felt that it was time to have a thorough review of the equalization formula.

It maybe at the end of the day, there won't be any changes or changes of a minor nature but there has been some, I consider to be some relatively good changes come out of the meeting on October 26th, perhaps it might have come, it might have been better coming a little earlier but the complicated formula, it's complicated and it always can be improved and that's why it's so important to have these discussions between the First Ministers and the prime minister.

Wayne Collins (PC): So is it your understanding then, Mr. Murphy, that the panel of experts' job will be to examine closely this measurement of the fiscal capacities of the formula itself? That's what

they're going to delve into? If the results of their delving into this and the recommendations they make indicate a less favourable financial picture for Prince Edward Island, what will you do?

Shawn Murphy MP: I would be totally opposed to that, but again—we have to hear what they say but again that's—the equalization is in the constitution and I assume they're going to get into some of the complicated fiscal formulas, user fees. I'm hoping it won't be disfavoured to Prince Edward Island.

Wayne Collins (PC): You mention it's in the constitution. I agree with you as well, it's there. But would you not agree, and you are a lawyer, Sir, that in that section, I mean really the power is vested with the federal government in terms of how ultimately the equalization principle will be adhered to. Ultimately there's the federal government that makes that decision, despite the fact that we talk about First Ministers meeting and consulting and that's basically all they're doing. The First Ministers of the provinces certainly can't dictate what the equalization will be or how we'll achieve that goal stated in the constitution. Do you not agree that, I mean, that's the situation that it is the federal government that ultimately has control of this issue?

Shawn Murphy MP: The ultimate decision would be made by parliament, yes. But as you know, the premier will tell you that these and your Minister of Finance will tell you, the Provincial Treasurer, these discussions take place at length several times a year and it's a changing—this is a changing complex instrument. I'll tell you right now. If we were having a discussion three years ago on equalization, the only issue that would be discussed would be the ceiling on equalization. I've got the submission that was made by this government to the Senate committee. That was the only issue. That though the lobbying of this government, the lobbying of the Members of Parliament was eliminated, unfortunately, it didn't have any affect at all or for minimal affect because of the change in economic circumstances of other provinces and it is a—it's an evolving situation involving the horizontal fiscal imbalance of Canada.

Wayne Collins (PC): But have there not been some tremendous aberrations, if you will, in terms of the federal control of equalization in terms of how it divvies things out especially when it comes up

with some new rules that govern the formula in a sense. I point to the new rules governing mining tax measurements and that has caused Prince Edward Island, are you aware, \$4 million a year? This is in regard to peat moss, I mean, as a mining resource on PEI.

Shawn Murphy MP: Mr. Chairman, my understanding there hasn't been any major significant changes other than the October 26th changes we talked about. I am not qualified to talk about the individual 33 components that make up the equalization formula. Again, as the member quite rightly points out, this is a complex, complicated formula. I don't know how peat moss is treated in the equalization formula. I assume it's complicated.

Wayne Collins (PC): I understand whatever way it is treated, it's a loss of \$4 million to Prince Edward Island. And again it's the federal government that's able to tinker with those 33 factors and causing certain aberrations in the payout of the equalization, sometimes to the benefit of a province like Saskatchewan recently and Mr. Goodale did well by them. It was kind of an arbitrary move. I think they get about a \$500 million extra in Saskatchewan and whereas Prince Edward Island in terms of one of those factors gets penalized to the tune of \$4 million regarding mining resources. Whoever thought of Prince Edward Island as a great mining resource area? But that's all the questions, I have. Thank you, Mr. Chair.

Ron MacKinley (L) (Chair): Now Mr. Chairman, equalization, a question I got for you, the infrastructure program, the MRIF is not signed yet, I believe. Does that come off our equalization? Let's say we got equalization here and we get so many million from the federal government in this infrastructure program, does that come off our equalization?

Shawn Murphy MP: The Municipal Rural Infrastructure Program is in no way related to the equalization program in any way, shape or form related or connected.

Ron MacKinley (L) (Chair): Alright, so another question I have for you, is it's in no way related so that's extra money. Has the MRIF program been signed yet? That's so many million more coming to the Province of PEI. Has it been signed yet?

Shawn Murphy MP: Not to my knowledge.

Jim Bagnall (PC): (Indistinct)

Ron MacKinley (L) (Chair): Just wait now, why is the province holding up signing that, like if they want more equalization but here's an opportunity to get more money into the province.

Richard Brown (L): Forty million.

Ron MacKinley (L) (Chair): How much?

Richard Brown (L): Forty million.

Ron MacKinley (L) (Chair): Here's extra money, like it almost looks like—I'll reverse the question like Mr. MacAleer said. Is it the four MP's not wanting to see money coming to PEI or is it the premier and his cabinet not wanting to see money coming to PEI, especially in the last federal election? Maybe that's what's going on here. Have you see any of that? I'll reverse the question and put it back to you because if the MRIF was signed, how many dollars would that amount coming into the Province of PEI? Do you know/

Shawn Murphy MP: Well Mr. Chairman, if I may, the amount I think probably—you're asking me the question but probably everyone knows the answer—it is \$18 million of federal money. But I really, Mr. Chairman, in fairness to, I guess, other witnesses, equalization is an important concept. I think it's something that the committee is doing good by—I don't feel comfortable in getting into a partisan debate. . .

Ron MacKinley (L) (Chair): We're not in a partisan debate.

Shawn Murphy MP: . . . and all this and some of the comments being made.

Ron MacKinley (L) (Chair): You're the MP, you wanted the job so answer questions.

Shawn Murphy MP: I'm a MP but this issue, it's important to Prince Edward Island. It's important that it's done right and I'm pleased with the agreements that were made on October 26th, I think it's very beneficial to Prince Edward Island and hopefully, any changes made in the future will be as equally beneficial to this province.

Ron MacKinley (L) (Chair): So you don't want to talk about the MRIF, do you?

Shawn Murphy MP: Well, if it's the committee's. . .

Ron MacKinley (L) (Chair): You're the MP.

Shawn Murphy MP: I'm the MP and I will talk about the MRIF if it is the committee's pleasure. I came here. . .

(Inaudible Comments)

Shawn Murphy MP: . . .and I am quite prepared to—I know about it but again, if that's the wish of the chair.

Ron MacKinley (L) (Chair): Now another question I'll put to you, right to you. Back on March the 9th, there was allegations made here that the four MP's were involved in handing out the infrastructure money. Is that true or not?

Shawn Murphy MP: You'll have to repeat the question slowly, Mr. Chairman, I didn't. . .

Ron MacKinley (L) (Chair): Well back here in March the 9th when we had the Auditor before us, 2004, the comments were—alright, here's one from Mr. Bagnall. How come we're being announced that programs are coming through with the federal government making all announcements as who's going to be getting what projects and who it's coming through? I mean, isn't this where, isn't it broken down? Where has the system broke down? Because right now, the MRIF program that we're talking about, the feds are telling us who's going to be approved, what's going to be approved? It's just a slush fund for the federal Liberals coming through. That's what he said as quoted in the minutes. What's your reaction to that? You're the cabinet minister, I believe, for PEI. Isn't that right?

Shawn Murphy MP: Well Mr. Chairman, I have to disagree with that statement.

Ron MacKinley (L) (Chair): Alright.

Shawn Murphy MP: The infrastructure program, the first round came, I believe, in the 93/94 fiscal year. I submit to the committee that it's been very successful to Prince Edward Island and the

communities of Prince Edward Island. The program, and there's been three rounds, I believe, and they basically all work the same. There is a federal/provincial committee and there's general parameters such as a certain percentage green, water, sewer, there is some exclusions, but very lose in general. The actual projects come from the municipalities involved and they decide. A little more complicated perhaps in rural areas but in the district that I represent and the district that Mr. Collins and Mr. MacAleer represents, these projects would come entirely exclusively from City Council. They would decide which ones.

Ron MacKinley (L) (Chair): So City Council would decide it?

Shawn Murphy MP: Yes. I have no input into the Brighton Sewer project or the. . .

Ron MacKinley (L) (Chair): So what you're saying then Wayne Collins, a quick question to the chair, do you think then, then based upon your statement, that is correct and fine for the federal government to arbitrarily announce which projects is going to support, going to be supported without consulting with either of the other two parties? Is it correct for the federal government to arbitrarily do that? And what you're saying is that's not correct. Is that what you're saying?

Shawn Murphy MP: No.

Wayne Collins (PC): The question I posed and Mr. Murphy, you were very correct in saying that in the previous round of infrastructure it was the co-operative venture of both levels of government assessing the municipal applications, if you will, that they agreed upon to have a structure set up for reviewing and evaluating all of those various projects, correct? And it seemed to have worked quite well to everyone's satisfaction, that round of infrastructure projects and I congratulate both levels of government for it.

