

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, September 23, 1980

Chairman: Mr. Payne

9:05 a.m.

MR CHAIRMAN: I'd like to bring to order this meeting of the select committee. I bid you good morning. My intentions today are to remain in committee, if we can, from nine until 12 today, meeting first, of course, with the Provincial Treasurer, which will be followed by a meeting here in the chambers with Mr. Barrett of Western Management Consultants, who will be discussing his firm's interim report to the committee. Time permitting, I would like to get into our as yet unresolved policy questions: Mr. Clark's motion or resolution and a question and a motion from Mr. Knaak on public presentations and ministerial obligations to bring informational material to the committee. Time permitting, I would like to deal at least with those, and even possibly to obtain from you comments on the format and content of the report which I am now beginning to formulate.

With those comments, then, on your behalf I'd like to welcome the Provincial Treasurer with us in the chambers here this morning. Mr. Hyndman, would you care to make a preliminary comment before we open up for questions?

MR HYNDMAN: Thank you, Mr. Chairman. I have no preliminary statement to make, apart from saying to the committee that, with respect to the status report in front of you, I'm sorry I didn't get that to you earlier. I had intended to have the status report -- the one dated September 22, 1980 -- in the hands of the committee at an earlier time, and I'll certainly endeavor to do that in future years. The status report simply responds and provides the government response to the recommendations made by the committee, pursuant to their recommendation in 1978. I gather the status report has been distributed to the committee so far? Sorry it wasn't available earlier. We'll make it available in future years.

MR CHAIRMAN: I believe the distribution is now complete. It should be there on your desk.

MR HYNDMAN: I have no other comments, Mr. Chairman, so I'd be pleased to answer any questions the committee might have.

MR CHAIRMAN: Thank you, Mr. Minister.

MR R CLARK: Mr. Chairman, to the minister. Mr. Minister, last year when you met with the committee, sir, you announced a possible program of loans. I'd like to know what have been the results of that announcement, the number of loans that have been placed -- that kind of basic information.

MR HYNDMAN: As members of the committee know, last year was an unusual one in financial markets. There was relatively little activity by corporations going to the market for money. The program referred to was a new corporate debt issue program, wherein loans were to be made by the heritage fund up to about two-thirds of the amount of any one issue. In fact, only one loan was arranged last year. It was with Calgary Power for \$20 million. I believe it

was \$20 million of a \$30 million issue. So that was the only one within the fiscal year. We would expect this year that the activity in that area would increase, because there appears to be more interest now in corporate borrowing than there was last year.

MR R CLARK: Mr. Chairman, then, to the minister, so that we get some indication of the magnitude of the interest. I appreciate that what you're telling us is that one loan of \$20 million was made to Calgary Power, which was approximately two-thirds, 60 per cent of the offering at that time. Were there other applications or other groups that made serious proposals to the investment, and was the matter of the investment committee feeling that those applications weren't the kind the committee was looking at, or in fact was this the only serious application?

MR HYNDMAN: No, there were a number of other applications made. This was the only one that fitted within the parameters of the new corporate debt issue policy. From time to time, there are quite a number of approaches made to the investment committee, both formally and informally. The guidelines of the policy, though, were not met by most of the corporations that were going to apply. This one did, and this is one investment which we thought we should make, and did make.

MR R CLARK: If I could move on then. During the meeting with the Premier, he stated that the government had done considerable work on forecasts of a range of time when the Heritage Savings Trust Fund would be needed to meet the normal operating expense of the government. Although these are for planning purposes -- and I recognize that -- my question to the minister would be: what is the state of those considerations, and is it possible for the committee at least to have some of that basic information prior to the committee's starting to work on its recommendations this year?

MR HYNDMAN: Mr. Chairman, I think it was indicated that we attempt to do scenarios from time to time on the -- I think it was referred to in the evidence as the crossover point -- the time at which there may have to be access to the income from the fund, and perhaps later on, from the capital of the fund. I think, as was indicated by the Premier, it would first probably be a shift of the income to the General Revenue Fund before the capital. Those forecasts, though, are not such that we think they're useful for public communication, first because they're very unreliable, in the sense that it's difficult to tell even from month to month what the revenues are going to be, bearing in mind the uncertainty, for example, in the petroleum area. But also such a move would tie the hands of legislators in budgetary decision-making in future. Now the question, it seems to me, relates to an allied issue that was brought up when the Premier appeared before the committee, and that was with respect to the three scenarios put out in the news release by my colleague Mr. Leitch, with respect to the four-year proposals for oil prices, which had been made in a release, I believe, at the end of August. There was some indication and discussion at that time as to whether or not it was possible to predict the moneys that would flow to the heritage fund from those three scenarios over the next four years. I do have some information on those points, if that's desired.

MR R CLARK: Mr. Chairman, a follow-up question to the minister. Mr. Minister, would you please explain to the committee how the releasing of those projections would tie the hands of future legislators?

MR HYNDMAN: I think future legislators may have circumstances very, very different from those facing legislators here today, in terms of the decisions on budgeting and saving that are being made. There are probably tens or dozens of scenarios that could be developed, bearing in mind even today what might happen to oil prices or natural gas prices, supply/demand, over the next five or 10 years. I think it would be of little benefit to make those public, because it would simply lead to speculation which would not assist decision-making, would not assist the economy of the province. Therefore, we don't think that putting out ranges of scenarios -- two or three dozen of them -- will assist the process. The best approach must be to go on the information we have and then to look at the annual budget-making process.

MR R CLARK: Mr. Chairman, perhaps I didn't make the question clear to the minister. The minister used the term "tie the hands of future legislators". I just have real difficulty understanding how the release of the information would "tie the hands". Now I can appreciate that it might make some political options more difficult, but I don't understand the process as to how releasing the report would tie the hands -- to use the exact term -- of future legislators.

MR HYNDMAN: Well, there isn't a report. If the implication is that there is a report on scenarios, it's not there. But I think the problem is this. If there were a scenario of 10 or 15 years presented, then those in the private sector, both individuals and corporations, would tend to arrange their affairs based on that scenario. They would say, well, that's what's going to happen to the province over the next five, 10, 15 years. Therefore, realizing that that would in fact happen, that future governments would then have less room to maneuver, because they would know that the private sector individual and corporate decisions -- perhaps on the basis of long-term and middle-term investment -- would be made on the basis of the government scenario. It would therefore be very limiting to future legislators to try to change in a major way existing government policies that went against that scenario, which perhaps had been predicated or predicted many years before and which maybe was no longer valid. So you'd be faced with coming out with different scenarios every six or 12 months. On the other side of the coin, then, the massive uncertainty that that would generate I don't think would be good for the Alberta investment climate, which needs certainty and predictability. That's the difference.

MR R CLARK: Mr. Chairman, so I understand this. Then really, there'd be no tying of the hands of the members of the Legislature. What the minister is really saying is that if three or four scenarios were made public, the business community would have so much confidence in those scenarios that they might tie themselves in a position so that future governments would have difficulty making the right decisions. Is that really what we're being told?

MR HYNDMAN: Well, they might or might not have confidence. I guess it would depend on the source from which they issued. But I don't think it would be beneficial to the province to have always being discussed, five or eight or 10 various scenarios, all of them unreliable, because we don't know and can't tell when the revenue, surplus, or deficit picture will in fact come to pass. I don't think it would assist the certainty or predictability needed for investment in the province.

MR PAHL: I guess it flows from the latest scenarios, Mr. Chairman. To the Provincial Treasurer. There's been word of a \$300 million budgetary deficit,

based on the softening of the United States gas export market at its present price. I wonder if you could indicate to the committee what effect that may have on the Heritage Savings Trust Fund.

MR HYNDMAN: That's a fair question, Mr. Chairman. As I indicated, some time ago, because of a softening of the revenues from natural gas which appear to be significantly less now than they were in the budget of April 2 of this year, there will be, we predict on the basis of preliminary information, a move from a probable surplus predicted for next spring of \$300 million to a deficit of about \$300 million. The heritage fund, of course, will be affected insofar as its revenues come from nonrenewable natural resources. The estimate is that the heritage fund will probably be reduced by about \$200 million. In the sense that in the budget of the spring, members will recall that I predicted the heritage fund might reach about \$8.7 billion on March 31, 1981; it now appears that that will be about \$8.5 billion, which I think illustrates that not only the heritage fund, but I guess government revenues generally are vulnerable and sensitive to decisions taken beyond Alberta.

