

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, September 23, 1980

Chairman: Mr. Payne

11 a.m.

MR CHAIRMAN: Order please. Members of the committee, I am happy to welcome with us today Mr. Bill Barrett of Western Management Consultants who, as members will be aware, has spearheaded the consulting work conducted to date in behalf of the committee. It has occurred to me that Mr. Barrett will not be acquainted with you, so I'll take this opportunity to introduce you to him. As I mention your name, with a non-verbal cue or a wave of the hand would you indicate who you are. In the back row, reading from our left to right, Mr. Barrett, is Fred Bradley, Charlie Stewart, Elmer Borstad, Tom Sindlinger; the front row, Grant Notley, Ray Speaker, Eric Musgreave, Milt Pahl, and Peter Knaak.

Mr. Barrett, as you and I have previously discussed, admittedly briefly, I thought it might be useful if you could perhaps speak to the interim reports, copies of which each member should have, ideally, in the chambers today, following which I would like to open it to questions from the committee, and you respond as you see fit.

MR BARRETT: Thank you, Mr. Chairman. I think the committee should be in receipt, since the inception of the project original terms of reference, of a copy of our original work plan, in which we laid out how we perceived the work the project should follow in terms of meeting the objectives laid out in the terms of reference. Then we provided you with a preliminary report, on August 11, which basically reviewed the status of our information gathering up to that point, in terms of the research projects as outlined in the work plan. The most current report, which I gather was submitted to you on September 15, was, as indicated in our original work plan, a preliminary assessment and analyses of our data gathered to this point.

I should point out very quickly that one of the problems we had in terms of gathering appropriate information to meet the objectives laid out in the original terms of reference was the fact that a very large number of sources during the period we were out gathering information were on holidays. It was a very difficult period, particularly during the month of August, to find the particular people who we were looking to to get information from were in many cases not available. As a result, unfortunately, we have run slightly behind the very tight time schedule laid out in the original work plan. If you will remember, the project was undertaken early in July, the second week in July when we actually got the project under way. We certainly had hoped to have more information and data than we have at this point in time, certainly prior to the presentation of this most current report.

However, as I've indicated in the report, we do feel that we've got sufficient information in hand and have identified the sources of other information sufficiently for us to meet the objectives of being able to provide you with the detailed final report on October 15.

One of the things I would very much like to have your input from today in reviewing the preliminary assessment and analyses report is our outline for the proposed format for the final report. It's important to us now, in the very critical stages of completing our information gathering, our analyses and

assessment, that we are in a position to present the information in the form that is most meaningful and useful to yourselves.

Mr. Chairman, I don't know whether it's the committee's pleasure for me to review the most recent analyses and assessment report or whether they would just like to go straight into asking questions at this stage.

MR NOTLEY: Whatever way. I just had a couple of questions. One of them I suspect was just a clerical error. Whatever you want to do, Mr. Chairman.

MR CHAIRMAN: The Chairman will be influenced significantly by the feelings of the committee. Could the committee respond to Mr. Barrett's question, which is: shall he now defer to you for questioning, or would you prefer him to make some additional comments on the interim report dated September 15?

SOME HON MEMBERS: Questions.

MR CHAIRMAN: Okay.

MR NOTLEY: Mr. Chairman, on page 14 of the September report, third paragraph:

growth rates based on empirical data of the principal measurements of demand for capital in relation to conservative estimates of growth for the [heritage trust fund] . . . indicate that the fund could finance a significant proportion of Canada's estimated \$1.4 trillion of capital investments between 1979 and 1980 . . .

That must be . . .

MR BARRETT: That's '99. I do apologize. I thought that had been amended in the final copy. I have an amended copy here.

MR NOTLEY: I had assumed that that is what it was.

MR BARRETT: I should have pointed out too that we did discover another small one in the subsequent paragraph, second-last line, where it refers to "local" Canadian capital markets. That should refer to "total" Canadian capital markets.

MR NOTLEY: Mr. Barrett, at the present time, what is our \$7 billion, in terms of the capital requirements of Canada?

MR BARRETT: Sorry, I'm not quite sure I understand the question.

MR NOTLEY: We're talking about capital investments between '79 and 1990, \$1.4 trillion. What would the annual -- do we have any figures on that? I see 2 per cent of capital market by 1990.