My point back in March was that we were reading in the paper that quoting some Members of Parliament from Prince Edward Island saying that such-and-such a project is going to receive federal funding and by golly, if the province would just get off the pot and start getting involved here, they can get their money. Now that sounds rather arbitrary, wouldn't you agree?

Shawn Murphy MP: You'd have to be specific on the project, like the projects that you and I work with the subdivision escapes me there in your riding, Highfield Heights, the Brighton Sewer projects, the . . .

Wayne Collins (PC): Yes, good job. Yes, it certainly was.

Shawn Murphy MP: . . . the Charlottetown Waste Water Treatment Plant, the money that went into the Aquaplex, these did not come from me. They came from City Council.

Wayne Collins (PC): That's right and supported by both levels of government, federal and provincial.

Shawn Murphy MP: And all good projects, I should add.

Wayne Collins (PC): It was decided upon by both levels of government.

Ron MacKinley (L) (Chair): So what were you talking about the day you were here?

Wayne Collins (PC): My point was that we were saying that the MP's were arbitrarily announcing support for upcoming projects, you know, that history has been one of co-operation and I applaud the various levels of government.

Ron MacKinley (L) (Chair): (Indistinct) But I think what they meant was if you sign the MRIF, the program, MRIF program what they're saying, these programs could be approved or would qualify. You guys never signed in your government.

Wayne Collins (PC): It isn't a question necessarily of co-operation in wanting to do something like that. It's a question of fiscal capability.

Ron MacKinley (L) (Chair): Well, you have all kinds of money.

Jim Bagnall (PC): May I ask a question?

Ron MacKinley (L) (Chair): Yeah, go right ahead.

Jim Bagnall (PC): On the MRIF program, Mr.

Murphy, how many jurisdictions across Canada have signed that MRIF? It is my understanding that nobody has signed it. Is that right?

Shawn Murphy MP: Nobody, I believe, has signed it but they've all indicated a clear intention that they will be signing it, all ten provinces except Prince Edward Island.

Jim Bagnall (PC): But nobody has signed it as of date.

Shawn Murphy MP: No, they haven't signed yet.

Ron MacKinley (L) (Chair): PEI just wants the cheques added on.

Wayne Collins (PC): How do you define a clear intention to sign? Like something on paper?

Shawn Murphy MP: An expression, Mr. Chairman, and again these are agreements have been-the strategy and the methodology is well established and the committee is well established and again, it is in every other province so it's a matter of going forward. If that is the wish and I'm not going to get into the reasons why, it's a decision by the federal government or the provincial government.

Ron MacKinley (L) (Chair): I just want to get it cleared up that it's made by the three parties, once the agreement is signed.

Jim Bagnall (PC): Mr. Chair, my question is, I guess I just wanted to ask you a couple of questions. Your title now, Mr. Murphy, and I just want to make sure is you're the MP for Charlottetown plus what other duties do you have?

Shawn Murphy MP: I would be, in addition to the Member of Parliament for Charlottetown, I'm the Parliamentary Secretary to the Minister of Fisheries and I'm also am the member with political responsibilities for Prince Edward Island.

Jim Bagnall (PC): Okay.

Ron MacKinley (L) (Chair): You are the one who announces the MRIF program.

Jim Bagnall (PC): So my question to you would be. . .

Shawn Murphy MP: You overestimate my ability and my. . .

Jim Bagnall (PC): Am I right in assuming that you are probably the number two person on the totem pole in the fisheries industry in Canada.

Shawn Murphy MP: I never seen a totem pole but what I am is the parliamentary secretary to the Minister of Fisheries. If the minister is not in the House of Commons, I will be there to answer questions. I would be given other functions. I'm actually, Mr. Chairman, given a specific assignment to try and marshal and implement the Canada's Ocean Action strategy and that's probably my biggest function be of that department and that's a major undertaking.

Jim Bagnall (PC): I guess, you know, I'm looking here and I'm looking at the situation and I wonder, you know, we've had the herring situation here on PEI and there was a big fishermen's rally and stuff on the weekend, Saturday . . . Sunday. And as being the second person in charge of fisheries in Canada, why wouldn't you attend that as part of the province and support our fishermen?

Shawn Murphy MP: Mr. Chairman, I had three different functions on on Sunday afternoon. I had an event at the Daniel J. MacDonald building, I had a presentation I had to make to the Association of Prince Edward Island Firefighters and I had another engagement. I have been in contact with the ladies that organized that particular event and I'm meeting with them this Saturday morning at my office at 10:30.

Honourable Robert Ghiz (L): Were you there?

Jim Bagnall (PC): No, I wasn't there.

Ron MacKinley (L)Chair: Where were you?

Jim Bagnall (PC): I'm not the second person in charge of fisheries in Canada and right here in Prince Edward Island where we have an important issue and are dealing with the facts of the 17 fathom to the 25 fathom that I think that we don't seem to be getting support from. I mean if our own MPs can't show up on an issue of fishery that's in charge of fisheries in Canada can't be there I just wonder, you know, are we not losing our whole economy?

Ron MacKinley (L)Chair: Richard, you're next.

Richard Brown (L): I want to thank the minister for coming.

Shawn Murphy MP: I'm not a minister.

Richard Brown (L): Well, (indistinct). But first of all I want to say that the deal that has been hammered out, Mr. Chairman, in October means an extra \$28 billion over ten years in the equalization program. We had a presentation here from our minister of finance or our provincial treasurer Mitch Murphy which made some really good arguments and I was quite impressed by his arguments, in particular on the per share basis and the per capita basis and his comments are that basically on a per capita basis, on per capita we receive about 8.8 per cent of the money and on a per shared basis we get 2.6 per cent of the money roughly. So 2.6 percent of \$28 billion, Mr. Chairman, that's about \$750 million that the province is going to see, new money coming into this province over ten years. A substantial amount of money.

But I agree with Mr. Collins and the other members around the table, if it's on a per share basis or on a per capita basis basically we're looking at maybe a three or \$400 million loss there. That's a substantial loss and I hope that our Premier and this committee should affirm this, that we're opposed to a per capita basis and our Premier should go there and not give up two or \$300 million in equalization payments, Mr. Chairman. He should be like Danny Williams and if we're going to lose that much money he should walk.

Ron MacKinley (L)Chair: I think, Mr. Brown you could put a motion at a later date.

Richard Brown (L): But one more thing, Mr. Chairman, of all the information I got and on the First Minister's website it is stated - For 2005, 2006 the federal government will make, will have to make a decision about the share for the \$10.9 billion in equalization after the consultation with the provinces. So if you read that the decision hasn't been made on 2005-2006. So we should really reiterate here and ask our Premier that that doesn't, that the formula stays what the Constitution says and what the minister of finance has said. We must fight for the formula to stay at that level and quite honestly if it's going to change the Premier shouldn't agree to the changes and, you know, he

should be upfront with us and say that this is bad. I'm not going to vote for it.

Wayne Collins(PC): He's the one ringing the alarm bells on it.

Richard Brown (L): No, no.

Ron MacKinley (L)Chair: Not loud enough.

Richard Brown (L): Danny Williams is ringing the alarm bell. You know, we haven't heard one thing from our Premier.

Ron MacKinley (L)Chair: Saying one thing in Ottawa and something else down here.

Richard Brown (L): Yes, he's going to Ottawa, you know. I never heard him on the national news saying this is a bad idea. He had two days during the hearings and he came back this is a world class deal.

Ron MacKinley (L)Chair: Lucky we had our four MPs up there.

Richard Brown (L): We stand to lose \$200 million. No world class deal to me. So Mr. Chairman . . .

Honourable Robert Ghiz (L): He was already up there and . . .

Ron MacKinley (L)Chair: Now listen, Mr. Brown has the floor, gentlemen. Let him go.

Richard Brown (L): Mr. Chairman, you know, we passed a resolution in this committee and I think we should resend it that when this formula is being negotiated for 2005-2006, hopefully it's not done yet, hopefully they didn't agree behind closed doors. Like you take, if five people sitting around the table or 10 people sitting around the table, hopefully New Brunswick or Nova Scotia wasn't bought off with its offshore deal and Newfoundland bought off with its offshore deal. You know. Hopefully we got something. If they offshore revenue hopefully we got some additional money in this formula mix when they went behind closed doors and worked out this secret deal.