MR PAHL: A supplementary. I guess just to perhaps pick up on Mr. Clark's point. On that basis I guess we would then be faced with a revised scenario on the long-term investments, almost on a quarter to quarter basis, if we were to pick up that thrust. Is that correct?

MR HYNDMAN: Well, it's possible. If you're looking at future revenues in the heritage fund, you have to look at what kinds of investments will be made, not only in the existing three divisions, but also in the two divisions approved by the Legislature last spring. So the availability of funds could therefore change, and of course, it depends as well on the various prices of the commodities. If there would happen to be such a thing as an export tax on Alberta natural gas, that could again cause a very serious problem to the revenue picture.

MR PAHL: I assume you're saying . . . My question is, from a management point of view, it's not a very practical operative procedure; the actions based on fluctuations from a quarter to quarter, if you will, on natural gas exports, which, for example, are dependent as much on price as they are on the temperature during the spring. I was just trying to make the point that you'd have the tail wagging the dog almost.

MR HYNDMAN: I think that's true. It's very difficult to make predictions. Of course, we all know that Mr. Lalonde and Mr. Duncan, insofar as the federal government sets the export prices, were talking about prices of \$4.50 per million cubic feet in March, and then talked about increasing that over \$5 in July, and subsequently cancelled the latter figure. So it appears that the March predictions by everyone have not come to pass.

MR CHAIRMAN: Mr. Notley, with a supplementary on Mr. Pahl's deficit question. Mr. Sindlinger, I wanted to clarify. Your supplementary is on the earlier question of Mr. Clark? I'd prefer to return to that then, if I could, after we've cleaned up the deficit-related questions. Is that all right?

MR NOTLEY: Mr. Chairman, I wonder if we could just go into this question of the deficit in a little more detail. Mr. Minister, on the sheet that Treasury prepared and sent around on nonrenewable resource revenue, the drop in natural gas and byproducts royalty from \$2.7 billion to \$1.86 billion, a drop of almost \$900 million. That's the one part of this equation that I find a

little difficult to understand. Could you tell me what in actual fact that is based on? What percentage drop are we anticipating in the export? Because obviously it is going to have to deal largely with the export market. Or what is the balance between softening sales in the United States, as compared to perhaps the slowdown of sales in Canada, although I would find the latter a little difficult to understand.

MR HYNDMAN: To assist the committee, it was not a document sent around by Treasury. It was made available yesterday afternoon, pursuant to inquiries by the media, for those who wanted some more detail. But you're right that the biggest part of the reduction is clearly the export market of natural gas, and the drop there is significant. I suppose it's in the range of a 30 per cent drop. But what will happen for the end of the year, we're not sure. Clearly, that is the single, most clearly identifiable reason for the predicted move now from the surplus to the deficit.

MR NOTLEY: And that is information obtained from the Petroleum Marketing Commission? Who made the 'guesstimate'? I guess that's the basic question, Mr. Minister.

MR HYNDMAN: Treasury, in trying to prepare documents of this kind and keep in touch with what the revenues are going to be, as opposed to what they were predicted to be, would draw on, as a source of information, all the government departments; certainly the Department of Energy and Natural Resources in all its entities, Crown corporations, and as well any information from the private sector that it could get that would be relevant. So when the original predictions were made in March this year for the April 2 budget, the best estimate at that time was higher revenues by the amount you mentioned. Now it appears they're going to be that much lower. It's from those sources.

MR NOTLEY: In terms of volume, we're looking at about a 450 to 500 billion cubic feet loss?

MR HYNDMAN: I don't know what the volumes would be. As I say, the largest proportion of the revenue reduction is from the softening of the export market in the United States. I don't know what the actual revenue amounts are -- the capacity amounts, rather. We're dealing with here with the amount of dollars which we would not have received and we otherwise thought we would have.

MR NOTLEY: Would it be possible, Mr. Chairman and Mr. Minister, to have the committee supplied with more detailed information from Treasury as to the breakdown between the softening of the export and other areas where there might be a trailing off in sales of gas, because it does have implications on the heritage trust fund. We are talking about a lot of money here, \$870 million. Just my quick arithmetic would lead me to the conclusion that unless there are some other funds, we're talking about more than a 30 per cent reduction, Mr. Minister, in export sales.

MR HYNDMAN: Well, of course, we have to remember that the revenues we're talking about here are royalty revenues, which would represent an area of, say, 45 per cent. So the actual revenues in total would have been significantly more than double that, in terms of the balance that's going to the producers. So I don't know whether those figures would be available. I'll have a look at them and consider that suggestion and talk with the Minister of Energy and Natural Resources.

MR NOTLEY: The reason I ask is that it's that very reason. There's an \$870 million loss to us. Then in actual fact we're talking about something over \$2 billion because of the freeholders; not only the 45 per cent on Crown leases, but there's a freehold too. So in fact we're talking about over a \$2 billion loss in markets.

MR HYNDMAN: As I say, the largest part of the reduction is in natural gas exports to the United States, but other gas sales are in there as well, so it's a question of putting the whole thing in a pot.

MR CHAIRMAN: Mr. Sindlinger, with a supplementary that I had overlooked relative to Mr. Clark's opening questions.

MR SINDLINGER: I'm sorry, Mr. Chairman. I didn't want to be impolite and interrupt once we'd gotten on the track there, but I'll make greater efforts in the future to catch your attention.

Mr. Hyndman, if you were to be presented with a proposal for investment that would require \$7 billion and that would have a payback of 10 years and would guarantee the province a rate of return of 85 per cent on an annual basis, would you recommend to the Legislature that that investment be undertaken?

MR HYNDMAN: Well, I suppose it's a bit hypothetical. But I don't know. I'd have to know quite a bit more about a situation such as that. For example, at the moment, a considerable amount of the heritage fund investments are in energy. If all those investments were in energy, one would have to look at what the other investment areas are, on the basis that it's important to have a varied investment basket. I guess one would have to look at the extent to which that would be sensitive to world market pressures beyond Alberta's control, or whether it would be something within the Canadian or Alberta economy. On the basis of those facts, I don't know whether I would recommend that the investment be made, but that's something that, with that rate of return, you simply look at. It's a huge, significant single investment, though, and I think one wants to have quite a bit of eggs in the investment basket in the heritage fund, as in investing any large fund.

MR SINDLINGER: Mr. Hyndman, all other things being equal, and given a guaranteed rate of return of 85 per cent on an annual basis, would you then recommend to the Legislature that that investment be undertaken?

MR HYNDMAN: My problem in this world is that all other things are never equal, so I'd have difficulty . . . No, without more facts, I couldn't recommend that, but I'd certainly have a close look at it, with an 85 per cent rate of return.

MR CHAIRMAN: The Chairman has some additional difficulty in relating what appears to be a quite hypothetical line of reasoning to our committee's task today to evaluate the report of the fund. I do appreciate that there is some value in a response to a hypothetical question in assisting the committee in developing its recommendations for future investments, but would appreciate it if the hon. member could keep a short rein on his hypothetical interest.

MR SINDLINGER: Mr. Chairman, I'll come to the point, then. I'm referring to the comments made by the minister. If my quotation is correct, it is that, in regard to the forecast for the fund and that crossover point to which he referred earlier, he indicated that to make those forecasts a matter of public communication, they would "tie the hands of legislators in budgetary decision

making in the future". Furthermore, the minister indicated that the investment community requires certainty and predictability. The point I was trying to make is that if we did have a guaranteed investment over a 10-year period with an 85 per cent rate of return, and other things being equal, I think the minister, in his good judgment, would recommend to the legislators that they do undertake that 10-year investment. However, if on the other hand, the legislators did not know when that crossover point came; that is, for example, if the forecast indicated that the crossover point would come within five years and yet they were being asked to consider a 10-year investment, then they would not have adequate information on which to assess the investment recommendation. Furthermore, I believe also that the investment community requires certainty and predictability. Unless they have an idea or indication of when that crossover point occurs, there isn't that certainty, predictability that the minister says should be there. I think therefore that indeed it is a matter of public communication, when these funds are required. And it's very important for the committee to know that, because if we don't, there's no way we can consider or evaluate the investments made by the investment committee. For all we know, the investment committee may be making investments that will require expenditure of the funds far beyond the point in time when this province will need them, and I think it's incumbent upon the administration -- indeed, it's a responsibility -- to make that crossover point a matter of public communication.

