[Chairman: Mr. Kowalski] [2 p.m.]

MR CHAIRMAN: Good afternoon, ladies and gentlemen, and welcome to the second session of the sixth day of the public meetings we are having with respect to the Alberta Heritage Savings Trust Fund Act. I am glad that the Sergeant-at-Arms, although he is out of his dress this afternoon, indicated to us exactly what the circumstance was with respect to the buzzers. It certainly was not a calling for the Provincial Treasurer. He is our guest this afternoon, and we would like to welcome him. He, of course, is also the author of the 1982-83 annual report of the Alberta Heritage Savings Trust Fund.

We welcome you, Mr. Hyndman. If you have an opening statement that you would like to make, now is the appropriate time to do it. Then we will proceed with questions from members of the committee.

MR. HYNDMAN: Thank you very much, Mr. Chairman and members of the committee. I am delighted to be back again to comment particularly on the 1982-83 annual report of the fund. I don't propose to review again the report of the Provincial Treasurer, which is on pages two to six, with regard to that particular fiscal year. But with the recent policy changes and insofar as we are now at year seven of this unique fund, I thought that it might be useful to review the policy changes of the last six or seven years and to indicate that we are still on course, even with the policy modifications that have been made.

As well, I think it's important to underline the fact that I think the fund has become — almost around the world, but certainly in terms of investment — a symbol of security and stability, not only to Albertans but to others.

The heritage fund of course is an integral part of the province's financial management strategy, and that's not the case in any other province. I think it's fair to say that over the seven years, it has responded in the various policies about saving and the policies involving investment in ways that are different in each given year. The focus, though, has consistently been on investment in the province of Alberta.

It is perhaps important to go right back to 1976 and remember the three original objectives of the fund, which at that time were debated at some length when the Bill was in the House at second reading and in other forums. The first one was to save for the future, and that of course was for a reason which is even more valid today: Alberta is more dependent than any other province of Canada on the revenues from the one-time sale of resources that are depleting. As we have now seen, in addition to that one-time sale we face the situation of revenues coming from resources where the prices are uncertain and the returns we will get are determined by events well beyond not only Alberta but Canada.

Secondly, the objective — and the statute notes this as well — was to improve the quality of life, and that was particularly through the 29 projects of the capital projects division; and, thirdly, to strengthen and diversify the economy.

So savings has always been the key objective. Therefore from the outset, the fund and that element of it has been a tool in the management of the province's total finances.

What about the savings policies? Initially of course, and for the first six years of the heritage fund's existence, the goal of saving 30 per cent of resource revenues for the fund was followed. As we know, that will be changed effective this fiscal year to 15 per cent for a two-year period. As well, it is important to note that right from the beginning, all the earnings of the fund were to be put back into the fund and retained for investment. That is one of the reasons why we were able to have a significant increase in income this year and use it for two years to fund such programs as the economic diversification programs.

It is important to note that although there was substantial growth in non-renewable resource revenues over the early years, the revenue has actually declined in the past two years. The transfer from the heritage fund has actually declined in the past two years. I believe that indicates, again right back to the fund's genesis, that it was a proper concept.

Investment income of course, as opposed to the transfer, has grown steadily and grew by 47 per cent. For the first time ever — and here is another landmark we followed — in the history of the fund, the revenues and investment income exceeded the resource revenue transfer.

The savings policy is particularly important — in fact crucial to the fund, I suggest — because if we had not had available those transfers of income and the equivalent of the 15 per cent, there would have been a very severe restriction in the fiscal options available to the province at a time when there was an economic downturn, when there was a need for a program to assist, and when there was an actual decline in resource revenues. Therefore the savings policy was altered to respond by utilizing the investment earnings and reducing the rate of savings.

The investment policies of course are reflected as they were originally. They are reflected today in the various divisions of the fund. In the early years, there was a surplus of funds after meeting all the needs within Alberta. After meeting the needs of the capital projects division and the Crown corporations, there was a surplus so we built up a portfolio of marketable securities; that has been drawn down. We made investments originally elsewhere in Canada through the Canada investment division, and those of course were suspended in order to make sure that the priority needs in Alberta were looked after.