So, Mr. Chairman, I hope the government members of this committee go back to their caucus and say,

Mr. Premier, you agreed to a change in this formula from the Constitutional requirements here, that you cannot agree with this, Mr. Premier. You cannot agree and this committee supports, you know, the Public Accounts Committee. You have liberals onside saying, Mr. Chairman, that you don't agree to this. And we will be with our premier if he chooses to fight for Prince Edward Island on this matter, Mr. Chairman.

Ron MacKinley (L)Chair: Now, if you just want to go back to a little history - I think it was '95, '96 - CHST, the formula was agreed to by then the premier of the province when he went to office to change that. And under that agreement was they were supposed to work on more equalization for the province of PEI, which has been coming through slowly, but it's been coming through. But if you go back the formula was changed in '95, '96. Patricia could tell us that. She was there too. Exactly when it was. This gentlemen here first.

Andy Mooney (PC): Mr. Murphy, a couple of points I want to throw out. Geoff Regan basically stated in the media that the herring stocks are not Prince Edward Island's stocks to protect. It's the people of Canada's resource. And that's fine. That's the argument he's using. But yet the province of Quebec, around the Magdalen Islands, can put a 12 mile zone in to protect their fish. South West Nova I believe has a 20 mile zone. But using that same argument it's Canada's resource, it's not the people of any one province. With the Northern shrimp allocation, there's a quota. Just in the last number of years there's 48 thousand metric ton of new quota has been allocated and at one point the minister of fisheries from Canada was from Newfoundland and he was honest and forthright enough to tell our minister of fisheries outside a meeting it's politics and this quota allocation is going back home to the boys back home because I've got to fight an election. He said I might as well be upfront and tell you. At least he was honest with it.

Ron MacKinley (L)Chair: Who was that?

Wayne Collins(PC): Mifflin.

Ron MacKinley (L)Chair: Oh, Mifflin.

Andy Mooney (PC): The bottom line is you can't use whatever argument you want. Either they stand by it, the science and it's Canada's resource

or it's not. They're letting some provinces protect and some not. When it came to the tuna allocations it was straight 100 per cent politics that determined the tuna allocations. It had nothing to do with Canada's resource. The minister of the day, Thibeault, put the quota allocations in his back door for an election run.

So I tell you, I'm frustrated and I don't buy this argument one darn bit, with this Geoff Regan. I think he's just being slippery with the issue. He should be straightforward and come out and tell it as it is. And the bottom line is our two major industries here on the Island in fisheries is lobster and tuna. And tuna are not coming along our North Shore just for the beautiful scenery. They're following the food. And the bottom line is if they fish out our herring our tuna industry is going to be gone as well. It's, the last few years our tuna boats have been doing well but it's all connected. And the thing is last spring I've even gone out a few days with lobster fishermen and they told me point blank they can't catch enough herring for bait in the spring since these seiners started pounding. And if they're not fishing and cleaning out stocks why are they moving from the Bay of Chaleur.

The bottom line is there's no science saying why they've only caught 12 per cent of their catch in the Bay of Chaleur. They can catch 88 per cent off our waters. And for them to make the comment that we're going to move these seiners out 20 fathoms from 17 but then don't worry seiners, we're going to give you a scientific fishery to let you pound away inside 20 fathoms to catch 15 per cent of their stock, I don't buy it for one minute. The fishermen out our way don't buy it.

And we don't buy the fact that we've got four MPs in a minority government that if you fellows put the gears to the federal government and said either fix this because it affects the economy of Prince Edward Island. And if it doesn't affect your district I'll tell you, all the fishermen out home if they're doing well they're buying trucks. And there's no truck dealerships in my community. They're coming to Charlottetown. So I think if there's ever an issue for you fellows to dig in and take a stand in it's this because I tell you, you are affecting an awful lot of families. There's a lot of people upset and I don't blame them one iota. And I just hope that the four of you fellows will take the same stand as the people from Newfoundland will take. When an issue's going to negatively affect their province

they say either fix it or we're going to go across the floor and I just pray you'll do that. And I'm not standing here because there's media, because there's not. It's a message that I just want to get through.

Ron MacKinley (L)Chair: I have a question for you, before you cross the floor or think of crossing the floor, before you do that or even think of it, who's the fishery critic for the Opposition Party in Ottawa?

Shawn Murphy MP: The fisheries critic would be Loyola Hearn.

Ron MacKinley (L)Chair: Pardon?

Shawn Murphy MP: Loyola Hearn, member for (indistinct), St. John's South, Mount Pearl.

Andy Mooney (PC): And he's brought the question up well before.

Jim Bagnall (PC): He did.

Ron MacKinley (L)Chair: I just wondered. Has that critic brought this situation up?

Shawn Murphy MP: Mr. Chairman, I couldn't give a definitive answer. Not when I've been in the House but I'm not saying he didn't. He may have. I don't know. The best way for me to answer the question is I don't know.

Ron MacKinley (L)Chair: I just wondered. I think Wayne Easter or somebody was right in the paper there today. You need as many people working on this as possible.

Andy Mooney (PC): He did bring it up.

Jim Bagnall (PC): I met with Loyola Hearn just before the previous election and he stated that yes, he did bring this issue up. He's brought it up three times in the House.

Shawn Murphy MP: Oh, I understood the Chairman's question was just recently. You could be right on that point.

Ron MacKinley (L)Chair: Whatever. I just want to check it out because you need as many up there as you can. It's something the same as the

Premier. The Premier needs as much help from you people up there as anybody because it's a big world when you get out there. There's more than just Prince Edward Island. So the more help the better.

Wayne Collins(PC): I've just got to say that Mr. Martin made a terrible mistake when he didn't heed the advice of the Honourable Leader of the Island Opposition when he suggested that the next minister of fisheries should be a member from Saskatchewan. And I think we've got to take the politics out of it and that's probably the best solution to it. And I'd endorse that as well.

Andy Mooney (PC): So would I.

Wayne Collins(PC): The next cabinet shuffle someone from the prairies should be in charge of what's happening on the oceans.

Ron MacKinley (L)Chair: So what you're saying is somebody from the Opposition should be . . . what you're saying, Mr. Younker or Mr. Collins, is that you figure somebody from the Opposition should be minister of highways.

Shawn Murphy MP: Mr. Chairman, if I could address that. The only member of Parliament that the Liberal party has in Saskatchewan is the Honourable Ralph Goodale and I don't think he'd be that interested in transferring from finance .

Ron MacKinley (L)Chair: To fisheries. (Laughter)

Jim Bagnall (PC): Of course there's be one other solution. That if you were made minister of fisheries then we'd really put the (indistinct) in.

Ron MacKinley (L)Chair: Anyway I think our time's up.

Wes MacAleer (PC): Mr. Chairman, just before Mr. Murphy leaves there was a discussion here and a suggestion made, and I hope we're not being factious, that when this panel of experts is convened that there in fact be representatives from the beneficiaries from this equalization and hopefully a representative might be coming from this province. We should strongly recommend, you know national panels tend to take on the characteristics of the people that form them. And no greater need as those who have the need and I

would suggest that I will be making a motion to the effect but I just wanted Mr. Murphy to realize that I think that our cause might be well served by having somebody remind the panel every time they meet which means that having somebody on the panel from those provinces who might be potential beneficiaries, PEI being certainly the top of the list.

Andy Mooney (PC): I'd rather see them stay with the formula now. Beware of the panel because if they go at a panel, I'll tell you, Wes, it's going to be misery because they'll just play politics with it.

Ron MacKinley (L)Chair: I want to thank, Mr. Murphy for coming here today and taking your time and answering numerous questions.

Shawn Murphy MP: Well, Mr. Chairman, if I could make one final comment, one of the members asked me what my duties were, one of the additional duties I forgot to mention is I'm also a member of the Public Accounts Committee in Ottawa and I can tell this committee that the administration and chairmanship of the federal committee is nothing compared to the job you do, Mr. Chairman.

Ron MacKinley (L)Chair: Well, we try to get to the bottom of things here. That Mr. MacWilliams, I thought he was working for you guys in that enquiry when I was watching him. (Laughter) Anyway, you're excused.

Shawn Murphy MP: Thank you very much.

Ron MacKinley (L)Chair: I want to give Mr. Murphy, on behalf of the committee, thanks for coming before this committee. You knew that there would be a few shots one way or the other and I want to thank you. Out of the four MPs we tried to get, at least you, Mr. Murphy, you showed up to this one. We had asked before for committee members to come and I think you deserve credit for coming and thank you very much on behalf of the committee.

Shawn Murphy MP: Pleasure.

Ron MacKinley (L)Chair: And keep the money coming to PEI.

Shawn Murphy MP: Thank you very much.