MR CHAIRMAN: Mr. Minister, that of course wasn't a question, but did you wish to respond to the comment?

MR HYNDMAN: It's an interesting observation, Mr. Chairman. I guess the point is that there can be no single crossover point thoughtfully predicted, in the sense that I don't think anyone, on the basis of today's knowledge, could say that there's going to be a crossover in January 1993 or the fall of 1986. That crossover point, depending on revenue and expenditure trends, in which there are many, many variables, could be anywhere from five to 10 to 15 to 20 years. The income from the fund, used in a transition way before the capital would be used, would, it seems to me, indicate that you have to plan for a significant number of optional crossover points. I don't really think with the information available today, that anyone could come up with a single crossover point that would be viable.

MR SINDLINGER: Mr. Chairman, in response to that, if I may, please. I think the minister is quite correct, that nobody could thoughtfully come up with a forecast saying that the crossover point will occur at 3:30 on Tuesday, January 6, 1982 or 1987. That's correct. But I think that reasonable ranges can be identified as to when that crossover point will occur.

MR HYNDMAN: Any number of us can make predictions as to what the various federal, provincial, and international trends will be with respect to the future price of oil and natural gas, two, three, five, 10, and 15 years from now, but I wouldn't want to undertake that exercise, with the expectation of having any definitive conclusion; similarly with expenditures of the government. Who knows what will be the decisions of this legislature with respect to estimates in future years? So I think scenarios can be drawn, but it seems to me there would virtually have to be dozens of them to cover the possibilities.

MRS FYFE: I'd like to ask a question related to the capital projects division balance sheet. Appreciating that within the Act, the deemed assets would be

set equal to the dollars invested, I'm wondering in the long term if this doesn't give a false picture to the people of Alberta. To be specific, for example, the airport terminal buildings, which are putting in a physical structure: at present, this year, the investment of \$5.5 million. Now 50 years down the road, whatever the costs of investment, even though those buildings have to be replaced, that still sits on the books in the fund. I wonder if we would be better to have a separate sheet that would give the investment that was made, but also the depreciated value, where we can depreciate; in effect, take the capital projects as a separate costing, so that when Albertans look at the total of \$7.5 billion or whatever, that there's a true picture of the actual dollars that are invested, and secondly, a category that would show what has been invested but not necessarily what is actually invested in dollar terms that can be withdrawn.

MR HYNDMAN: I think, Mr. Chairman, that that suggestion is worth considering. In the past, there had been suggestions that all the assets of the capital projects division should be valued at simply one dollar. And of course, the Legislature has stated by an Act of the Assembly that they shall be deemed assets. But it would perhaps give a clearer picture -- I think that's what is being suggested -- if there were a depreciation factor built in. So I'll certainly consider that and report back to the committee next year as to the possibility or otherwise, in implementing that approach.

MR NOTLEY: Mr. Chairman, I wanted to go back to a supplementary to Mr. Sindlinger's question. I'm sorry I didn't catch your eye earlier. Mr. Minister, I can understand that it might be very difficult to come out with projections at this stage, but hopefully we will arrive at some kind of energy agreement -- let's hope, anyway -- over the next few months, and that will last over a period of years. The reason I suggest that the government should take a look at the ranges, as Mr. Sindlinger pointed out -- no one on this committee suggests that they can be pinpointed, but the ranges. It seems to me that, assuming an energy agreement, then the revenue side becomes a little clearer. The other point that I would raise, Mr. Chairman and Mr. Minister, is that some years back there was a committee of the Legislature under the former government, both opposition and government members, as I recall, that undertook some time as a legislative committee to look at the expenditure and revenue patterns. While I don't think it solved all the problems of Alberta by any means, it nevertheless did set out a context in which discussion could take place. It seems to me that following Mr. Sindlinger's point about the ranges, that that kind of information now would be as useful as it was in the '60s.

MR HYNDMAN: I note the member's comments, Mr. Chairman. I don't think I have much to add to my previous comments. Circumstances do change, I suppose, but I'm not sure of the value in the long term of the study that was done in the '60s, although the committee member sitting beside the hon. gentleman who asked the question may want to underscore the appropriateness of it. I have some doubts as to whether it was appropriate at that time.

MR R CLARK: The opposition at that time thought it was.

MR BORSTAD: Mr. Chairman, to the minister. Some of the technical staff or technicians in the investment committee have left for other work in other parts of the country. What effect has this had on that office, and have they been replaced?

MR HYNDMAN: Yes. Over the course of about six months, we unfortunately did lose three highly skilled technical people in the area. I was sorry to see them go, but losing three people with those abilities over six months -- and it was three out of about 55 in total -- is not something unexpected in an economy like Alberta's, where there is a lot of robust economic activity in the financial area. Any financial institution will indicate how difficult it is to attract and retain people. Certainly, that did not cause any problem with respect to the quality of management decision-making within the group making the decisions. At the moment we are, as you know recalling the spring estimates, attempting to acquire over the next six months the extra manpower that was approved by the Assembly for the investment area, pursuant to the changes made in the heritage fund, the new commercial investment division, because there'll be new dimensions and we'll have to get new skills and new people in that area; pursuant as well to the pension fund, which we'll be recommending to the Assembly this fall and also to the medical research foundation. The requirements for investment expertise are considerably higher as a result of those initiatives, so we will be acquiring, and are at the moment obtaining interested applicants. I would say to any in the financial community across the country, that they should look us over, because the opportunities and the uniqueness of the operation here in Alberta are something that any talented person in the investment area should seriously consider, to look at coming to the Department of Treasury of the government of Alberta for an investment experience that could be very excellent.

MR CHAIRMAN: The foregoing was an unpaid commercial.

MR R SPEAKER: Quite a speech. During one of our earlier discussions, we had a discussion on Kananaskis. In the Kananaskis project, a number of dollars are coming out of the heritage fund to build infrastructure, specifically roads. I raised the question with the Minister of Transportation about whether there was any consideration being given to infrastructure for other heritage projects, being supported out of the heritage fund; such as, let's say, the road to Syncrude, our development projects, or other investments. Is there any thought or investigation going on at the present time with regard to this matter, maybe so that there's consistency across government?

MR HYNDMAN: Not at the moment, Mr. Chairman. I think it's important to remember that this committee last year as I recall, recommended that heritage fund moneys be considered for the use of infrastructure with respect to tourist destination areas, specifically. And I think the use of heritage fund moneys being used for infrastructure, in this case roads for Kananaskis Country, is an example of that. It could be that if there were to be future mountain parks or recreation facilities of that kind, that the heritage fund could again be considered in infrastructure, but the concept is not being applied generally toward resource projects.

MR SINDLINGER: It wasn't a supplementary.

MR CHAIRMAN: There don't seem to be any other supps on Mr. Speaker's question, so proceed.

MR SINDLINGER: Mr. Hyndman, I wonder if you could give us an assessment of the investment in Syncrude to this time.

MR HYNDMAN: Well, it's been a very good investment. As we know, Syncrude has had some difficulties in start up. The production has not been what was

expected over the course of last year, but I gather it is now moving ahead fairly well. So I think it has been a good investment. Certainly, an indication of that would be the profit made by the province of Ontario when they sold -- in my view, unwisely -- their equity in the Syncrude plant. So I think it's been a good investment and that it will continue to be that in the long run.

MR SINDLINGER: Mr. Hyndman, could you give us an indication of what the rate of return has been on the investment in the Syncrude plant?

MR HYNDMAN: Well, there are a number of ways of calculating rate of return. I guess the most usual rate of return approach that's used -- and you of course have variables with the amount of production and also the product prices. But on the basis of a discounted cash flow rate of return, which is the one I think that's generally used in these kinds of projects, the return is around, I think, 15 per cent. If you wanted to use the simple accounting rate of return, I think it would be more in the area of two or three per cent. But on a discounted rate of return basis, which is the appropriate one to use on these projects, looking at their nature, it would be around 15 per cent, I believe.

MR SINDLINGER: Mr. Hyndman, for the discounted cash flow rate of return that you've just calculated, could you give us an indication of the economic period over which that was calculated, and secondly, how does that 15 per cent rate of return compare to the rate of return anticipated by the other participants in the project?