MR BARRETT: As I have indicated, we have done some extrapolation of aggregate capital requirements. If you can give me some time, I can give you that figure. We certainly do have those figures available and will incorporate them, very definitely, in the final report, where we intend, as I have indicated, to do some correlation work between the extrapolated, or forecast, capital requirements and the actual growth in the fund itself, and to take this statement a little further in terms of its analysis, in terms of the relationship between the two functions.

MR NOTLEY: Mr. Chairman, I don't think it would be necessary to get that figure now. If it's going to be included in the report on October 15, that would be fine with me.

MR OMAN: Mr. Chairman, my question is more of a general nature than specific to the report. I wonder if at this point -- and I missed your introductory remarks, having come in a little late -- whether you feel there are any changes that should be made in your terms of reference in order to fulfil what we asked you to accomplish.

MR BARRETT: Obviously a consultant wouldn't be a consultant if he didn't ask for more time. One of my concerns, as I've indicated to the Chairman, is that -- and probably it's something we should review today -- given the time frame involved, the depth and detail of information will obviously be a function of the amount of time that we can spend on it, to be able to obtain and do the appropriate analyses.

This particularly pertains and is particularly relevant for the area relating to the multiplier effect, which is one of the specific requirements of the original terms of reference. This is a very esoteric area of economics, as probably some of you appreciate. To achieve what we need to do in the time frame here, we have to depend very largely on work that has already been done, particularly in academic circles. We cannot assure ourselves, nor can we assure you, that by October 15 we will be able to come through with what I, as responsible for the project, would feel significantly comfortable with. I think we can give some indication of what work needs to be done to be able to obtain that objective as laid out, but it is probably a little premature because we still haven't completed all our final interviews in that area.

All I'm saying is that in that particular area there are some problems related to time. I think the same thing could be said for the whole project itself; it's a very, very tight time frame. But that is a function really of how much detailed information is required to fulfil the purposes of the committee.

MR OMAN: I guess you're right; everybody wants more time. I was thinking more whether or not you felt the objectives that we want are reachable in a meaningful way, as you see it at this point.

MR BARRETT: Again, with the exception of the multiplier phenomenon, certainly the other two major projects are achievable in terms of being able to identify particularly the impact of the recycling of the funds on the capital markets, also the source by location, value, and incidence of goods and services purchased from outside the province for projects funded by the heritage fund. We feel comfortable that we can achieve those objectives reasonably.

I should add a caveat to that comment. We have approached it, as we've indicated in our report, on a basis of selection, of using specific projects rather than doing it for all projects. I'm talking now particularly in identifying the incidence of goods and services purchased from outside the province. It was impossible to be able to apply this process to all projects funded by the heritage fund. As we've indicated in our report, we've actually selected two economic areas -- health care and social housing -- and from those selected specific, homogeneous projects in which the information is highly identifiable and available. From those we hope to be able to give some indication of what the incidence of those purchases from outside the province would be for the total.

MR PAHL: Mr. Chairman, I really only want to make a comment, appreciating what Mr. Barrett has said with respect to the tight time frame and the fact that there is always lots more to do. I am encouraged by the way the analysis has narrowed down a lot of things. For example -- and I'm reading from page 14 -- the assumption of an annual growth rate of 20 per cent in the Heritage Savings Trust Fund I guess will provide some sort of bench mark for some of our members. It says that the trust fund will only account for less than 2 per cent of the capital market by 1990. That's a pretty nominal number. So I assume your work in the aggregate analysis has, in effect, stopped and you will be dealing only in the sectoral and regional . . .

MR BARRETT: Very true, yes.

MR R SPEAKER: You mentioned the projects, social housing and health care, that you were going to work on. There are three areas that really aren't mentioned: the Canada investment division of the fund; there isn't any analysis of Section 9 investments; and none of the projects seem to be chosen in the energy-related fields. Could you maybe just comment on that?