Jim Bagnall (PC): Mr. Murphy, just going back to

the MRIF for one second, do all provinces have to sign on that for it to be . . . or can each province sign on on an individual basis?

Shawn Murphy MP: Each province can sign on on an individual basis and, no, there would be no requirement that every province sign on.

Jim Bagnall (PC): When do they hope to get some provinces signed onto it because nobody has as yet?

Shawn Murphy MP: Oh, I can't answer that question. I don't know what state it is. Like in some instances we're still working on old infrastructure. And we are in Charlottetown too. The major projects in my district, the Brighton sewer matter, which is an old infrastructure program and the Charlottetown Waste Water Treatment, which is part of the strategic plan is on the old plan, and the town of Stratford which I used to represent 70 per cent of, they got money for the strategic and that was over a five year plan and I think they've probably just completed two years of the five year process that they're involved in. But what may be complicated a bit, Mr. Chairman, is this whole city's agenda coming down the tubes too and it might be good to get some kind of a resolution for that before the city's discussion gets into high gear and where we're going on that issue because the present plans, and that will become more clear when the federal budget is tabled in February, but there is some talk of that being implemented as of April 1, 2005.

Jim Bagnall (PC): So is this new MRIF going to be administered the exact way as the old programs were, I mean the provincial and the federal government and the municipalities sitting down to distribute the money. Because that's how it was done.

Shawn Murphy MP: My understanding it would be the exactly the same with the same committee in place, Mr. MacMillan I believe and Mr. Beck and two other people. And with the municipalities, I know it's a little more complicated out in the district that Mr. Easter would represent where you have perhaps competing municipalities that would be looking for . . .

Ron MacKinley (L)Chair: Easter's got all kinds of money.

Shawn Murphy MP: . . . looking for infrastructure money. It's certainly not in the district I represent. It's not all complicated because there's only one municipality.

Ron MacKinley (L)Chair: Anyway, thank you very much. We'll call Mr. Younker before us and Mr. Moore.

Wes MacAleer (PC): Mr. Chairman, is it appropriate that I move a motion at this point?

Jim Bagnall (PC): A motion is always in order.

Ron MacKinley (L)Chair: Yes, a motion is in order.

Honourable Robert Ghiz (L): You guys have changed your attitude on motions.

Wes MacAleer (PC): Well, just before we begin another area of discussion I would move that should the federal government convene a panel of experts to provide advice on the future allocation of payments under an equalization formula that a representative . . . no, that a position which would be filled by a member from an equalization receiving province be made on this panel and preferably that representative would be a resident of Prince Edward Island.

Ron MacKinley (L)Chair: All in favour? Any discussion on the motion?

Honourable Robert Ghiz (L): I'd like to place an amendment on that motion.

Wes MacAleer (PC): Do you remember what I said.

Honourable Robert Ghiz (L): Yes. And that amendment would say when the person from the have not province that would be placed on, with emphasis on Prince Edward Island . . .

Wayne Collins(PC): Receiving province.

Honourable Robert Ghiz (L): What's that?

Wayne Collins(PC): Receiving province.

Honourable Robert Ghiz (L): Receiving province. I think it should be just a member from Prince

Edward Island. If there's somebody on there from Saskatchewan, I'd rather see someone on . . . for example Quebec's a receiving province, is it not. They're for per capita, are they not?

Wayne Collins(PC): Yes.

Honourable Robert Ghiz (L): So if in fact we go with this and they do appoint somebody from a receiving province, from Quebec, and then they said well, we did what your thing did and we thought about this, well then we still lose out. So I think we should emphasize there should be someone from Prince Edward Island.

Wes MacAleer (PC): Fair enough. Okay.

Jim Bagnall (PC): I have no problem with that.

Ron MacKinley (L)Chair: Discussion over with.

Honourable Robert Ghiz (L): It's a good thing I'm on this committee to make sure that we're . . .

Andy Mooney (PC): My only point is by putting this resolution it almost puts some weight that we're agreeing what they're looking at. And myself I'm completely opposed because if you have a formula, a formula is a formula. You know what I mean.

Richard Brown (L): I agree. Good point.

Wes MacAleer (PC): I said that should the government of Canada.

Ron MacKinley (L)Chair: Yes, but what he's saying is, I think it's in the paper. Basically what we're doing is agreeing to the new formula.

Honourable Robert Ghiz (L): I disagree with the honourable member from Souris-Elmira, Mr. Chair, and I'll tell you why I do. There's a lot of good committees there. For example, the Auditor General, he's supposed to be independent. You're worried about this being political. I think the reason why we're doing this is to take it out of the political realm so that people cannot be critical of the equalization formula and if we are so correct, which we believe we are, on how equalization should be implemented according to the Constitution and the people that are appointed to that committee therefore follow what the Constitution says and we believe that's in our best interest then we have a

defence for those people that are saying, from Ontario and from Quebec, that all we are is basically looking for more money from the federal government. So I think this could prove to be something beneficial for Prince Edward Island.

Andy Mooney (PC): So if the Prime Minister picks a dozen old cronies of his and says we're heading into an election you decide what we'll put in the equalization formula.

Honourable Robert Ghiz (L): I guarantee it's not going to be like that.

Ron MacKinley (L)Chair: Anyway I sort of . . . I think what Mooney . . .

Richard Brown (L): Better than the premiers putting together a committee.

Ron MacKinley (L)Chair: I think what Mooney's idea is here is look, we put this motion through now more or less we're backing this new idea without the Premier making up his mind. Right now the Premier of the province has got a lobby on there that they want it better, like they don't want it by per capita. They want it by need. So they're going to have to fight that one. So then all of a sudden they go by need, per capita and put in this committee and the Public Accounts Committee agrees to it, well then we sort of cut the feet. I think we'd be better off leaving this with the Premier then for now, my own personal opinion, until they decide what they're going to do and then go from there. Nothing against, nothing wrong with the motion but I'm just saying that . . .

Richard Brown (L): How'd your last motion get along, that we sent off to Ottawa?

Ron MacKinley (L)Chair: Oh, they don't even listen to me.

Wayne Collins(PC): Shaking in their boots now.

Ron MacKinley (L)Chair: Anyway it's up to you fellows.

Wes MacAleer (PC): Well, Mr. Chairman, if you think the federal government is going to make a decision on this issue in isolation, thoroughly on the basis of political considerations, I would say that you're underestimating the complexity of the issue and anybody that has knowledge of the history of

this issue would know that it didn't start yesterday and it won't end tomorrow and this panel will be just one of a series of panels that this government will implement in order to get advice on the issue. Politics will in fact enter into the final decision.

Honourable Robert Ghiz (L): I know I'm low at the totem pole according to Wes and Wayne.

Wes MacAleer (PC): Unless we're there at the beginning they will forget about the fact that we have a role to play in this and unless we ask for that role we won't get it.

Ron MacKinley (L)Chair: Mr. Bagnall will be the last comments.

Jim Bagnall (PC): The only thing I would suggest, Honourable Member, is would you consider holding that off until our next meeting and take some time in putting in that motion.

Richard Brown (L): Good point.

Ron MacKinley (L)Chair: Let him check with the fifth floor.

Jim Bagnall (PC): No, I'm not comfortable with it because it's not in front of me to read and to go through, whether I want to forward it or not.

Honourable Robert Ghiz (L): Well why don't you call Peter McQuaid right now and he'll tell you . . .

Jim Bagnall (PC): If you could hold that off until the next meeting and bring a motion on the next meeting.

Richard Brown (L): No, Rossiter's back.

Honourable Robert Ghiz (L): Oh, Rossiter's running the (indistinct) now.

Ron MacKinley (L)Chair: All right. Is it okay with the mover to withdraw the motion?

Honourable Robert Ghiz (L): I vote in favour of the motion.

Richard Brown (L): I vote in favour of the motion.

Ron MacKinley (L)Chair: No, there's no vote on

it. The mover withdrew the motion.

Honourable Robert Ghiz (L): No, the mover introduced a motion.

Ron MacKinley (L)Chair: Could we have a show of hands for the mover to remove the motion?

Wes MacAleer (PC): I'll withdraw the motion for one meeting.

Ron MacKinley (L)Chair: No, we have to get unanimous consent. We need . . .

Wes MacAleer (PC): I'll be back.

Ron MacKinley (L)Chair: We don't.

Marian Johnston (Committee Clerk): Just want it delayed until next meeting?

Honourable Robert Ghiz (L): No, I want to vote.

Ron MacKinley (L)Chair: They want to vote on it now.

Marian Johnston (Committee Clerk): The amendment.

Ron MacKinley (L)Chair: All right. We'll vote on the amendment. All in favour of the amendment raise your right hand. All right. Amendment defeated.