MR HYNDMAN: I believe the time span used was about 20 to 25 years. With respect to the other participants in Syncrude, other than the government of Alberta, it is possible that they might enjoy a slightly higher rate of return, by reason of the fact that they, being private sector entities, are paying corporate taxes. The government is not involved in that situation, so they may be able to have available to them tax write-offs or taxes later on which could be discounted, which could give them a slightly higher rate of return. I guess the other element which could result in private sector owners of the plant having a slightly higher rate of return would be the market into which they sell their product, in the sense that each of them has part of the production of the resulting synthetic oil, and if it happens to be able to sell it on a given day at a higher price, by reason of market conditions, then it would secure a slightly higher revenue.

MR SINDLINGER: Mr. Hyndman, in the 15 per cent discounted cash flow rate of return, were the following two items taken into account: (a) the convertibility of debentures and (b) the equity that we have in the Alberta Energy Corporation?

MR HYNDMAN: The negotiations on this occurred some time ago. Certainly, the convertibility feature, having those convertible debentures that are not being exercised now but which form a future asset of significant size -- that was part of the whole package. I don't know what the situation would be with respect to any consideration of the Alberta Energy Company involvement in the plant.

MR R CLARK: Mr. Chairman and Mr. Minister, on page 7 of the report it talks about a rate of return and it gives a yield of 11.1 per cent for the portfolio, as of March 31. This measure looks to the future, in that it

assumes all investments will be held to maturity. What was the rate of return on the fund in the past year? I ask that question, not a projection on the next number of years, simply because my calculations show that the fund showed a rate of return in the last year of 7.7 per cent. That's 1.1 per cent less than inflation -- the figures the Provincial Treasurer used in your own budget, sir. Now if that's right, this translates then into a loss of about \$44 million, after inflation is accounted for. I recognize the figure of 11.1 per cent is used in the report here, but that's based on the premise that I outlined. What I'd like to know is, what was the rate of return for this past year?

MR HYNDMAN: Well, there's no question that the rate of return was less than the yield to maturity. I think we have to remember that both those approaches are used to measure the performance of a given investment fund. In this case, I did use the yield to maturity approach, and I suggest that when you have a fund of this kind, which has a long-term investment horizon, it is more appropriate to use the yield to maturity approach, which came up with 11.1 per cent; more appropriate than using a rate of return approach. I suggest that probably knowledgeable financial observers would place little emphasis on a rate of return over the short period of time. Therefore, when we have a heritage fund with a long-term time horizon, it is more appropriate to use a yield to maturity, which shows what the income is going to be if you hold to a maturity date. The rate of return approach presumes that the assets will be sold before a maturity date. So I think that the rate of return approach is more subject to erratic fluctuations, and further, it's not really a commonly reported measure. The yield to maturity is the commonly reported statistic in the financial community. I think that, over the longer term in the years ahead, when you have a longer time span, it may be useful to consider having both the yield to maturity and the rate of return, provided it's done with respect to each division, because each single division of the fund has a different philosophy and a different investment approach. But at the moment and taken on one year, I suggest it's potentially misleading to have a rate of return approach, and the yield to maturity is the more accepted, more acceptable, and more appropriate approach to take.

MR R CLARK: Mr. Chairman, I'll resist the temptation to get involved in the argument as to which approach is most misleading. I simply would say that to talk in terms of 11.1 per cent and in communicating that, not to the people in the investment community, but to Albertans who are the people this supposedly reports to . . . I find, frankly, a number of people in the investment community who question very much this approach of reporting at 11.1 per cent, when in reality, if you look at the rate of return over the past year, the fund, likely because of the investment in bonds and what's happened to bonds in the last year, has in fact not kept pace with inflation, and we've fallen behind some \$44 million, when you look at what's happened with inflation in the past year.

MR HYNDMAN: There's no question that the bond market went down in the last year. However, I certainly would emphasize that I think knowledgeable people in the investment community understand the yield to maturity and the opinion that when you have a long-term investment horizon like the heritage fund, yield to maturity is the proper and appropriate way to go, not the rate of return. If you have a short-term fund, the rate of return would be the appropriate way to go. I might mention that the figures mentioned by the hon. Leader of the Opposition of course do reflect the fact that interest rates at the beginning of the fiscal year reported on here, were down and increased

significantly over the year. Now, interest rates this year may well start up high at the beginning and end up quite a bit lower by the end of next spring. In that case, it might be that you'd suggest I use the rate of return approach, because it may well end up with a much higher percentage than a yield approach. In other words, I'm just using that to indicate that the yield to maturity on a longer time horizon, when you're not deeming all the assets to be sold right away, is the fairer, more appropriate, and more accurate way to show the performance of the heritage fund.

MR R CLARK: Mr. Chairman, might I just remind the Treasurer, with the greatest of respect, that this report is not aimed at, to use the minister's term, knowledgeable people in the investment community. This report is aimed, as I understand it, at . . . And I see copies of the report in treasury branches across the province and so on. It's made available to all Albertans. It's a report to the people of this province, not to knowledgeable people in the investment community, with the greatest of respect. Frankly, I find this way of reporting surprising, to say the least.

MR HYNDMAN: I think it's a report to both. I wouldn't agree that this report should not be devised and made available to members of the financial community in Canada and the world. I think the credibility of the province requires a report that's made available to the financial community around the world. So I would simply state again that at the moment, clearly the yield to maturity approach is the one to take. That's not to say that down the road, when we have a longer time span to look at, that with respect to each individual division -- not across the fund -- it would not be appropriate using rate of return at any time, because each division has a different goal. Down the road it may well be useful to consider having both methods of calculation. At the moment, though, the rate of return one is not as preferable as the yield to maturity.

MR OMAN: Mr. Chairman, there was a recommendation, Mr. Minister, that came out in the Alberta Chamber of Commerce submission to the economic affairs committee last week. It stated that they were concerned lest loans to other provinces, as they said, at low rates of return, might be funnelled through to particularly agricultural producers in those provinces, which would then be in competition directly with our own producers. Now it struck me that that wasn't a legitimate concern. But I want you to clarify this, because as I understand it, we are lending to other provinces at approximately market rates, that they could go to the bond market in New York or whatever. Perhaps you could clarify this. Obviously there are advantages in lending to other provinces, because it makes our fund, I think, usable across Canada, and therefore takes away some of the criticism. But if that is the case, that in effect we are lending at approximately market rates, why would they necessarily come to us rather than going to New York? Is it because of the brokerage fees or what? Perhaps you would clarify that.

MR HYNDMAN: You're correct that we're lending at essentially market rates. As you know and as we indicated some months ago, we are lending at a rate that is the same right across the country, in the sense that those provinces which are perhaps rated by New York as having a lower credit rating, get the same credit rating as, say, Ontario and Saskatchewan, which would be the two highest in the country. There is an advantage, though, in the sense of avoiding brokerage fees, which makes the cost a little more attractive there. As well, I guess any province that's borrowing from this portion of the fund is contributing to some degree to strengthening the Canadian dollar, because

those borrowings being made within the country rather than in New York, are of an advantage there. On the first point of the question, I don't believe that it could be said that the heritage fund is subsidizing programs in other provinces. There are a large number of programs subsidizing agriculture, for example, in this province, but the funds flow directly into the general revenues of the province, and they don't go with strings attached. So I don't think that that concern, although validly raised, is one which we need to see as a problem in Alberta.

MR CHAIRMAN: A supplementary, Mr. Oman?

MR OMAN: Well, it's a different topic a bit, Mr. Chairman, and if there is a supplementary, I can wait, but I want to change into another area.

MR CHAIRMAN: If I could, then, Mr. Oman, I'd like to come back. I still have several committee members who have yet to ask their first question. Mr. Notley. He's not one of them, of course.

MR NOTLEY: Mr. Chairman, to the minister. My first question. Mr. Minister, one of the recommendations we made -- if my memory serves me right, it was even a unanimous recommendation, and that's rather hard to come from this committee:

That where funds are allocated for an ongoing programme that will take more than one year to complete, the Alberta Heritage Savings Trust Fund's Annual Report incorporate the amounts expended in the reporting year, the total amount expended to date, and the total budgetary figure for the program.