The Alberta investment division is of course totally unique in the sense that it not only is to earn a return but is to strengthen or diversify the economy. That takes by far the largest involvement of funds in terms of investment, both overall and in this recent year. So investments in the province of Alberta to the Crown corporations to strengthen and diversify in the many ways noted in the annual report have always been a feature of the fund. As well, special projects such as Syncrude, which earned, I think, a solid return of close to 20 per cent this year on investment, and the Prince Rupert terminal, which will show indirect dividends to our farmers down the road, are aspects of that.

An important thing from the very beginning was that these investments of the fund wouldn't compete with the activities of the private sector, as has been the case with some other funds, but rather would complement and support the private sector and would not try to supplant private-sector investment and entrepreneurs. I think the fact that the fund has never been seen as an investment threat of any kind but rather a supportive financial element, has been one of its strengths.

The capital projects division, in terms of the fact of no new projects presented for approval last year, has levelled off, you might say, with 29 projects, a number of which were completed and a number of which are ongoing. The only major initiative of recent times — and it has been a very major one indeed — has been the Venture Capital Corporation, where it is intended to have some $200 million made available to that entity from the fund.

Portfolio diversification was something which was started about two or three years ago. Members will recall that originally the investments were almost totally in fixed income securities, whereas in any investment portfolio the goal should be to diversify into equities, into growth entities at some time. That was started recently as a balance to the concentration in high-quality, fixed-income securities. It's on a passive approach, and of course that has had a satisfactory rate of increase this year.

As to the key characteristics of the investments, just to summarize and conclude, the investments of the fund have always focussed on Alberta. They have reflected over the last seven years the changing needs of the economy. At a time of fast growth of population they have provided public works all over the province, such that I think we now have a pretty complete inventory of infrastructure public works. They have supported and complemented rather than interfered with the private sector. And the bulk of them, of course, have earned a cash return, apart from the capital projects division, which doesn't have that goal.

As to the future, Mr. Chairman and members of the committee, I suggest that the rationale for a continued commitment to saving is still there. It has proven out as being a valid goal for the fund. The revenues are still derived from a one-time sale of resources, where outside events determine the returns from those resources. Therefore, it is and will continue to be a crucial tool and balance wheel in the province's finances. Those elements are as important today as they were in 1976.

With that, Mr. Chairman, I'd be happy to answer any questions, and I look forward to the advice of the committee.

MR. CHAIRMAN: Thank you very much, Mr. Hyndman. We'll go to questions from the following members in this order: Mr. Gogo, Mr. Hyland, Mrs. Cripps, Mr. Notley, Mr. Musgreave.

MR. GOGO: Mr. Chairman, I want to put a specific question, but if I could just ask the Treasurer, because he didn't mention it in his overview: the Alberta Heritage Savings Trust Fund Act stipulates that the provincial cabinet is the investment committee. It's been some years since it was started, in 1976. I wonder if included in the minister's overview could be the time taken by the provincial cabinet in making investment decisions as members of the investment committee. It seems to me, the way the fund has grown, it would take a great deal of time. I wonder if the Treasurer would comment on that before I put the first question.

MR. HYNDMAN: It's hard to make a precise estimate of the actual hours spent. There were in the order of about 20 meetings of the investment committee over the course of the annual report that's under review. In respect of each of those investment decisions — for example, to make an investment in debentures of the Home Mortgage Corporation or one of those kinds of investments — there was always debate and discussion. One of the major elements of significant discussion, though, would be that which related to the recommendations to the Assembly for changes in policy, which we saw in the spring session — the first being, for example, the diversion for 24 months of all the income; and the second, the reduction from 30 per cent to 15 per cent of the transfer. So those and other aspects of the fund take a very significant number of hours. I'm not able to put an actual number on them.

MR. GOGO: Mr. Chairman, to Mr. Hyndman. Undoubtedly there are many members of the committee who would be concerned about the heritage fund being involved in either creating jobs or making work. My interest lies really in the commercial investment division with regard to the common stock portfolio. I wonder, Mr. Treasurer, if you could provide the committee with — I'm reading now from the quarterly report — a list of the equities owned by the fund, to the tune of a value of $156 million as of the end of the fiscal year.