Marian Johnston (Committee Clerk): Now, back to the original motion.

Ron MacKinley (L)Chair: No. All opposed to the amendment?

Wayne Collins(PC): Opposed to the amendment.

Richard Brown (L): You don't want somebody from PEI on the panel.

Honourable Robert Ghiz (L): This is good. A member introduces a motion (Uproar)

Ron MacKinley (L)Chair: Now, on the motion, are you all in favour . . . the amendment has been defeated . . . are you all in favour of the motion that's before us?

Jim Bagnall (PC): Can we speak to the motion?

Ron MacKinley (L)Chair: You can do whatever you want to do.

Wayne Collins(PC): As much as I respect Wes's intent in this matter I think that this motion is probably best presented if and when the federal government goes ahead and actually states quite clearly that they're going to appoint this panel. At that juncture I would be the first to support such a motion. But right now everything is so speculative and as we heard Mr. Murphy say earlier they're not even quite sure how they're going to handle '05-'06's top up there. It's not even, you know, 100 per cent. So there's a lot of if's here and I do agree with what Mr. Mooney had to say that by approving such a motion at this juncture we give almost tacit acquiescence to the concept and I'm not prepared to do that yet.

Honourable Robert Ghiz (L): But it's already in the agreement. Mr. Chair, in the agreement if you go to the federal government web site now, and it doesn't mention anything about next year, the per capita or the per share, but it does mention certain things that are already promised and that are going to be delivered and one of those things is an expert review plan. The same way that we went up from the 8.9 to the 10.9 million.

Wayne Collins(PC): Could you read it for me?

Honourable Robert Ghiz (L): Expert Review Panel - The Government of Canada will launch a public review of equalization and TFF by a panel of experts. The expert panel will be mandated to examine and provide advice to the government of Canada on a number of issues. The first of these is the allocation among provinces and territories of the annual equalization and TFF allotment. The expert panel will consider the representation tax system approach used in equalization and the current gross expenditure base approach used in TFF including the treatment of various territorial, provincial and local revenue sources such as natural resources. They will also examine alternative approaches to measuring fiscal capacity based on macro economic variables and, if appropriate, indicators of expenditure needs. The panel will also be asked to examine the mechanisms of annual changes to the allocation which reflect changes in the relative economic circumstances of the provinces.

Wayne Collins(PC): I didn't understand that. You're saying it's a definite intent as expressed. The federal government is going to appoint this panel of experts.

Honourable Robert Ghiz (L): I'm saying it's right here. Exactly.

Wayne Collins(PC): Well that does, and I appreciate your bringing that to my attention. That changes the lay of the land a little bit for me. If they're going to do it, well, we might as well get our oars in the water as fast as we can in that case.

Jim Bagnall (PC): We have a vote, he called for a vote on the . . .

Ron MacKinley (L)Chair: Are you all in favour of Wes MacAleer's . . .

Honourable Robert Ghiz (L): No, we've got to go back to the amendment.

Ron MacKinley (L)Chair: The amendment was already defeated. The amendment was defeated.

Jim Bagnall (PC): There was only two people voted.

Ron MacKinley (L)Chair: It doesn't matter how many. One voted for it and three voted against it. The amendment was defeated.

Wayne Collins(PC): The amendment was defeated.

Jim Bagnall (PC): Okay, the amendment was defeated.

Ron MacKinley (L)Chair: What we have got right now is Mr. MacAleer's motion on the floor.

Honourable Robert Ghiz (L): This is good because this is your Executive Council money, the \$5500 you receive, now you're at work because you have to make the decisions on your own and I like to see how you're fighting. This must be like a caucus meeting.

Ron MacKinley (L)Chair: Okay, we'll take a vote of Mr. MacAleer's amendment, no, motion.

Jim Bagnall (PC): I'd like to make an amendment

to the motion on the floor.

Ron MacKinley (L)Chair: No, you can make it after. But the motion is on the floor. All right, make it.

Jim Bagnall (PC): Thank you. Well, in that case if we're going to support it I would . . . (Uproar)

Wayne Collins(PC): (Indistinct) close to the federal government well we have to have some kind of a response and I think Mr. MacAleer's hit the nail right on the head.

Ron MacKinley (L)Chair: Whatever.

Honourable Robert Ghiz (L): A minute ago he was dead wrong. Now (indistinct)

Wayne Collins(PC): Because I wasn't expecting this thing on the part of the federal government.

Jim Bagnall (PC): A person from Prince Edward Island serve on the committee.

Ron MacKinley (L)Chair: The same as Robert Ghiz said. Same motion as Robert that was defeated. So can you defeat a motion and then come back with the same motion, the same meeting?

Jim Bagnall (PC): You can make 15 amendments to it if you want.

Marian Johnston (Committee Clerk): No, it should be slightly different.

Ron MacKinley (L)Chair: Well, it's got to be slightly different. It's not different. So you've got to make it different.

Jim Bagnall (PC): It's already done.

Ron MacKinley (L)Chair: No, it's not different. It's got to be slightly different because we already had an amendment on the floor that was defeated and the intent of that amendment was to appoint somebody from PEI.

Jim Bagnall (PC): Can you tell me what was in that amendment?

Wayne Collins(PC): Can we get a reading of the

motion and the amendment, both, so we understand exactly what we're voting on, Mr. Chair? I'd appreciate that.

Honourable Robert Ghiz (L): I'd like to apologize to the people from the Auditor General's office for this delay.

Jim Bagnall (PC): I'll change that motion to have a person on there, in that position.

Ron MacKinley (L)Chair: I'm going to call the vote on the amendment. Are you all in favour of it?

Committee Members: Aye, aye.

Ron MacKinley (L)Chair: Motion passed.

Honourable Robert Ghiz (L): Was Mr. Mooney in favour of the amendment?

Andy Mooney (PC): Yes, and I'll qualify. I'm in full agreement with somebody from Prince Edward Island being on this committee that's reviewing. But I'm completely and utterly opposed to them scraping the formula that's in place now.

Richard Brown (L): I'll agree. But we don't know if they're going to scrap the formula.

Honourable Robert Ghiz (L): We all agree to that.

Andy Mooney (PC): But that's what they're working on now.

Honourable Robert Ghiz (L): Pat Binns should be up there fighting for it.

Richard Brown (L): The Premier said he's not going to allow that to happen.

Ron MacKinley (L)Chair: All right. All those in favour of the motion raise your right hand, those in favour of the motion. Motion is carried. All right, Mr. Younker, go ahead.

Honourable Robert Ghiz (L): That basically should have been my motion.

Jim Bagnall (PC): He wouldn't let us go back to it. I tried to.

Ron MacKinley (L)Chair: You can't go back to it. Had to change it.

Honourable Robert Ghiz (L): You can thank me for it. You know, it's us people low on the totem pole that have no say in anything can still do (indistinct)

Part II - Colin Younker, Provincial Auditor & Allan Moore, Audit Director

Ron MacKinley (L)Chair: Mr. Younker, will you start with a review of where you are on the Polar fiasco?

Colin Younker (Provincial Auditor): Do you want me to talk about equalization?

Ron MacKinley (L)Chair: No, we're not talking equalization. You're not on for equalization. You're the Auditor General following up update on . . .

Marian Johnston (Committee Clerk): He's actually got this first.

Ron MacKinley (L)Chair: Which?

Marian Johnston (Committee Clerk): Equalization impact on the province.

Ron MacKinley (L)Chair: Oh, all right. She wants you to talk about equalization first.

Colin Younker (Provincial Auditor): Our comments on equalization are very brief anyway. It just concerns the audit work of the dollar amount that's shown on the public accounts. So our involvement with equalization is the audit work of the amount that's on the public accounts. That's our involvement. The main part of that audit work is to confirm the balances with the federal government. Equalization in 2002-03 as reported in the Public Accounts was \$222.4 million. The figures include an adjustment of 16.8 million for October 2003. And the 2002-03 equalization figures would be the latest federal estimate for 2002-03 year plus any adjustments relating to 1999-2000, 2000-2001 and October 2003. So the number is made up of different numbers.

Just to give an example of that there's eight estimates on equalization over a four year period.

So the first estimate given in February '02 was \$247,239,000 and then in September '02 there was an adjustment for the final 1999-2000 calculation and the amount of that was \$403,000 upwards. And then October '02 there was a second estimate for the '03 year. There was a fourth estimate for the '02 year and then there was a sixth estimate for the '01 year. That was the \$301,000 adjustment down. And then February '03 there was a third estimate for '03 of \$10 million, 781 down. The fifth estimate for '02 was \$1,338, million up and for '01 it was a seventh estimate of 1,247, upwards for a net of 8,196 and then the last was in October '03, which was the final calculation for '01, which was a reduction of 484 and then the fourth estimate for '03 of 7,945 reduction and then the sixth estimate of 4,339 reduction for a total of 16,768. That's how we arrived at the number of 222,377 which is on the Public Accounts. So that's basically . . . we audit that number to make sure it's calculated correctly and our main source is confirmation with the federal government .