With great respect, Mr. Minister, I think your answer gives that recommendation pretty short shrift. This is a report to the people of Alberta. While there is full opportunity for discussion in the Legislature, I fail to see why it's not possible to have the projected costs of specific projects. Kananaskis is a clear-cut example of why it would be helpful to everyone if all the cards were on the table so to speak, particularly in this report that goes to the people of Alberta.

MR HYNDMAN: I guess the member is talking about the response to the recommendation on page 11 of the status report. There are three recommendations there; one, "that the annual report incorporate amounts expended in the reporting year". And the report contains that. Secondly, that it incorporate "the total amount expended to date". And that's included in the report. Lastly, "the total budgetary figure for the programme"; and that is not in the report. As I indicate in the response, an annual report deals with and is essentially a look back at the last fiscal 12 months, indicating what has happened, the performance of the fund, the buys and sells, during a fixed 12 month period. So it seems to me that that's not the appropriate place to do forecasting. However, in terms of cards on the table, it seems to me appropriate, though, that any appropriate questions be asked of the minister who is sponsoring any project, when the capital projects division estimates come before the Assembly each fall, to see if, at that time, the minister can give a range or a figure of the total capital costs, and perhaps operating costs as well. So it seems to me that the annual report, looking back and picking out a time period to report on, is not the place where such forecasts should be made, but that they should be

made available if the Assembly requests it, by ministers who are presenting their estimates for a given year. There's an opportunity every fall for that to happen.

MR NOTLEY: Frankly, Mr. Minister, I'm not so sure that that has been the case. As I look back over these annual reports; for example, we've included projected figures. We've included projected figures in the annual report on irrigation, on the university health centre, the children's hospital in Calgary in past reports. Why then do we not include the forecasts in some of these other areas too?

MR HYNDMAN: I don't think it's correct to say that we have included the figures. What has been done in the past in some of the annual reports, say in the moneys available for irrigation, is that there's been an indication of the amounts that would probably be requested from the heritage fund each year for an indeterminate number of years, in an ongoing irrigation program; but no statement as to whether or not those were supplementary to or would be matched by funds from the General Revenue Fund, or whether there might be a time during which funds would be lower one year than the next. So I think that's a different situation, what's been in the report in the past, than trying to point out a future, estimated figure. For example, Kananaskis was mentioned; a project that involves not only inflation, but a change of scope use and as well, a switch in terms of the financing.

MR NOTLEY: I don't want to get into an argument on this, but when we have put in figures for Capital City Park, for other projects financed from the capital works division. And I would just underline the point, Mr. Chairman, that we really are talking about a report which goes to . . . This is the one report that most Albertans will have the opportunity to peruse. It seems to me that the proposal that the committee had made last year is a reasonable one, where we have estimates of what the costs of these various projects are going to be. That doesn't alter the fact that when we get into the discussion of capital works in the fall session -- no question, those matters should be fully debated in the Legislature. But we're talking about something that goes to the people of Alberta, the one report that is filed in libraries across the provinces, that schools have access to, that the general public is aware of. And it seems to me that that kind of information would be helpful to them, and that in fact we've already partially done it in other areas.

MR HYNDMAN: I still have some doubts about its being in the annual report. Perhaps what we're thinking of here, what is being suggested, is that there be another document or method of communicating to Albertans what the long-term benefits are and moneys that might be expended out of the heritage fund. It seems to me that perhaps consideration of another communication vehicle, rather than the annual report, which looks back for 12 months, might be the better approach. But I think the primary area and forum in which these kinds of figures should be examined and where the cards should be requested to be on the table, should be in the fall session of the Legislature, when the minister is available in an estimates sense, and at that time can be asked about all aspects of future planning and future budgeting.

MR MUSGREAVE: Mr. Minister, I'd like to go back to the Syncrude project for a minute. I wonder if you could give us a rough estimate of whether the exercising of the force majeure clause by the federal government has resulted a net loss to the project.

MR HYNDMAN: I don't have that information, but I'll undertake to attempt to get it for the member and the committee.

MR SINDLINGER: For clarification purposes, has that force majeure clause in effect been implemented?

MR HYNDMAN: I don't know. I'll have to check on the extent to which that's occurred.

MR BRADLEY: Perhaps I could respond to that. To date, the normal price of crude has flowed through to the Syncrude projects that are receiving the world price at this time.

MR SINDLINGER: Mr. Bradley, are you saying that the force majeure clause has not in effect been implemented to this point in time?

MR BRADLEY: Let's put it this way: in terms of its financial effect on the project, it hasn't. The federal government says they've invoked the force majeure clause, but they are passing through to the project the world price for oil, as calculated in terms of the compensation for the Syncrude levies. So world price is flowing through at this point in time.

MR SINDLINGER: The force majeure clause is not now in effect for the Syncrude project?

MR BRADLEY: The federal government says it's in effect, but in fact the world price is flowing through.

MR SINDLINGER: Then it is not in effect.

MR BRADLEY: It's a matter of semantics.

MR MUSGREAVE: What I really wanted to know was: has there been any reduction in financial return to the Syncrude as a result of Mr. Lalonde's statements? It's just that simple.

MR CHAIRMAN: The response to that was implicit in Mr. Bradley's comments.

MR HYNDMAN: I don't know, but it seems to me that your colleague on the committee probably has better information than I do, at the moment. It appears that while the force majeure is still another of the threats we have, unfortunately, from the federal government, that it has not as yet, in terms of dollar return, adversely affected it. But it may well have adversely affected the investment climate.

MR OMAN: Just a comment there, Mr. Chairman, before I go on to the others. I suppose that the fact that world price has somewhat stabilized -- and I use that word advisedly -- means that there isn't

that much urgency on the part of the federal government to invoke that clause.

Mr. Minister, in my view probably the most popular move we've made out of the fund has been the establishment of the medical research area. In my view, it's been a very positive response, and obviously has the implication of benefits worldwide. It seems to me it also does something about . . . It's an industry in itself, kind of a brain centre industry which diversifies Alberta's base. Now my question is whether or not -- I realize that we're into other areas with the Alberta Research Council and so on -- but whether there might be some other specific areas of research that we would be considering funding as a result of the . . . Such as electronics, biomedicine, this type of thing.

MR HYNDMAN: I suppose the Alberta investment division, with its goal of strengthening or diversifying the province, is the kind of vehicle that philosophically is available for a thrust of that kind, if the committee and the Legislature -- investment committee -- wanted to move in that direction. I guess it depends on the philosophy of what the fund is for; essentially, firstly a savings account, and secondarily a vehicle for selective diversification -- that projects or concepts in future could fit within the Alberta investment division.

MR OMAN: Is there anything under consideration at this moment this year?

MR HYNDMAN: I think that within all the various ministers of government, there probably are some approaches being explored, but they may see the light of day in future months. I suppose in that event they would appear, if they were a capital projects division approach, before the Legislature in the fall; if not, they would appear in the annual report as an investment within the parameters that the Legislature has set for investment.

MR NOTLEY: Mr. Chairman, on page 9 of the report, recommendation 3:

That the Heritage Savings Trust Fund be utilized for development of Hydro-Electric energy in the Province of Alberta.

We don't have the Minister of Utilities and Telephones coming before this committee, Mr. Minister, so I think it would be appropriate to ask questions to you. Several months ago, the Minister of Utilities and Telephones outlined a number of options, all the way from public ownership of the private power companies to investment in projects such as the Dunvegan site. My question to the minister, Mr. Chairman, is, are you in a position to bring us up to date on just where those options stand? I think this would be particularly appropriate in view of the possible ATCO takeover of Calgary Power. Is the government at this stage actively reviewing the option of public ownership that the minister indicated was on a list of about five or six, I believe, in Red Deer when he spoke to the REAs?

MR HYNDMAN: I think, Mr. Chairman, that that probably is something that should be explored with the appropriate minister, Mr. Shaben, in the fall session, because I don't have anything I could usefully add to what I have on page 9 here at the moment. The page 9 comment clearly indicates that the hydro-electric developments in future could be a possible investment of the heritage fund down the road, and that there is a call for proposals on the Dunvegan

site. But I wouldn't want to give any commitments that any future hydro-electric project would be financed in whole or in part through the heritage fund, but certainly it would be considered. The other aspects though, I think it's appropriate that they be explored with the minister when the fall session opens.