MR. HYNDMAN: Mr. Chairman, those are listed on page 42 of the annual report, where there is a listing as of March 31, 1983, of Canadian common shares under about a dozen categories, which are the standard basic categories of the Toronto Stock Exchange used across the country. I know the committee in previous years has asked for an actual listing of all the shares; I'm not sure of the appropriateness of that, but I could provide that list if the committee feels so inclined.

MR. NOTLEY: Agreed.

MR. HYNDMAN: I think we should probably stay with what is the standard approach here, but I have the information on all the stocks and their valuation, approximately $50 million at market than it was at cost, if that is desired by the committee, Mr. Chairman.

MR. CHAIRMAN: I think it would be. Mrs. Davidson, perhaps you might retrieve that information from Mr. Hyndman and circulate it.

MR. HYNDMAN: Before we complete that, Mr. Chairman, with regard to that listing, I should mention just for the record that in the detailed list which shows all the investments and the names of all the stocks as of March 31, 1983, members will note a discrepancy in the totals of four of the classifications of the 13 industrial classifications; that is, a discrepancy between the list which I am now providing and schedule 5 of the financial statements on page 42. That discrepancy between the total cost and the market value of all the common shares is consistent, though.

The reason for that is that some of these various companies will fit more properly in one category than the other. For example, a discrepancy results from — four companies were changed from having an industrial classification of one kind to another. Union Gas Limited was coded as oil and gas originally — it was in that group of companies — and has now been moved to the utilities classification, which is the one that more accurately describes what that company does. But the change in those classifications doesn't have any effect on the totals or on the commercial investment division.

Perhaps while I'm commenting on that, I should also say that since the last annual report, there have been three new purchases of shares: one is BCRIC, the British Columbia Resources Investment Corporation; secondly, Falconbridge Copper; and thirdly, Canadian Utilities. There have been no sales.

Again, the approach to purchasing these is to have a balanced portfolio in terms of categories. It's a passive portfolio, not a managed portfolio.

MR. CHAIRMAN: Mr. Musgreave, you were waving . . .

MR. MUSGREAVE: I had a concern, Mr. Chairman, but the minister has distributed this material. I know once before I got into a problem on this committee about revealing the identities of the managers of the desks on the investment group. I just have a concern: I hope we don't get carried away here and start arguing about the kinds of investments we're making.

MR. CHAIRMAN: I'm sorry, Mr. Musgreave. It's Mr. Gogo's time to ask a question. If you want to raise a point of order . . .

MR. MUSGREAVE: It's just a point of order. I don't think we should be getting into this at this time, that's all. But we've already done it. We have one lone voice saying "agreed" for the whole committee, which concerns me, Mr. Chairman.

MR. GOGO: Mr. Chairman, if I could speak to the point of order. We're not only a very mature committee, we're very mature members. I take exception to the Member for Calgary McKnight saying this committee is not mature enough to understand a listing of the securities as provided by the Treasurer. I'm quite surprised by him, and in this case I certainly agree with the Member for Spirit River-Fairview.

MR. MUSGREAVE: On the point of order. I was not casting any aspersions on the members of the committee. I'm just saying that I can anticipate a public debate — why have you bought booze stocks; why have you bought copper stocks; why have you bought certain kinds of stocks? — missing the point, which is that we're supposed to be investing for return on our investment; never mind . . . But we'll let the NDP carry that.

MR. CHAIRMAN: Thank you very much, Mr. Musgreave. Does anybody else want to participate in this point of order? Mr. Musgreave, the information has been circulated. I appreciate your thought, but just by looking at the consensus view of the members, I think they would accept that this is important information.

MR. GOGO: Perhaps it's my last supplementary. I note with interest that shares of Molson's and Labatt's, et cetera, are listed under consumer goods, although if you've watched television recently you would think it should come under merchandising.

Mr. Treasurer, I think it's generally the practice, certainly by investment dealers and other financial people, that when they show a common stock portfolio, in addition to showing the cost and the market value, they generally show the yield. I'm wondering if it would be possible in future — I'm reading now from page 4 — to show the current yield on the specific date. I think the yield on the common stock portfolio is obtainable very quickly by computer.

MR. HYNDMAN: I'll consider that suggestion and report back, Mr. Chairman.