Ron MacKinley (L)Chair: Go ahead, Richard.

Richard Brown (L): My point, you're auditing the final number and the last, when the Minister of Finance was here, the Provincial Treasurer, the last time he was here I asked him for the spread sheet on the 32 indicators in each province and he provided that with me and I forgot it upstairs but it's pretty comprehensive. Although all of us claim that the formula is complicated when you look at the spread sheet and you look at what they do with it, it's not that complicated. Have you ever audited behind the number to say like, you know, is all the numbers according to the current formula right. Because maybe in that spread sheet there's an error that means a lot more money for us. Not saying that, you know, the group that negotiates now but maybe sometimes a second look at it to say, guys you left a number out here and you should take a look at this and if this number's adjusted. Because in the past, well we saw the federal finance department, you know, there was an audit done on them and there was a big adjustment that we're still paying for now in equalization or income tax and Saskatchewan is fighting it and maybe that's Goodale's question out there, is the income tax stuff. But have you audited the numbers behind the numbers to ensure that the formula is working?

Colin Younker (Provincial Auditor): The federal

Ag's office would audit the number. They would do the audit on the number.

Richard Brown (L): And do you get confirmation of it?

Colin Younker (Provincial Auditor): We have confirmation of it.

Richard Brown (L): Do you ever get that they audited it and the formula, the numbers that are on this spread sheet equate to the formula?

Colin Younker (Provincial Auditor): I'm not sure, Richard.

Richard Brown (L): Well will you confirm that? Because, you know, there's a set of numbers there and, you know, all it would take, you know, millions of dollars could be lost by a decimal point maybe. Well, that's, I think in that income tax one there was a decimal point error in the computer. There could be money there.

Colin Younker (Provincial Auditor): We'll get back to you.

Richard Brown (L): But if you find it the other way don't tell anyone. Thank you.

Ron MacKinley (L)Chair: Mr. Collins?

Wayne Collins(PC): We just finished discussing with Mr. Murphy a whole lot about the future of the equalization program. From your experience dealing with these estimates, back and forth and how they can fluctuate and change and there's surprises good and surprises bad in it all and there's a lot of talk about putting more predictability into the equalization scheme, is there anything you see looking ahead that would assure you that there's more predictability going to be put into this system or if you were on that panel of experts could you offer up an idea where there could be more predictability here so that provinces aren't caught short here?

Colin Younker (Provincial Auditor): I can't answer that, Wayne. I don't think I could answer that question. It's outside our realm.

Wayne Collins(PC): All right. I just thought I'd raise it because that's been the big hope of

everyone that we could be more predictable in what's coming forward. But the way it's been explained to us you get this sort of slotting. It's almost a mechanical type of affairs, quarterly estimates for four years going back. Is that what happens?

Colin Younker (Provincial Auditor): Yes.

Wayne Collins(PC): And then the bottom line is you're up one quarter for one year and the next quarter you might be down a little bit and then up a little bit before you finally get through with that year. Does it provide much of a headache to your department or is it just business as usual?

Colin Younker (Provincial Auditor): It's just a matter of conferring with the feds and making sure we have the most updated confirmation.

Wayne Collins(PC): I thank you then.

Richard Brown (L): Just one more question.

Ron MacKinley (L)Chair: Go ahead, Richard.

Richard Brown (L): Thank you, Mr. Chairman. In 2001-2002 Prince Edward Island got a \$17.8 million floor payment. What was that? Under equalization.

Colin Younker (Provincial Auditor): A what, payment?

Richard Brown (L): A floor payment. Floor. So we must have hit the floor. I notice, and I stand to be corrected, in some other public accounts books you see the equalization payment shown and then you see below it you've got prior year adjustments. So you can see how the adjustments are affecting our payments. Ours are all in one, our prior year adjustments and everything are in there. In one year the budget was presented where it showed how this is the formula, these are the prior year adjustments, this is how we come up with this number which was very good. You know, you could keep tracking it. Could you recommend or could this committee recommend that that be done in public accounts. At least then we see the adjustments that are being happening over the years. Thank you, Mr. Chairman.

Ron MacKinley (L)Chair: All right, if we could have our update now on Polar Seafood?

Colin Younker (Provincial Auditor): As far as the fieldwork goes on Polar we're about 90 per cent complete. Still some information outstanding. Still waiting for certain information. I understand we'll receive it in the short term. And the report, we're in the process of drafting the report. We still have to . . . the draft will have to be cleared, the files reviewed and our findings cleared. Our original time plan was to have the report completed this fall and we're still working on that time line. The final report will go to the Executive Council and will also be included in our 2005 Annual Report. And I really can't discuss or disclose any information on or about the report until we complete our field work and clear the draft and complete our files. That's the update I can give you at this point in time.

Ron MacKinley (L)Chair: Well, would not the report go to the Auditor's committee. We're the members of the Legislative Assembly. You work for us, you don't work for the premier's office.

Colin Younker (Provincial Auditor): Well, the request came, the way I understand it, and I think Marian and Charlie could perhaps clear it, Charlie MacKay, is that request came from Executive Council and it will go back to Executive Council. As far as our report in the Legislature it will be part of our annual report in 2005.

Ron MacKinley (L)Chair: I thought the report came from this committee, the request. We had a motion in this committee.

Jim Bagnall (PC): And it's going to come in their annual report that we get.

Ron MacKinley (L)Chair: But we had a motion for the Auditor to be called in to investigate Polar or do an audit on it before Executive Council made their request.

Jim Bagnall (PC): After.

Ron MacKinley (L)Chair: Was it?

Colin Younker (Provincial Auditor): I think the motion was, and I stand to be corrected, is that we were asked to look at Polar and then to bring back or include it in our annual report for 2005, bring it back for consideration of the committee during the consideration of our 2005 report.

Ron MacKinley (L)Chair: So when do you

expect us to get this report on Polar? When do you expect to have it on Executive Council's desk?

Colin Younker (Provincial Auditor): We hope to have it completed this fall. Our time line is this fall.

Ron MacKinley (L)Chair: What do you mean, like December, November?

Colin Younker (Provincial Auditor): I can't give a definite date yet, Mr. Chair.

Ron MacKinley (L)Chair: You don't know.

Colin Younker (Provincial Auditor): We still have some information to come I and we have to clear our findings and clear our draft.

Ron MacKinley (L)Chair: So then in other words it mightn't be completed . . . so we won't get it in Public Accounts until your 2005 report comes in on it. Is that right?

Colin Younker (Provincial Auditor): That's the way I understand it now, yes.

Ron MacKinley (L)Chair: I thought that report would come to us. Have we not got a motion?

Marian Johnston (Committee Clerk): The motion says that would be part of the Auditor's report in 2005.

Ron MacKinley (L)Chair: Oh, that's what the motion says.

Marian Johnston (Committee Clerk): That's what the motion said.

Honourable Robert Ghiz (L): Mr. Chair, if I may. Mr. Chair, if I may?

Ron MacKinley (L)Chair: Just a second now.

Honourable Robert Ghiz (L): Okay. Fair. I'm here.

Ron MacKinley (L)Chair: Oh, yes, to report to your committee. All right. Yes.

Marian Johnston (Committee Clerk): That was the original motion.

Ron MacKinley (L)Chair: Yes. All right.

Honourable Robert Ghiz (L): Who do you report to?

Colin Younker (Provincial Auditor): Who do we report to? Our . . . based on the Audit Act, our annual report is to be tabled to the Speaker by March 15th of each year. Also under the act, section 14 I think it is, the Executive Council can request a special project or examination and we report back to Executive Council on that.

Honourable Robert Ghiz (L): Yes. So your position is an arm of the Legislature, if I'm correct, and you will have a report done on the Polar Foods.

If we want to see that report when it is done shouldn't we be allowed to see that report? We are the Legislature asking you to give us the report.

Colin Younker (Provincial Auditor): Can you answer that Marian? I think we talked about that briefly the other day.

Marian Johnston (Committee Clerk): The original motion from this committee was that it be included in the Auditor's next report to the Legislative Assembly.

Honourable Robert Ghiz (L): Yes, but if the report is done in a couple of weeks why . . . we're the Legislative Assembly. We shouldn't have to sit and wait for another five months to see the report.