MR NOTLEY: At this stage, Mr. Minister, there's been no preliminary assessment by the investment committee or the Department of Treasury for the investment committee, of the option of either outright public ownership or of participating on a debt or some kind of basis on the Dunvegan project?

MR HYNDMAN: I think it's premature, because once the proposals are in and there's an assessment made of the possibility, feasibility, desirability of development on that site, then you move to the question of what the financing options are, and until we find out the feasibility of the situation, the financing options it wouldn't be worth while going into in any detail. But there would be consideration to financing through the Heritage Savings Trust Fund, once the proposals are reviewed and there's further progress.

MR NOTLEY: Mr. Chairman, just on the question of the ongoing monitoring, I assume, of the ATCO attempt to take over Calgary Power, has the investment committee given any consideration to play in any kind of role in that, either directly through stepping in themselves in the form of public ownership, or by participating with ATCO -- some method?

MR HYNDMAN: No, it has not. The position that has been taken is that as a government or as a committee we would not encourage and not discourage anything that would relate to the private sector initiatives by any company in that area.

MR NOTLEY: No discussions then, as far as any public funds, either through the heritage trust fund or with government officials to the treasury branch or any way, with ATCO?

MR HYNDMAN: Well, as members know, the treasury branches, which operate at arm's length from the government, have, I understand, made a loan to the ATCO company. I gather they have been a company which has been providing funds to ATCO for many years. By the same token, I guess one could say that the heritage fund purchased a part of a corporate debt issue of Calgary Power. Those two circumstances, though, were entirely separate and apart from anything to do with the present goings on involving those two companies. So at the moment, there is no consideration being given by the investment, in any way, shape, or form, with respect to those circumstances.

MR R SPEAKER: I understand that at the Mountain Rapids location there is potential for a 1,500 megawatt generating plant. Has any presentation been made to the minister as a request for funding or exploration of funding for such a plant?

MR HYNDMAN: Not to me personally, Mr. Chairman. There is of course an ongoing review of all of the remaining, significant hydro-electric sites in the province, of which that would probably be one. But there again, I would imagine that the feasibility situation would have to be developed before any questions of financing occurred.

MR SINDLINGER: Mr. Hyndman, I wonder if you would be kind enough, please, to outline the decision-making process for us in two ways: first, in regard to the staff that deals with deposits, marketable securities in portfolio investments. You indicated earlier that three members had left. How many members do you have in total making these decisions? What is the background of these individuals? How many years' experience do they have, what qualifications do you look for? And the second way I would ask you, please, to outline the decision-making process is in regard to Government House South. The annual report indicates on page 11 that: "Government Centre South, in Calgary, would not proceed as a project under the Capital Projects Division". And I note from page 4 that these type of projects come under the purview of the Legislature. It's most often said to us that this is the only area that we as a Legislature really have to act upon in regard to investment decisions. Yet in this case, I see that we have a decision which had already been made by the Legislature; that is, to invest in Government Centre South. However, that decision has been rescinded, but not by the Legislature, which in fact made the decision in the first place. So I wonder, sir, if you could just outline the decision-making process in that regard: (a) in regard to the staff that does make the decisions on the marketable securities, and (b) the decision that was made in regard to Government Centre South.

MR HYNDMAN: On the first question, the staff that is involved with the management of the Section 9 portion of the heritage fund, comprises seven professionals and three support staff. They have varying qualifications and background, masters in business administration, and PhDs and bachelors of commerce degrees and MAs in economics. In our view, they provide more than adequately the intelligence and depth and quality of advice that's necessary. That's not to say, of course, that we won't continue to seek . . . In fact, we will be securing greater advisory advice from outside the government, probably from around the world in future years. And I'll have more to say about that in the fall session. But the staff which is now there, in our view, is doing a very fine job. As I indicated, we were sorry to lose three of the highly technical people in the area, but that's a fact of life in the supply/demand of the financial sector. On the second question, the Government House matter in which there was some \$64,000 recommended to the Assembly in a previous year, the decision was subsequently taken that the appeals court, I believe, in Calgary, would be housed in the location you suggested. I was not certain as to the procedure to follow as to not proceeding on the government centre, with respect to the money that had been appropriated by the Legislature. So I did secure a legal opinion which was to the effect that while the Legislature certainly does, under the statute, have the authority to proceed to approve a recommended capital project, that there resides within the investment committee the legal authority and right to decide not to spend those moneys. Indeed, I think that reflects the operations of parliaments and governments throughout the world in the sense that the Legislature has the authority to say yes or no with respect to a proposed investment, but whether or not that investment is all used in a subsequent year or years, is something which can be decided on by, in this case, the investment committee. So we determined that it was appropriate to do that, and on the basis of changed priorities, made that decision, which is not in violation of the Act at all.

MR SINDLINGER: A supplementary, please, Mr. Chairman. In regard to the first part of the question, you indicated that you have seven professionals and three support staff. Could you also let us know . . . You said the three who left were technical people. Were they three of the professionals or three of the support staff? You also indicated that you had PhDs, economists, and some

MBAs, I believe. How many PhDs do you have, and what are the ages of the PhDs and the experience behind all of these people? In regard to the second part of the question, Government House South, I had a great deal of difficulty understanding your response; perhaps comprehending it. I think that what you said to me is that whereas the Legislature has the right to approve these things, in no instance, however, is it incumbent upon anyone to act upon what the Legislature decides, inasmuch as the investment committee can simply say that we will or will not do that. I wonder where the authority lies.

MR HYNDMAN: On the latter point, the authority of the committee and of the Legislature is set forth in the Act, which is the Legislature's Act. So as I say, realizing that, but having discovered and discussed the question of the desirability of not having Government Centre South -- that is certainly not something that has been postponed permanently -- of not having it in the location proposed, I asked and secured a legal opinion as to what would be the proper way to proceed. The way to proceed was as was on and as was noted on page 11, which was a decision not to proceed with the \$64,000. On the first question, I would like to be able to perhaps provide the committee with further information on the experience and qualifications of the individuals. I don't have them at my fingertips now. I think it's important to remember, of course, that the 10 people to whom I refer are only part of the investment expertise of the whole government, insofar as there are a number of other investment responsibilities -- the CCITF and things of that kind -- and that the total of the government investment capability for all funds invested involves more people than these 10. On the question of the three members of the staff who left over the course of the last six months, they were I think in some cases described as senior management. That would not be a correct description. They were people of very high technical ability, and are rare in the sense of having those abilities in Canada, but they were not senior management. That's why I indicated that the staff we now have and have had, there was always the back-up available.

MR SINDLINGER: Mr. Hyndman, in regard to the first, then, the staff and the background of those who make the decisions in regard to marketable securities, could we ask you please if you'd give consideration to giving us a background document on their qualifications and experience, as compared perhaps to other investment houses? And coming back to the second part of the question, it's not so much Government House South and the merits or the value of it on its own here that I'm questioning. What confuses me in my mind is the actual decision-making process. You've indicated that you secured a legal opinion, but you haven't told us from whom you obtained that legal opinion. I would also be interested in the timing of that legal opinion, and I'd also like to know, Mr. Chairman, when you solicited a request from the Clerk of the Assembly in regard to that opinion, and perhaps make a comparison of the two and see what comes out of that. But again, the question that is in my mind is the authority to undo these decisions. There's only one area of this investment fund, the Heritage Savings Trust Fund, that really comes under the purview of the Legislature, and it's the capital projects division. Time and time again, we're told that when we want to make inquiries about this, we have the opportunity to under the capital projects division in the Legislature. We did that in regard to this particular project. It doesn't matter that this is Government Centre South; it could be any other project. The question in my mind is: who has the authority to undo these things? Those who do have the authority or finally make those decisions, to whom are they accountable, if not to this committee representing the Legislature?

MR CHAIRMAN: Before having the response to the question, I wonder if I could, as Chairman, remind the members that each does have a copy of a memorandum dated September 5 from the Law Clerk and counsel to the Assembly. The key point is in the final paragraph of that memorandum, in which he makes the point that,

As a result an investment made pursuant to an authorization [and so on,] is not an investment made by the direction of a resolution of the Assembly but pursuant to a direction of the Investment Committee backed up by an appropriation of the Assembly. Therefore, I consider that it may be divested upon the authority of the Investment Committee.

MR SINDLINGER: My point, Mr. Chairman . . . We did get a copy of the opinion from the Clerk. However, it's difficult to understand sometimes the answers to questions, if we do not in the first instance know what the question was. Could you also provide us a copy of the question that was posed to the Clerk, relative to this matter?