MR. HYLAND: Mr. Chairman, my question is relating to the transfer of funds out of the heritage trust fund with the change to the 15 per cent. I note in the report on page 2, Mr. Hyndman, you refer to $866 million coming out of trust fund income that's been transferred into General Revenue. I would like your comments on the matter of the heritage trust fund interest rebate program, its anticipated cost, and the rebate program for home mortgages under the same heading. With the interest rate dropping substantially since the program was announced and those estimates made, what is going to be the effect of the saving we anticipated it was going to cost with that program?

MR. HYNDMAN: Mr. Chairman, I don't have the exact figures. There certainly will be a reduction in the originally estimated costs from the fall of 1982. I believe the spring budget speech gave an update as to the revised costs of the mortgage interest reduction program, which I think benefits about 136,000 Albertans, and the small business and farm interest shielding programs, benefiting about 26,000. The cost will be less than was originally anticipated. The moneys from the heritage fund, $866 million as referred to on page 2, were not diverted specifically into the separate economic resurgence account but rather into the General Revenue Fund, and helped to reduce the deficit as well.

By reason of the dropping interest rates so far — and we hope they'll continue — the estimates of costs were less than they were. However, we don't know what will happen over the next 12 months. But in any event, even if there is an expenditure which is less than anticipated, that will simply go to reduce the deficit which was predicted in the spring of this year at some $850 million.

MR. HYLAND: So whatever savings there would be in interest will be shown as a savings in the slowing down — I guess that's as good a word as any — of the provincial deficit. It won't be returned to the fund because of a saving on a project but rather remain in General Revenue to cut down the deficit?

MR. HYNDMAN: Yes. As mentioned on page 2, it's not only to fund the economic resurgence programs but also reduce the deficits. What that really means is that it will reduce the borrowing that we'd have to do in Toronto or elsewhere to balance the budget.

MRS. CRIPPS: Mr. Chairman, over the last year, especially last year, considerable concern and even criticism was directed at me and other members because the interest rate on loans to other provinces was lower than the interest rates which Albertans were able to borrow at. I note that the interest rates are included in the 1981-82 report, but they are not included in this year's report. Can you give us the information on the interest rates on loans under the Canada investment division of the report?

MR. HYNDMAN: Yes. We've tried to cut down on the size of the report and the amount of paper in it, in a general mood of restraint in provincial operations, and that's one reason why they aren't quite as thick as they used to be in the past. But the information is instructive when it comes to the Canada investment division, because that division earned — and every one of the provinces or Crown corporations to whom money was lent of course paid every dollar they were required to under the contract, and that exceeded $.25 billion. So it showed that as being a good investment.

But the interest rates varied from about 9.5 per cent back in 1977, when those were the interest rates for those entities, to a high of 18.1 per cent yield to maturity on the loan of $75 million to the province of New Brunswick in September 1981. So that province is now paying well over what is the prime rate and, again, indicates that apart from the investments being made in Canada, our investments are paying off very, very well indeed.

MRS. CRIPPS: A supplementary. Has the recent reduction in the number of loans to other provinces created a problem with your stated objective in the Canada investment division of that portfolio?

MR. HYNDMAN: Actually the loans to other provinces are no longer, in terms of the last 16 months. I believe it was early May of 1982 when there was a suspension of all loans to other provinces, on the basis that the province of Alberta had priority needs for the money. No loans have been made since that date. Is that your question?

MRS. CRIPPS: The question was: how are you meeting the stated objective of investment under the Canada investment division of the Heritage Savings Trust Fund?

MR. HYNDMAN: It's being made in effect by the loans which were made during the period 1976 to 1982, but no new loans have been made. So I think the objectives are still current in the sense that the original objectives of that entity were being met at that time, are still being met, and did help in a significant way to make money available in Canada.

MRS. CRIPPS: Thank you.

MR. NOTLEY: Mr. Minister, at the risk of upsetting my colleague Mr. Musgreave, deeply worried though I may be at that possibility, I'd like to deal with some of the specifics of the investment portfolio and ask you, sir, what consideration has been given by the investment committee to the sort of implications of investing in either regulated or industries that come under the purview of the government of Alberta. A regulated industry, of course, would be TransAlta. We have invested some money in TransAlta. We have a conflict there between the consumer, who wants the best possible power rate, and the heritage trust fund, that wants the best possible return on investment.