Ron MacKinley (L)Chair: Report has to go to the Speaker.

Wayne Collins(PC): The committee of the Legislative

Honourable Robert Ghiz (L): No, we are the Legislative Assembly.

Jim Bagnall (PC): It could be done but (Indistinct)

Honourable Robert Ghiz (L): But we are the Legislative Assembly.

Ron MacKinley (L)Chair: But it's got to go to the Speaker and then the Speaker gives it to us.

Honourable Robert Ghiz (L): Okay. Well, why do we have to wait until next March? If you're done

with the report can you please give it to the Speaker and let us see what the report says.

Ron MacKinley (L)Chair: Then it's up to the Speaker whether he gives it to us or not.

Jim Bagnall (PC): Yes, that's right.

Colin Younker (Provincial Auditor): It's part of my 05 report.

Honourable Robert Ghiz (L): Yes, but if you have a report that you're giving to the Executive Council there's no reason why you can't also give it to us.

Ron MacKinley (L)Chair: Well, if you want to change the motion.

Jim Bagnall (PC): Honourable Leader of the Opposition, you know, we'd get back into the same thing, is the Auditor General's report, I would say that there's portions of the 2005 report that he's got done right now. He doesn't issue them to us until the whole report comes out and that's the way it's always been and I don't know why we would want to change it.

Honourable Robert Ghiz (L): No, what we're saying, you don't seem to (indistinct), if the report is done we want to see the report. There's no reason why we shouldn't be allowed to see the report.

Ron MacKinley (L)Chair: But our committee would have to make a motion.

Jim Bagnall (PC): It's not done.

Ron MacKinley (L)Chair: See the motion - at this meeting your committee by motion recommended to the Auditor General that his office carry out an audit on the financial affairs of Polar International and report back his findings to a standing committee of Public Accounts in the 2004-2005 report to your committee. So in other words, we'd have to change that motion. The motion now that was passed at this committee asks the Auditor to do a report on Polar Foods.

Honourable Robert Ghiz (L): Exactly.

Ron MacKinley (L)Chair: But we give them a

leeway that he doesn't have to report to us until 2004-2005.

Honourable Robert Ghiz (L): Yes.

Ron MacKinley (L)Chair: So you'd have to have a new motion that he do that immediately when he's done of it.

Honourable Robert Ghiz (L): Well, my question is though, if you're going to be done of your report there's no reason why you can't give it to us.

Colin Younker (Provincial Auditor): I mean that's up to the committee.

Honourable Robert Ghiz (L): Exactly. So if we want to see the report we can see the report.

Ron MacKinley (L)Chair: Well, you've got to get the committee to vote on it.

Honourable Robert Ghiz (L): Yes, I've got to get the committee to agree on it.

Colin Younker (Provincial Auditor): It's up to the committee.

Ron MacKinley (L)Chair: He's tied by that motion.

Honourable Robert Ghiz (L): Yes, okay.

Ron MacKinley (L)Chair: Mr. Brown?

Richard Brown (L): Thank you, Mr. Chairman. You're not limiting your report of the letter of April 28th, 2004 from the Premier to you. Your report is going beyond that. You will be also . . . will the same report that you're giving to Executive Council be the same report that will appear in your annual report.

Ron MacKinley (L)Chair: Yes.

Colin Younker (Provincial Auditor): Yes, it can be.

Richard Brown (L): It can be. Will it be the same, will the report that goes to Executive Council in December or January be the same report that will be in your annual report to the people of Prince Edward Island through the Legislative Assembly?

Ron MacKinley (L)Chair: It would have to be because our motion states that.

Richard Brown (L): Well, I asked the question.

Colin Younker (Provincial Auditor): Your motion states that.

Honourable Robert Ghiz (L): So yes.

Colin Younker (Provincial Auditor): Yes.

Richard Brown (L): So we will get the same report as the Executive Council will be getting as to their requirement. And you will be going beyond the letter, what the Premier has said. Have you talked to any of the shareholders yet?

Colin Younker (Provincial Auditor): Richard, I'm not prepared to answer what we've done because I haven't cleared . . . we're not at that point yet where I can answer questions on it.

Richard Brown (L): Are you going to talk to the shareholders of the company? Are you going to go outside of the accounts of government, I guess I should say?

Colin Younker (Provincial Auditor): I'm not going to get into the scope of the work at this time because we still have five weeks to clear and we're still in the drafting stage.

Richard Brown (L): And who will approve the draft of what's going to be in the report? Who's going to approve the terms of reference of the report?

Colin Younker (Provincial Auditor): Well, we approve the terms of reference of the report based on it, yes.

Richard Brown (L): But this committee wants to know . . . okay, you come in with your report on March 15th and we say, well, what about the, you know, he never even talked to the shareholders. We want to know, we want to know if the shareholders benefited substantially or benefited from this deal and if that . . .

Honourable Robert Ghiz (L): A good auditor general's going to do all that the way I see it. He knows the people of Prince Edward Island, the

premier, this committee, everybody wants to know exactly what happened with that money. So to me it's the reputation of the auditor general on whether or not this report is coming out on how people want to see it. I'll have to wait until I see the report and I'll let people make that decision.

Ron MacKinley (L)Chair: And the way the motion reads we don't have to see it until March 15th. That's the way the motion reads.

Honourable Robert Ghiz (L): That's the way the motion reads but I'd like to make another point and I know we get into these points all the time but there's obviously a double standard on this committee and the double standard on this committee is the fact that there are four members of this committee sitting here right now that are members of Executive Council and they would be able to witness that report before other members of this committee and I think that . . .

Jim Bagnall (PC): That's not true.

Honourable Robert Ghiz (L): You'd be able to. What's that?

Jim Bagnall (PC): You're making a false statement. That's not true.

Honourable Robert Ghiz (L): Just explain . . . okay, that's fine. You don't have to accuse me lying or anything. You can just explain to me why that's not true.

Jim Bagnall (PC): Because we're not in Cabinet and we don't see the Cabinet . . .

Honourable Robert Ghiz (L): No, but you're sworn into Executive Council so thereby you would be allowed to see a report that has to go to Executive Council. You have the right to see it and we don't.

Jim Bagnall (PC): The only way that we would see is anything that comes in to our committee, related to our committee.

Honourable Robert Ghiz (L): I'm just saying by law you're allowed to see it.

Jim Bagnall (PC): We don't.

Honourable Robert Ghiz (L): No, no, it doesn't matter if you do or you don't but you are allowed to see it.

Jim Bagnall (PC): I don't even know. I would question whether we would be.

Honourable Robert Ghiz (L): Okay. I'd like to see if that's clarified or not.

Jim Bagnall (PC): I don't know. Perhaps ask the Attorney General's office and they could give you an explanation on it.

Honourable Robert Ghiz (L): Okay. I'll check on that. When's the next time this committee's meeting?

Ron MacKinley (L)Chair: Just in a few minutes we'll decide that. Mr. Brown?

Richard Brown (L): Just one more question. Mr. Chairman, I have a report here, the last time I was in the Legislature before I got chased, on Holland College there was a motion passed that we have the Auditor General review Holland College and UPEI and at that time the Auditor General did that audit, fantastic audit on both the University and Holland College. That report was tabled in the Legislature December 1999 outside of the normal report. So I can't see why, you know, if it's been done before that a special report is done and this report was done through a resolution and it was tabled in the House in December. It was December 22, 1999.

Ron MacKinley (L)Chair: Richard, there's just one thing. That was moved and seconded by the committee. If the committee decides here, if we had a motion today that this report, as soon as it's done . . .

Richard Brown (L): Mr. Chair?

Ron MacKinley (L)Chair: Wait now. As soon as it's done, as soon as Executive Council gets their hands on it, being the premier's office, that also a copy be directed to us, immediately to us directly from the Auditor General. Then we would have some teeth in it. But we need the committee's votes to do that. Is that not correct?

Marian Johnston (Committee Clerk): It would be by

motion.

Ron MacKinley (L)Chair: Yes, okay.

Honourable Robert Ghiz (L): Mr. Chair, I'd like to place a motion and that motion is that when the Auditor General is done with the report that he present it to the Legislative Assembly and to the Public Accounts Committee. Once he's done with the report.

Ron MacKinley (L)Chair: All right. Have we got any discussion on the motion.

Honourable Robert Ghiz (L): And I just, I'll start off the discussion on the motion, I just think it's . . . there's no reason why the members of the Public Accounts Committee that are supposed to be examining the finances of the province and the Auditor General's report should wait if there's something ready that can be done. Because we know full well that when your full report comes out in March it takes us a long time to go through your report and if there's a special report that's done this would give us plenty of time to have heads up on it. And I think there's no reason to oppose this report whatsoever so I'm looking forward to this motion to be defeated. So I'm looking forward to it.