MR BARRETT: Maybe I should refer you to the original terms of reference regarding that particular project. As we've indicated, for purposes of simplicity we've tried to break down the original terms of reference into three projects. The project we're referring to here, to refer to the original terms of reference:

To identify and quantify the extent to which funds of the AHSTF are recycled or circulated, directly or indirectly, including but not limited to:

And here we're referring to:

The identification and quantification by location of goods and services acquired from other than Alberta companies for projects funded through the [fund]

We recognized right from the very beginning, and I think we indicated in our work plan and our terms of reference, that it would be extremely difficult -- let me put it this way. We assumed that the intent was to reflect the incidence of goods and services purchases relating to capital projects. It would be virtually impossible, statistically or otherwise, to be able to reflect the incidence of goods and services purchased for projects that may be funded indirectly, through Section 9 investments or others in the capital investment projects. Does that answer your question?

MR MUSGREAVE: Mr. Chairman, my question was somewhat along the lines of Mr. Pahl's. Maybe I'm missing a point. On page 15, the social housing projects -- you mentioned on page 14 that the heritage fund investments accounted for 2 per cent of the capital market. Another way of going at the housing investment in the province of Alberta, I imagine, would be through the moneys put in by mortgage, trust, banks, and things of that nature. If they were investing, say, \$1.5 billion and the heritage fund social housing program was, say, \$200 million, obviously the effect isn't going to be that great, and why go through this exercise of where all the things came from to make up the social housing project. Do you see what I'm getting at?

MR BARRETT: Very definitely. Yes, I see your point, very definitely. I think it's a moot point in terms of the overall objective of the analysis. We have done some work, which is not reflected in this report, in terms of the aggregate amounts that have been funded through the heritage fund in the mortgage market, funds of the heritage fund indirectly gone into the mortgage market in aggregates, and compared that to the aggregate investment in mortgages in the province. That is an interesting figure. A very substantial proportion of mortgage financing that's identifiable -- and that is a very key caveat -- is funded indirectly by the heritage fund in Alberta.

To turn your question to that point, it may be significant for the purposes of the report to be able to explore that further and identify that more specifically, because we certainly felt that it was a very significant and important figure. It should then have a direct impact on this analysis of trying to determine the incidence of goods and services purchased externally to the province. In other words, taking the single, sample projects that we're taking and, assuming that those projects reflect the totality of goods and services purchased through social housing funded by the heritage fund, then you could develop some very interesting aggregate figures, that may or may not be meaningful for the purposes of the committee.

If that is the committee's desire, we certainly would pursue that line of investigation.

MR MUSGREAVE: Mr. Chairman, I guess what I was trying to struggle with is that I think we know, historically, that the housing industry, unfortunately, in Canada has been used as an economic stimulator instead of just being primarily to provide homes. CMHC in particular used to have this policy of putting money in or taking it back, whatever. You know, the bathtub manufacturer in Ontario suddenly has more business; the carpet manufacturer and the electrical appliance manufacturer -- on through the whole system. So this study and this type of analysis is being done *ad infinitum*, I would suggest. But to zero it in on a particular area perhaps hasn't been done.

I just wonder, as I say, if in the broad brush, when we're spending \$2 billion on housing in the province and 10 per cent is from the heritage fund -- okay, that's good enough as far as I'm concerned; I don't want this other exercise done. That was the point I was trying to make.

MR CHAIRMAN: Any further comments or questions at this point? Mr. Barrett, thank you for meeting with us today. We certainly look forward to the final report of your group. It certainly will be useful to our committee as we prepare our recommendations and our final report for the Legislature. Again, thank you.

MR BARRETT: Thank you, Mr. Chairman and members of the committee.

Mr. Chairman, if I could just make one request. If, in the committee's deliberations, there are some concerns, particularly as to the proposed format of our final report, as I indicated earlier, in terms of it being most useful for your purposes in the final analysis, we would certainly like to have them reflected through the Chairman.

MR CHAIRMAN: (inaudible) the committee on that question.

MR BARRETT: Thank you very much.

MR CHAIRMAN: Committee members, we have before us several unresolved and potentially important policy matters. I'd like to deal with those now. Mr. Speaker, are you prepared to speak in behalf of Mr. Clark's motion of September 9?

MR R SPEAKER: We had a brief discussion on it this morning. As he left he indicated that if we could hold it for him till he returns next week, he would appreciate that. If there is pressure to discuss it, I suppose I could make some comments on it. It seems fairly straightforward.