But we have other examples too. We have all the much-talked about examples in the last year of distilleries and breweries, yet we run the Alberta Liquor Control Board and would have some capacity through that particular agency of some considerable import on the distillery and brewery industry. What consideration, if any, was given by the investment committee to this particular type of investment, where one could say there is, if not a conflict of interest, at least the possibility?

MR. HYNDMAN: I don't believe there is a conflict. If one goes back to the basic philosophy of the fund and of these divisions — in other words, the objective of the commercial investment division is to invest dollars on a balanced philosophy throughout the entire economy, representing every element of Canadian industry, in order to earn the largest possible rate of return. That's been established by the Legislature as the goal. Therefore, for example, the 140,500 shares of TransAlta Utilities Corporation owned by the heritage fund are part of a balanced portfolio. Without a utilities portfolio, it would not be balanced; it would not be a wisely chosen portfolio. And without any utilities in Alberta it would not be a wisely chosen, balanced, mature investment portfolio. Therefore the decision is made on the basis of having a balanced portfolio with, in this case, a mature stock that will yield a rate of return.

On the other side there are of course considerations with respect to the legislation giving the government obligations in the operation of utilities in the province, and that operates through such entities as the minister and the Public Utilities Board. But I don't see a conflict in that way, nor do I see a conflict with regard to the purchase of some of the stocks of spirits found on the shelves of the Alberta Liquor Control Board.

MR. NOTLEY: I think the question is not what would be a balanced investment from a strictly private-sector investment point of view. One would want to have a balance; no question about that. I guess the question I would raise, Mr. Minister, is whether or not you feel there is at least some problem in that we have regulatory agencies which come under the purview of Executive Council. The same people who administer the heritage trust fund, or are ultimately responsible for it, are the people who appoint representatives to the Public Utilities Board. We have the Alberta liquor control commission, which markets the bulk of the spirits, et cetera, in the province.

I guess I come right back to the question of whether there is not a legal conflict of interest, but at least a conflict of objectives.

MR. HYNDMAN: I don't see one. I guess this is a question of philosophy, Mr. Chairman, in the sense that the regulations with which the government and the Legislature surround utilities are perhaps greater in depth and complexity than those which might be involved by governments, for example, in the taxation system. But even with the stock of a private company in Canada, one could say that governments generally, be they federal or provincial, through the tax Acts and various other statutes, have the jurisdiction to surround those companies with certain limitations.

In the case of a utility, of course, a government has made the decision that there has to be a monopoly or semi-monopoly in that area and there will be a mechanism to work out a fair pricing arrangement for consumers. But no, I don't see a conflict in investments in these entities which are perhaps closer to government than normal corporations. I don't see a conflict in terms of their investment and the government also perhaps having slightly more responsibility than with totally private companies.

MR. NOTLEY: I suppose that becomes a matter of some subjective debate. Could I then deal with the question of debentures in Alberta Crown corporations, which is the largest part of the portfolio, $7.6 billion on page 4. Then breaking it down on page 22, we have AGT at $1.7 billion. What consideration, if any, would be given by the government to any modification of that investment in AGT should the government go ahead with its proposal to set up a super company to deal with both AGT and Edmonton Telephones?

MR. HYNDMAN: With respect to that corporation's borrowing, of course the most recent policy change has been that it has borrowed and will in future borrow for all its capital needs outside the heritage fund, as was done very recently with the Municipal Financing Corporation as well. Regarding the existing investment of approximately $1.7 billion, I think it's premature at this stage to try to assess what the situation would be with regard to the proposal which has been spoken of by the mayor and relates to the report which came forward. I gather there is a committee at work as to what might be accomplished there, and there was reference to the fact that perhaps a model related to or somewhat similar to the Alberta Energy Company might be followed. But I guess it's premature at this stage to assess what might or would happen to the heritage fund investment in Alberta Government Telephones in the event there was a different modus operandi of Alberta Government Telephones and/or Edmonton Telephones.