Ron MacKinley (L)Chair: I'll refer to discussions.

Jim Bagnall (PC): The only thing I was saying is we came into this committee, we dealt with the issue, the committee sat around this table and made a decision that we were going to support the Auditor General in a review of Polar and that we would bring it out in our 2005 Auditor General's report . . .

Ron MacKinley (L)Chair: 2004.

Jim Bagnall (PC): It will be in the 2005 report, not the 2004.

Ron MacKinley (L)Chair: 2004 and 2005, that's how it's worded.

Jim Bagnall (PC): Next one will be 2005.

Ron MacKinley (L)Chair: Yes, but I'm going by the (indistinct)

Jim Bagnall (PC): Anyway, so what I'm saying is

that I feel no reason to change it right now. The Auditor General is still working on the report. He hasn't got it. Once he gets it it's going to go into his annual report which comes to us and I feel that that's fine. He's filled the commitment that we've asked for and I can see no reason why we need it changed.

Ron MacKinley (L)Chair: Mr. Brown?

Richard Brown (L): Mr. Chairman, with all due respect to the vice-chair, that motion was made after questions to the Auditor General by myself re whether the Executive Council was going to issue an order to have a review done. Upon questioning the Auditor General he made it quite clear to us at that time that I asked - did you receive anything from the Executive Council under Section 14, did you receive any mandate? At that time he said, no, I didn't receive any mandate.

Honourable Robert Ghiz (L): He didn't.

Richard Brown (L): So upon a motion of this committee, this committee didn't think a review was going to be done, so on a motion from this committee to do that study, Mr. Chairman, and present it back, you know, to us in his annual report, that was done under that pretext. But then the same day, that afternoon Mr. Chairman, that afternoon after this committee met and made that motion Executive Council got together on the same day and issued the order. So, Mr. Chairman, I would argue that, you know, our motion was there first and the intent . . .

Jim Bagnall (PC): Executive Council meet in the morning.

Richard Brown (L): And the intent of it, Mr. Chairman, was there, that it be presented to the public. And I would contend that our original motion was based on no report was going to be done. Now, the premier has interceded and tried to take it out of the hands of this committee, Mr. Chairman, you know, and that we should be seeing the report at the same time.

Jim Bagnall (PC): He can't speak on the motion.

Ron MacKinley (L)Chair: No, he can talk on it.

Jim Bagnall (PC): No, he can't. He can take part in any discussion before we have a motion.

Ron MacKinley (L)Chair: He's taking part in it.

Jim Bagnall (PC): Not allowed.

Ron MacKinley (L)Chair: He can take part in the debate on the motion.

Richard Brown (L): Yes, sure I can.

Marian Johnston (Committee Clerk): He can't vote.

Ron MacKinley (L)Chair: No, he can't vote but he can take part in.

Richard Brown (L): I have privilege.

Ron MacKinley (L)Chair: He has a right to talk.

Richard Brown (L): I have privilege.

Jim Bagnall (PC): Are we going to vote or not?

Ron MacKinley (L)Chair: Just wait, we've got to give everybody a chance.

Wes MacAleer(PC) : I don't understand why we're debating this issue. Is it a question of timing? Is that what the issue is, a question of who should get a copy of the report before he gets it?

Ron MacKinley (L)Chair: I believe it was you put the motion forward.

Wes MacAleer (PC): Why are we departing from . . .

Ron MacKinley (L)Chair: Well, here, at the meeting your committee by motion . . .

Wes MacAleer (PC): Well I understand what our motion was. Now the question is . . .

Ron MacKinley (L)Chair: All right. That the Auditor General to this office carries out an audit on the finances of Polar. And then to report back his findings to the Standing Committee on Public Accounts in the year 2004-2005 report to your committee. In other words, that's his report like we have here for whatever year it is, 2004.

Jim Bagnall (PC): This is 2004, it will be the 2005 report.

Ron MacKinley (L)Chair: Since that time the Auditor has come before us and said that he could possibly have it done before that and it would be going to Executive Council. The Speaker doesn't have to give it to us until some . . . it's got to be in the Speaker's hands by the 15th of March. In other words we could be four months delay getting the report that's already done. So some people on the committee believe as soon as it's done he reports it to Executive Council, it should come to our committee. And in order to do that we'd have to have a new motion on the floor stating that because right now we don't have that.

Wes MacAleer (PC): I guess my question to the Auditor General is, is the report that's to be given to Executive Council the same report that's going to be given to this committee? It's a question then of timing and I would suggest the most important part of the timing is that the report be a complete report and we're not going to know how complete that is until we've had an opportunity to assess it. So I guess what I'm wondering here is, is what's being suggested departs from what we had originally intended? What's the difference?

Honourable Robert Ghiz (L): No, it doesn't.

Ron MacKinley (L)Chair: Two or three months.

Honourable Robert Ghiz (L): If something's done why should we wait. If it's all done and it's not going to change, okay, because it's not. We asked for the Auditor General to look into the Polar Food fiasco, the \$50 million lost. He said he would. Executive Council has also asked for it, after we (indistinct), it doesn't matter. My point here is there's something that's going to be done perhaps let's say in the next month. Why should we wait another four months to get it if it's going to be done in a month. Like people complain all the time, you know, government's always late with something. Well, the Auditor General, geez, great, early with something. Holy Cow! Kudos to him. He's probably saving the taxpayers money. It's just common sense. I don't know why you're rather wait four months.

Jim Bagnall (PC): Question?

Ron MacKinley (L)Chair: No, wait until Mr. MacAleer finishes.

Wes MacAleer (PC): Well, at this point in time my

understanding of the process that the Auditor General doesn't know when he's going to complete his report.

Honourable Robert Ghiz (L): He doesn't. We're just asking when it's done can we have it. Don't you think that makes sense?

Ron MacKinley (L)Chair: Well, I think the Auditor sort of led us to believe here that you will be done your report before January 1st. Is that not correct?

Colin Younger (Provincial Auditor): That's our time . . . that's our current time line.

Ron MacKinley (L)Chair: And all that your motion, if it goes through, would say that on January 5th as it goes to Executive Council would also be tabled for this committee here. That's basically what they're asking. If not we will be getting it, definitely we'll get the same report when our Speaker would get it, then it would go to the House and we would get it all the same time. Basically that's what it is. Correct?

Jim Bagnall (PC): Okay. Question.

Ron MacKinley (L)Chair: So have we got any more questions here? Mr. MacAleer, are you clear?

Wes MacAleer (PC): Yes, I am.

Ron MacKinley (L)Chair: So all in favour of the motion raise your right hands. All opposed to the motion raise your left hand. Motion is defeated.

Jim Bagnall (PC): Move for adjournment.

Ron MacKinley (L)Chair: Just before you go when will the next meeting be?

Richard Brown (L): We'll be getting the 2005 report before we discuss the 2004.

Ron MacKinley (L)Chair: No, when would you like to have another meeting now?

Jim Bagnall (PC): Well, do we want to meet when the House is in session?

Honourable Robert Ghiz (L): If we have

something to meet on. If we don't have anything to meet on there's no point in agreeing . . .

Jim Bagnall (PC): We just have the report that we have to go through. We could leave that until after the House is in session if that's fine with everybody. But we do have to put an interim report in to the House so we'd have to get one drafted and review it. That would be the only reason why we'd have to meet.

Ron MacKinley (L)Chair: Well, if we have an interim report Marian can do the interim report. We have got to agree. She does it, we agree to it, the Chairman and the Vice-Chairman, through our caucuses. If there's any changes or omissions we don't need to call a meeting for an interim report. We can sit down with Robert and Richard and you can sit down with your people.

Jim Bagnall (PC): I'll look after our people.

Ron MacKinley (L)Chair: And then if we decide there's some touchy issues there well then we'll have an interim report, call a meeting. How is that?

Jim Bagnall (PC): Fair enough.

Ron MacKinley (L)Chair: No sense in wasting money . . .

Jim Bagnall (PC): You're a good chair.

Ron MacKinley (L)Chair: No sense in wasting hundred and thousands of dollars, I mean.

Jim Bagnall (PC): I move for adjournment. One more thing? Are we through?

Marian Johnston (Committee Clerk): Yes, I just wanted to update the committee. As you know, at October 7th, you asked me to send a resolution to the appropriate authorities regarding equalization. I sent it to the prime minister's office, the minister of finance, and both have acknowledged your comments and thank you for them.

Jim Bagnall (PC): So move for adjournment.