MR CHAIRMAN: No, I can't, because I didn't do it in writing.

MR SINDLINGER: Perhaps then you might tell us what you did ask the Clerk.

MR CHAIRMAN: I did not have a direct conversation with the Clerk, but through the research assistant to this committee. We had a preliminary discussion about the possibility of that question being raised. For my own edification, initially, I concurred with the research assistant's suggestion that the opinion be obtained.

MR SINDLINGER: Then, as you go to Mr. Hyndman, can we ask him if he has the same legal opinion to which you refer, and then so, how did he come to have it?

MR HYNDMAN: I have a legal opinion which was requested by the Department of the Treasury of its lawyers, which is the Department of the Attorney General, and it was on the basis of that legal advice that I acted.

MR SINDLINGER: May I ask, please, when you solicited that advice?

MR HYNDMAN: I don't have the date. I think it was early in the year, but I'll have to get that date. It was when the issue came up as to whether or not this issue should be submitted to the Assembly. Then the opinion was requested and acted on. I think it was probably early in 1979.

MR SINDLINGER: Given the benefit that you have of that legal opinion, is there anything in here that does have to come back to the Legislative Assembly? Is there anything in here that we have the authority to make decisions on?

MR HYNDMAN: I think if the hon. member will review the heritage fund Act he will see that there are many, many occasions during which the Legislature and the legislative committee have authority to review the Act. As the member knows, pursuant to sections 6 and 7, the Legislature has the right to initiate the acquisition of any investment in the world it wants to at any time. The Legislature has the right to order the government to dispose of any investment in the heritage fund at any time. The Legislature has the right to review each of the capital projects in the capital projects division every fall, and

to say yes or no to them or to modify them. So in my view, there is very direct legislative control of all the principals and elements of the heritage fund.

MR CHAIRMAN: One moment, please, members of the committee. I'm acutely aware that we have eight minutes remaining in this 90 minute segment. In view of the fact, Mr. Sindlinger, that you have raised 12 supplementaries in the hour, and I do have still a list of those who would like to ask both supplementaries and new questions, I wonder if I could take the two supps from Mr. Oman and Mr. Pahl on this question, take any new questions, and in the time remaining, or on another occasion, return to what is becoming quite a protracted length of somewhat, or at least partially repetitive supplementaries. Mr. Oman.

MR SINDLINGER: Excuse me, Mr. Chairman. For your information, I also wish to ask two other questions, if you would take that into consideration for your planning this morning, please.

MR OMAN: Mr. Chairman, we've covered this area to some extent, but it appears to me -- this is a comment, I guess, from my own observation of the process, not only in the management of the fund, but also all government. It seems to me that you cannot bind administration or a department to the budget, saying that they have to spend it all. In my experience, in city or whatever, particularly in capital projects, there are many, many times, when -- for instance in roads, there is a change of plan or whatever, and . . . The point is, it comes back in a report at the end of the year, as this did. Now if the Legislature wants to direct the minister to go ahead and spend this on Government Centre South next year, surely it can -- on this or any other aspect. But to take away the right of the administration who sees a change in condition and say that they have to spend that money, it seems to me is ridiculous. For that reason, I think certainly they have to report back to the Legislature, as they have done. And the Legislature can either accept or reject it and reiterate, but in the interim, we have to give some freedom.

MR PAHL: Mr. Chairman, with respect to Mr. Sindlinger's concern about the staff and their qualifications in the investment division, I just wanted to make clear to the Provincial Treasurer that he's not asking, at least on behalf of this committee member, for further information. I'm completely satisfied with the quality of the answers and the quality of the decisions that have been made in that regard, and would not want it to seem that my silence or lack of comment would indicate that I was concerned as well. I have no interest in those sort of details, and I think if we pursue this as a committee, we're going to miss a lot of the things we should be looking at.

MR R SPEAKER: A supplementary. I'm not sure how to make a statement a question, but to the minister. I think this is very important to the function and the existence of this committee and also of the Legislature, where we take a Bill and approve a Bill in the Legislature for certain projects. If our recommendations and that legislation aren't to be carried out, what function do we perform if the investment committee can override anything we do? Your earlier statement from the legislation indicated that we have powers from the Legislature; then your legal opinion indicates that we have not powers, because the investment committee can override what we do. Have I interpreted what you have said correctly or incorrectly?

MR HYNDMAN: I think it's incorrectly, in the sense that the investment committee certainly can't, within the powers of The Alberta Heritage Savings

Trust Fund Act, override what this committee is doing. Let's look at the objective of this committee as set out in the Act approved by the Legislature, of which the hon. gentleman was one member; that is, to review the annual report and consider other recommendations. That is the legal basis on which this committee sits. The powers of the Legislature are massive, in terms of this review of the investments and the ability to cancel or add to investments of the Legislature. So I couldn't agree less with what the hon. gentleman suggests.

MR CHAIRMAN: Mr. Notley with a supplementary.

MR NOTLEY: Mr. Chairman, I can't help but attempt to get into this debate. With respect to Mr. Pahl's point, frankly, the information Mr. Sindlinger requested I think was reasonable. As I understand it, I think the Provincial Treasurer is prepared to make it available. I frankly would find it helpful. I think it would be excellent if this committee had it. The public would probably find it of value as well. If we have this kind of expertise, fine; let's know what it is. There's nothing wrong with that. It's a perfectly legitimate request for information, and I think the accommodation of that request shouldn't be debated.

On the other, more substantive question, I think that on this ground I must find myself in an unusual position of tending to agree with the minister. I think that there is a difference between a specific resolution of the Legislature which says, you will do X, Y, and Z; in which case, Executive Council or the investment committee has no other option. They must do it. On the other hand, the ongoing process of appropriations must leave with Executive Council some latitude as to whether or not funds will be expended. I think the highways budget that Mr. Oman raised is an excellent example. It is just not possible on occasions, because of climatic conditions or what have you, to always spend the highways budget. It isn't possible. And so we have to provide the latitude. I think there's a difference, a distinction between a decision that is made by the Legislature, where we say to Mr. Hyndman and the investment committee: you will do X. If that were the case, then there's clearly no question that they must do it. But there's a difference between that and an appropriation that we passed.

MR HYNDMAN: Mr. Chairman, I just want not to leave the impression that I was refusing to provide the information. As I indicated, I am happy to provide to the information. I'm happy to provide to the committee the background information on the people who are involved in the investments. However, I do not think it's appropriate for me to be asked to make comparisons with other investment houses, because this heritage fund is unique. There is no comparison that can be made with the heritage fund and its goals and those of any other investment in the world. So I think if the committee wishes to make comparisons with respect to other, private sector entities, that it should feel free to do so, but I do not find it appropriate to make comparisons with other investment houses or financial entities, and so I would not be providing that information. I want to be frank in indicating that.

MR CHAIRMAN: Mr. Minister, I still have one or two questions on a new subject matter to be raised. Would your schedule this morning allow you to remain in the chambers for the time it takes to address these two additional questions?

MR HYNDMAN: Fine.

MR CHAIRMAN: Mr. Sindlinger, with a new question?

MR SINDLINGER: No, it's on the comments that have just been made regarding additional information. I think the response that Mr. Hyndman has just now made is very reasonable and satisfactory. And I agree that it's not perhaps right for us to ask you to make a comparison between your staff and the staff of other investment houses. I accept what you have said there and thank you for your gracious offer to supply that information to us.

I would like to elaborate on why I've asked for that type of information, however. Several people have said that it is incumbent upon us to review this annual report and the investments reported therein. I think one of the important aspects of that review is indentifying those people that made the decisions that went into these investments, and the qualifications pertaining thereto. An issue arose earlier this morning in regard to the reasonableness of using a measure of performance as opposed to a yield to maturity. We got into a discussion about creative accounting. I think if we're reviewing the past, in a case like this the measure of performance might be the more reasonable measure to use, rather than a yield to maturity. I agree that in the financial community, the yield to maturity may be the appropriate measure, but rather than a measure of performance, it's a measure of expectations. Anything can be said about expectations in the future. I can sit here and say it's my expectation to be president of Calgary in the future, and nobody could approve or disapprove of that. So the real, true measure of this thing is the actual measure realized, the measure of performance rather than the yield to maturity. But since the yield to maturity was used and put forward in this. I think it would be reasonable to ask and inquire into the background of those who put this together, so that we may better assess that type of decision. Thank you.