MR. MUSGREAVE: Mr. Chairman, to the minister. I'd like to refer to the third paragraph of page 3. In the last sentence of your report, you say:

> For the third straight year these investments exceeded the new funds available from resource revenues and investment income retained, requiring the marketable securities portfolio accumulated in the early years of the Fund's operation to be drawn down.

Do I understand from that that you have, in effect, sold marketable securities in order to meet the commitments you had made?

MR. HYNDMAN: Members will recall that the section 10 investments were originally there. That part of the heritage fund was set up as a location in which to park funds on a short-term basis, earning interest pending their need in a longer term investment such as the Canada investment division, the Alberta investment division, or one of those. Of course, what has happened is now that the need for moneys from the heritage fund — the traditional needs, for example, of the Home Mortgage Corporation, AOC, ADC, Alberta Government Telephones, and AMFC were all met from the heritage fund. There's no longer enough money coming into the heritage fund to provide the financing for those corporations. That's why AMFC and AGT started to go to the market and will in future have all their capital financing provided by the private market.

Again, what that means is that with the 15 per cent transfer into the fund, there are only moneys available to cover, say, the Agricultural Development Corporation, the Prince Rupert terminal in the capital projects division, and the Housing Corporation, and that in order to find sufficient funds there also must be moneys drawn down from other sources, which is section 10.

MR. MUSGREAVE: A supplementary. On that point, Mr. Minister, I note that in Alberta Home Mortgage Corporation and Alberta Housing Corporation, there was $932 million invested in 1983. I'm concerned that you mentioned that we'll be investing more money there, with the obvious vacancy rates of some of the proposed modest apartments. I understand some of the senior citizens homes are advertising for tenants. They obviously aren't filling up like they used to. I was wondering, do you have a system of monitoring the Alberta Home Mortgage and the Housing Corporation to ensure that they're going to have the ability to repay these loans as they have in the past?

MR. HYNDMAN: We don't have any concerns about the ability to repay, although the constant advice of the Minister of Housing with respect to the roles of those two corporations and the government is something which is very important in this day and age with a very changing scene in the housing and accommodation area. If I recall, I think we indicated in the budget in the spring that we foresaw a dropping rate of dollars being supplied to those two corporations and an increase in a counterbalancing way of private-sector financing in the housing area over the balance of the decade. So I think there would be an appropriate reduction in the number of dollars available there, which will of course help the heritage fund financing a great deal because the dollars available are less as well.

MR. MUSGREAVE: Mr. Minister, I think you mentioned in your remarks that the section of the fund that looks after the marketable securities was like a passive investment.

MR. HYNDMAN: No, those are the commercial investment division investments. In other words, the investments in the list of corporations which I handed around are done on the basis of a formula in order to get a balanced portfolio in the Canadian economy, not bought and sold every day in various lots.

MR. MUSGREAVE: That's what I was getting at, that kind of fund management. I know it's not comparable with the traditional pension funds, but it is a sum of money that is being invested, hopefully with the best rate of return. I understand some of the most successful ones operating on a worldwide basis have a position whereby when the stock you purchase reaches a certain price they automatically sell it, or if it drops you automatically get rid of it again. Either way you have a stop order coming and going. Now, do you operate under that philosophy or not?

MR. HYNDMAN: Not really. That would be a modified management approach. The investments in the commercial investment division are not on a managed basis in the traditional sense of having someone watching them day by day and hour by hour, and buying and selling them. Rather, the investments are made on the basis of a formula which indicates the various categories, in this case listed categories which make up the elements of the Canadian economy, and then one chooses the strongest stocks within those various areas of the economy, such as management companies, forest products, transportation. Then those entities are held over the long term. Studies have shown that investments which have been made and held in that way, without being managed and without being actively bought and sold, bring a return either equal or higher than those which are managed.

MR. R. SPEAKER: Mr. Chairman, to the minister. My question relates to a comment of the minister on July 22, when the report was released to the public. The statement in the press release is that the 15 per cent of non-renewable resource revenues destined for the fund in 1983-84 is needed to continue funding such projects as the Walter C. Mackenzie Health Sciences Centre, the Alberta Oil sands Technology and Research Authority, irrigation works, the Prince Rupert grain terminal, housing programs, the Alberta Opportunity Company, and the Agricultural Development Corporation.