MR CHAIRMAN: I think we'd probably be duplicating discussion. If we were going to open discussion it would invite a reply, and then we would just do it all again when Mr. Clark rejoins the committee.

So we'll defer to another occasion the September 9 motion of Mr. Clark, and move to a discussion of Mr. Knaak's motion regarding public presentations before this committee. By way of reminder, you may recall that when we were discussing the Medicine Hat solar research proposal, after it had been dealt with Mr. Knaak raised a motion that was broader in scope regarding public presentations of any kind as opposed to a public presentation of the specific kind. If my memory serves me correctly, we had run out of time. So with Mr. Knaak's indulgence, I think we decided to simply defer it.

I would now invite from Mr. Knaak an opening comment, and perhaps a specifically worded motion.

MR KNAAK: Mr. Chairman, didn't I make a motion last time? I wouldn't want to make another one, separate from the one I made last time.

MR CHAIRMAN: That's quite a logical suggestion to the Chairman. I apologize for not having it before me. But that would not preclude you from a general discussion of the point, until such time as we've located in the Hansard the specific motion and read it. I'm not sure Mr. Knaak if that means you'd like to be reminded of the general discussion. The general discussion was: is this a valid forum for any public presentation?

MR KNAAK: Right. I guess, Mr. Chairman, with your indulgence, I would prefer the motion being read. Then I will address myself to the motion again. I know when I made the motion, I made a presentation at that time and debated it at that time.

MR CHAIRMAN: Perhaps I've been using the word "motion" loosely. I'm quoting from page 21 of September 10 Hansard:

Mr. Chairman, I would like to make an alternative motion, that this committee not hear public representations. As a matter of comment on that motion, it's merely to say that it really relates to the principle that we've discussed, whether as a matter of principle we should or should not have public hearings regarding investments of the capital portion of the trust fund. We're still talking about the capital portion, and I don't know if that motion clarifies that.

Quoting myself now:

The way I have your motion, Mr. Knaak, is: that this committee not hear public representations.

MR KNAAK: Regarding investments of the Heritage Savings Trust Fund. And it basically rests on the principle we discussed initially.

Perhaps I could then read one more comment that you made, by way of elaboration:

The only reason for putting this motion forward at this time I think is to have a public communication that we're not considering public representations to the committee at this time. It's open to the committee at any time after passing this one, to rescind this motion. Because these matters have come forward, I think there's an anticipation that this committee may open up the doors to representations regarding investments. The reason for putting this motion forward is to set out clear parameters for the next little while as to what we intend to do and to close the door. I really think it's not a good use of the committee's time, to reconsider that item at that time. The whole purpose of this resolution is to prevent this committee, for the time being, from really accepting each one for discussion, on a one-to-one basis, until we as a committee resolve again to reconsider it.

MR KNAAK: Perhaps I can put it a little more clearly today, and more briefly. I won't restate the motion. The motion is to refer to the capital expenditure division of the Heritage Savings Trust Fund, and I think the original discussion related to that.

The purpose of making the motion, as I pointed out on September 10, is to communicate to the public at this time that this committee is not prepared, on an individual basis -- in other words, to discuss each proposal that comes before us, whether or not we will have a particular hearing on that proposal. The reason, Mr. Chairman, is to assure that this committee does not spend a significant amount of its time discussing whether or not there should be a public hearing on any given proposal. The whole purpose initially was to suggest that if this committee started hearing public proposals, it would be a full-time job for all of us, and we would need experts to back us up in any kind of judgments before we could make a recommendation.

Thank you.

MR CHAIRMAN: Any discussion of Mr. Knaak's motion?

MR R SPEAKER: Could I just raise a question, Mr. Knaak? Are you saying that -- let's say that we all felt that some person should come before the committee to make a presentation, because of a new idea or new concept. Does your resolution prohibit that kind of thing?

MR KNAAK: Yes, it does. This resolution prohibits our discussing each one until we rescind this resolution. What may happen is that at some point in the future, we as a committee may decide, as we mature, that we do want to have public hearings. But right now the problem is that we're going to spend an excessive amount of time reviewing each suggestion that comes forward, whether or not we should have a public hearing.

MR R SPEAKER: Could I ask a second question? Let me give you a specific example. Through our office we have some research being done on the Heritage Savings Trust Fund. There was an interest in this committee to hear the findings of that professional, to review his report and recommendations.