MR HYNDMAN: I have full confidence in all of them, so I have no hesitation in providing the background information.

MR CHAIRMAN: Very good.

MR KNAAK: I just apologize for being late, Mr. Chairman. I suppose the request has been made to provide the resumes of the employees that work in the department and deal with the investment decisions. Is that the substance of the request?

MR HYNDMAN: Background information on their qualifications, and that sort of thing.

MR KNAAK: I'm concerned that it sets a precedent. I'm not sure what the ramifications are at this time, but it would be much the same as my interviewing a person in the law firm and then hiring that person, and then without their consent, publishing their resume in the newspaper. I'm not sure whether that is appropriate, and I really would, as a matter of principle before we proceed to release employees' resumes to the public, give this matter a little bit more thought. I'd be surprised if the confidentiality . .

There's really an undertaking of confidentiality when a person seeks employment with the government, and I'm not sure when, once he is accepted as an employee, whether that obligation of confidentiality remains. It seems to me that the decision of whether or not to make this public isn't the decision of the government; it's the decision of the employee. I believe, Mr. Chairman, if we're getting legal advice, we should get legal advice on that point.

MR CHAIRMAN: Before doing so, I think in fairness to Mr. Sindlinger, his request was not for resumes of staff members. I believe his question used the words "background summaries", and it's the background summaries to which the Provincial Treasurer has agreed.

MR KNAAK: What I'm saying is that that's a component of the resume. I think as a matter of principle, we should check it out, because if we establish in this committee that we can ask for background information of every employee -- not just the Treasurer's department; we could ask for the qualifications of the people in every other department that comes before this committee. I really am doubtful whether that's a good precedent to set. I think before we as a committee decide that that's what we want to do, we should postpone this particular decision of whether or not to request the minister, or even to accept his voluntary suggestion that he would do so, until we've examined it a little bit more closely. I think it's premature to make that decision.

MR CHAIRMAN: Mr. Musgreave and Mr. Borstad, both of whom I assume wish to speak to this question.

MR MUSGREAVE: Yes, Mr. Chairman. I hope the members of this committee have more wisdom than to assume that because certain individuals have certain academic achievements that that's going to make them the kinds of people who are going to tell us the right and wrong things to do. Right now in Canada, there is a struggle on between Campeau Corporation and Royal Trust Company, for the takeover of that company, and it's headed by an individual who I doubt even got out of high school. I'd rather have Mr. Campeau on my team recommending my investments than many people that I can think of in this province. So I would strongly suggest to you, sir, that we just leave this whole issue, because I think it's not going to take long for anybody to put together what person we're talking about. You may call it one thing, but I think the members of this committee and the public at large can soon make these assessments. I just think it's not only distasteful; in my opinion, it's downright stupid.

MR CHAIRMAN: I hope the members can find their way through the subtlety of Mr. Musgreave's remarks.

MR BORSTAD: In following up Mr. Sindlinger's questioning and his comments, I see nothing wrong with getting background information. You're not going to pin that to an individual X, Y, or Z. We're asking for background information on the staff in the department. We're not pinning it to anybody's name. I see nothing wrong with that information.

MR NOTLEY: (inaudible) constraints the minister has already indicated, so what in heaven's name are we wasting . . . We have other questions to ask.

MR HYNDMAN: I have no intention of securing personnel files. And of course, there's no precedent being created here either.

MR CHAIRMAN: Does anyone else in the committee wish to comment on Mr. Knaak's question? If not, then we'll allow Mr. Knaak to respond, and then I'll call for a vote.

MR KNAAK: Thank you, Mr. Chairman. It's not a question of the minister's agreeing or not agreeing. Even if the committee agreed to make the request, there's still a question about whether it's proper and legal to do so, within

the undertaking of confidentiality. So my motion would be that the request for background information on individuals in any particular department is beyond the authority and out of order of this committee, and that the request for such information be rejected as a matter of principle, notwithstanding that the minister has volunteered such information.

MR CHAIRMAN: Does anyone wish to comment? I realize that Mr. Knaak hasn't phrased it as a motion, but I'll accept it as a motion, which is: That this committee, not on this occasion or on future occasions, elicit from cabinet ministers departmental staff information. Is that an accurate phrasing of your thoughts, Mr. Knaak?

MR KNAAK: Notwithstanding that the minister might volunteer to give such information.

MR CHAIRMAN: Those in favor of that motion please signify, perhaps with a raised hand. Six. Those not in agreement with the proposal? Five. Mr. Knaak's motion appears to have carried.

Mr. Sindlinger, with a new question?

MR SINDLINGER: Mr. Hyndman, if at the time this accounting period ended, and we reached the crossover point we referred to earlier, how much money would be available in the savings trust fund?

MR HYNDMAN: I think the only way to answer that is to indicate the amount of money that was in the heritage trust fund at the end of this accounting period, which I think was \$6.4 billion. Now those were of course in investments of varying kinds, with various and varying degrees of liquidity. So that's the money that was invested at that time.

MR SINDLINGER: If the government and the people of the province at that time needed \$6.4 billion, how soon could that be made available?

MR HYNDMAN: First, you have to remember that the assets of the capital projects division are deemed assets. So they would have to be subtracted initially. Presumably, we wouldn't want to see the health sciences centre sold and realized for some amount. So you have to delete on the basis of the fact that the Legislature has deemed those to be assets in the Act. The moneys, of course, which are available on a reasonably quick basis, are those found in Section 9; that's what the purpose of that section is, so that investments can be liquidated over days, weeks, or, say, a few months, to make investments. So it's certainly not a situation where the people of the province could suddenly realize \$5 billion or \$6 billion in cash within 24 hours. That's not possible, and that's why . . . Of course that circumstance wouldn't occur, I would think, because hopefully, in the future, the economic and fiscal trends of the province would be such that the heritage fund would be used as a transition. For example, if there was some degree of predictability, maybe the change in the percentage of 30 per cent would be the first thing the Legislature would want to change, on the recommendation of the government, and then perhaps move into using moneys from the income portion of the fund over a given year. So I can't at the moment see a circumstance where there would be a demand for the fund to be immediately liquidated. It wouldn't be very good planning if that had to occur.

MR SINDLINGER: The point I'm trying to make, though, is simply that the fund is not of a magnitude of \$6.4 billion. It's \$6.4 billion, less \$733 million of deemed assets.

MR HYNDMAN: The Legislature has said that the deemed assets shall be added to and include the fund, and when the Legislature says that in a statute, that is a fact, even if there may be other accounting principles that are not in accordance with that. The Legislature has stated what it believes to be the fund comprises.

MR SINDLINGER: The Legislature may state also that it's going to be 20 degrees above in Alberta year round, but that's not necessarily going to be the case. The fact is that this fund is not \$6.4 billion. It's \$733 million less than that.

MR HYNDMAN: The fact is that the fund not only comprises the \$5.78 billion in investments; the heritage fund of this province also includes those 50 or 100 worth-while people projects around the province, which are in effect part of the heritage fund. Certainly in terms of liquidity, they're in a far different situation. But those comprise the fund, because that's what the Legislature has said in the act comprises the fund.

MR SINDLINGER: I'm not saying the projects and investments weren't worth while, because certainly they were. I'm just saying that this could be misleading, for anyone to open this document and get the implication that there is \$6.4 billion there, because there isn't.

MR HYNDMAN: I think it would be misleading to show any other figure, because it would not be in accordance with the legislation, and it is my obligation to follow the legislation. I think the key thing is that this fund is so unique, frankly, in the world, that probably you have to read the legislation with the Act to be able to determine exactly what it is. It's not misleading; it's a pretty correct reflection of realities.

MR CHAIRMAN: Are there any further questions that members of the committee would like to direct to the Provincial Treasurer? If not, then, on your behalf, I'd like to thank Mr. Hyndman for meeting with us in the chambers and for extending his stay with us to enable us to get through what has been an interesting, stimulating, and quite useful question and answer session. Thank you, Mr. Minister.

Committee, perhaps we could adjourn for, say, 10 minutes or so, and then we'll return to the chambers and meet with representatives of Western Management Consultants.

The meeting adjourned at 10:43 a.m.