The minister has partly answered that question in an earlier question, but could the minister be more specific with regard to that comment? When we look at what's happening in terms of the royalty money from oil, it's going down. The future of our gas sales seems to be in difficulty at the present time. The revenue from oil leases is down as well in the current fiscal year. There will be less in terms of that 15 per cent to support programs of the Alberta Heritage Savings Trust Fund. I was wondering if the minister could be more specific in terms of those programs. Will we see a cut in the programs? Will we be asked potentially as a legislature to draw the programs out over a longer period of time so we can meet our capital and operational responsibilities? What are we looking at in terms of this heritage fund in light of that comment?

MR. HYNDMAN: Firstly, I guess the statement to that effect on page 3 of the news release was partly directed to answering the question some people pose saying, well, we have this multimillion dollar deficit; why wasn't the total 30 per cent from the heritage fund applied toward reducing the deficit? Of course, the answer to that is that that would mean we'd have to go to Toronto or elsewhere and borrow moneys to continue, for example, building the Prince Rupert grain terminal, funding the Agricultural Development Corporation, finishing the Walter Mackenzie health centre, or continuing to build irrigation works. In other words, that money would have to come from somewhere, presuming the Legislature wishes those to continue, and I think it does.

So all of that 15 per cent still transferred to the heritage fund goes directly to simply continuing to keep those capital projects — the Prince Rupert terminal, the Alberta Opportunity Company, and those entities — moving along at a pretty modest level, with no new projects.

As to the future, I think it's difficult to predict what will happen, but the trend certainly seems to be a reduction in the rate of growth of revenue. Therefore I would see that that restraint will probably have to be applied with respect to capital projects division projects and other investments of the heritage fund in these entities.

MR. R. SPEAKER: Mr. Chairman, a supplementary question. In recognition that our revenue will decrease — and that means 15 per cent of a decreased amount, whatever it is, is going to reflect on the programs — is the minister examining these programs we've just talked about or others under the heritage fund, with the thought in mind that there may be some very difficult decisions ahead for us as a heritage fund committee or the Legislature, where we may have to reduce the level of expenditure or put some projects on hold; for example, capital works for irrigation?

MR. HYNDMAN: I don't see much likelihood of putting any projects on hold actually, but there is the very real option that in looking at the reduced rate of energy revenues it may well be that stretching out of projects, delaying of aspects of projects, reduction in the rate of flow of moneys to those Crown corporations mentioned, will have to occur. That of course will come up very shortly, in the fall session of the Legislature, when the capital projects moneys beginning next April 1 are brought forward.

The reality is that revenues are not coming in the way they used to. Therefore we have to live within our means, and all kinds of reductions have to be considered in the various previous revenue flows in order to cut the cloth to meet the revenue coming in.

MR. R. SPEAKER: Mr. Chairman, a supplementary to the minister. In light of that position, would the minister be looking at this committee to establish any types of priorities, and can the minister have that kind of discussion with the committee? Certainly that's government policy, I guess, and can be discussed openly in the Legislature. Maybe another way of putting it: has the minister, through his offices, persons doing the assessment at the present time as to which areas have greater priority? I use the irrigation districts as an example. Will someone be consulting those organizations shortly, so that all of a sudden they're not abruptly pulled up short, say, later this fall in some of their planning projects? Is there some process in motion at the present time, or will that be just all of a sudden an announcement in the Legislature?

MR. HYNDMAN: I think where it's appropriate, the ministers involved would certainly be conferring to the extent they could with any entities where the funding would contemplate being reduced. I think, though, generally around the province, all those who are involved in making decisions with respect to provincial moneys — be they budgetary moneys, the General Revenue Fund, or the heritage fund — know that the financial situation is not the way it was three or four years ago and that in virtually all aspects of public financing there have to be caps on programs where there were not caps before, there have to be perhaps restrictions in eligibility where there were not those before; and maybe there has to be stretch-out of various programs: all the while realizing that those can be done generally without in any way reducing the high quality of service delivery programs in the province, where I think on all of them we're still ahead of the rest of the country.