Would your resolution exclude or include that person? Could that person be called before the committee?

MR KNAAK: My resolution relates specifically to investments under the capital projects division of the trust fund. Your consultant's report does not relate to an investment recommendation under the capital projects division. So that's not excluded.

MR OMAN: Mr. Chairman, I think I generally agree with the intent of the motion. However, I wouldn't mind leaving a bit of a keyhole opening there. I wonder if -- I think I mentioned this before -- the mover would preface his motion by the words "as a general rule".

MR KNAAK: I think that would not solve the problem that my motion is intended to solve. As this committee matures and we as a committee think we should begin having public hearings, at that time I think a motion should be made to rescind this motion. Then we only have one discussion on whether or not we should have a public hearing, rather than having maybe 15 discussions on whether each particular investment recommendation should come before the committee. The intent of this motion is to solve that problem. Although I can see the intent of paraphrasing or having that suggestion in front, or the intent, I don't think it would solve the problem that my motion would, hopefully, solve.

MR CHAIRMAN: Would any other committee member care to speak to Mr. Knaak's motion or the implicit amendment suggested by Mr. Oman?

Those in favor of Mr. Knaak's motion, please indicate. Mr. Stewart, Mr. Borstad, Mr. Musgreave, Mr. Sindlinger, Mr. Pahl, Mrs. Fyfe, Mr. Knaak. Those opposed? Mr. Oman, Mr. Speaker, Mr. Bradley. The motion is carried.

Finally, perhaps an even more contentious matter. Mr. Knaak raised the question, not a motion, in one of our earlier deliberations -- if my memory serves me correctly, it was during the discussion initiated by Mr. Sindlinger -- as to the timeliness of the material that was being brought to the committee by cabinet ministers. In the context of that discussion, Mr. Knaak raised the question: are the ministers under any obligation to bring any additional or amplifying material other than that which appears in the annual report? Do you wish to speak again to that question, Mr. Knaak? Then we'll invite comments by others.

MR KNAAK: Just so the committee is clear, I didn't address the question of whether the minister should bring information. The only question I raised, and it was a matter of interpretation of the legislation, is whether or not we as a committee are entitled to insist that the minister bring information at this time. I guess what I had in mind there was that it may be worth while for this committee to consider a recommendation during our recommendations phase that all ministers provide information with respect to their responsibilities under the Heritage Savings Trust Fund to this committee. The point initially was: can we at this time insist, as a matter of right, that the ministers provide us with information? That's the only point. Under the legislation there is some doubt; it doesn't talk about that. But I agree that if we're going to get information, let's have it in time to review it.

MR CHAIRMAN: Mr. Knaak, just for clarification, did you indicate that you would personally be prepared to develop a recommendation, during the recommendations phase of our deliberations this year, related to the question?

MR KNAAK: Yes, I would.

MR CHAIRMAN: If that's the case, then it might be more expeditious simply to defer committee discussion of it until that time.

MR KNAAK: Yes. That may or may not take an amendment in the Act, but we'll come to that bridge when we talk about the recommendation.

MR CHAIRMAN: Would committee members agree to the Chairman's decision simply to defer discussion until the recommendations phase? Thank you.

That takes care of the policy matters that I had in my file for the day. I would just like to conclude with a couple of reminders, then a request. Mr. Barrett, prior to his departure from the chambers, indicated he would benefit from any report format suggestions or recommendations. Your Chairman would also benefit from any committee report content or format suggestions you might care to make over the next few days. We have not yet begun in earnest to write the report, but I'm starting to formulate thoughts on content as well as format. If you have any views in that regard, I would appreciate being apprized of them.

By way of reminder, I would certainly appreciate if you could have your recommendations into my legislative office by midday next Monday. If you could, I will undertake to work through the balance of that day and the following forenoon to have for your review, the following day at 1 o'clock when we meet in these chambers, a preliminary summary of those recommendations, similar to the one that I developed last year and that appeared to be useful. Do I have your concurrence on that?

HON MEMBERS: Agreed.

MR CHAIRMAN: We then stand adjourned until 1 o'clock next Tuesday. Thank you.

The meeting adjourned at 11:35 a.m.