The question is how far ahead of the rest of the country can we be. We can't be as far ahead as we were, but I think the reality is that people in the province want budgeting that reflects the moneys available. In the past the committee has not been reluctant or embarrassed to express its opinions as to what the priorities should be. In determining our priorities, we would look at the recommendations of the last seven years of the committee, plus those of interested MLAs and others.

MR. R. SPEAKER: I asked the question because that is a new direction for the committee. We haven't had to make that kind of decision before. We've been able to add new programs, plan, and add to a program, whereas I feel this certainly is a very significant direction to the committee. I think it changes our ground rules to some extent.

MR. HYNDMAN: Those ground rules are in the statute, which is to review the annual report essentially of '82-83. But the committee has always found it wants to weave its way somewhat outside those parameters from time to time.

MR. CHAIRMAN: I might just make editorial comment that we've been really responsible in terms of the rotation of questions here. It's going super well. Unfortunately, I slipped just a bit and allowed the last two speakers to have a question and three supplementaries. I'd like to go back to the old format of one question and two supplementaries. You weren't alone, Mr. Speaker; I was also looking at Mr. Musgreave. So perhaps we could resume now with Mr. Hyland, Mrs. Cripps, and Mr. Musgreave, and the general format the committee has already agreed to follow.

MR. HYLAND: Thank you, Mr. Chairman. Part of my question may have been answered. It's related to the effect we've had with the Crown corporations basically — let's use the Municipal Financing Corporation for an example — and the effect the minister sees on them with the recent changes, with two changes in the last two years or thereabouts, of government policy relating to sheltered financing by the provincial government to the cities and towns. Some of them have built buildings and are now going to run into an operational cost. I wonder what effect the changes in availability of funding relating to the heritage trust fund will have?

MR. HYNDMAN: For this fiscal year, I recall that we budgeted for a somewhat lower demand of capital dollars by municipalities through the Municipal Financing Corporation. I think that will probably continue. The amount of money now out, in total $1.5 billion, I'm told is about four times that of any other province in the country. Of course, that is shielded through the General Revenue Fund to a total of over $1 billion to the year 2000.

But with the reduction in economic activity, also bearing in mind the fact that over the last eight or nine years the municipalities of the province have built up an incredibly high-quality infrastructure in terms of public works for citizens, I would expect that therefore there would be a reduction in the rate of demand of dollars of all the municipalities on the Municipal Financing Corporation every year — a pause, if you wish.

MRS. CRIPPS: Mr. Chairman, first I'd like to follow up on Mr. Speaker's remarks and your answer. Did I understand that the 15 per cent that is now going into the Heritage Savings Trust Fund is going to the capital projects division for projects that are already in progress and none of it is going to savings?

MR. HYNDMAN: No, what was originally the top 15 per cent of the 30 per cent transfer, plus all the income, totalling something over $2 billion, is all diverted through the legislative changes of the spring into the General Revenue Fund for two years.

MRS. CRIPPS: My question was with regard to the 15 per cent which is still going into the Heritage Savings Trust Fund.

MR. HYNDMAN: That is needed to cover most but not all of the funding requirements of the capital projects division projects, plus the Alberta Opportunity Company, the Prince Rupert terminal, the Housing Corporation, and the Ag. Development Corporation — such as those.

MRS. CRIPPS: That's commitments that were already made.

MR. HYNDMAN: Commitments already made.

MR. CHAIRMAN: Mr. Musgreave.

MRS. CRIPPS: That was a supplementary to you.

MR. CHAIRMAN: One more, then.

MRS. CRIPPS: If I have to clarify the question for him, it shouldn't count as a supplementary.

MR. CHAIRMAN: We're trying to be flexible, Mrs. Cripps. I think you have one more, and then Mr. Musgreave, and then you can come back in.

MRS. CRIPPS: The heritage trust fund scholarships and the medical research funds are endowments. How do you envision the integrity of these being maintained? Is the rate of return on these endowments sufficient to meet the grants that you expect to pay out of those funds?

MR. HYNDMAN: I imagine my colleague Dick Johnston will be able to answer that in more depth — tomorrow, I gather — with regard to that fund. The general approach has been — for example, when the scholarship fund was set up — to ensure that the arrangement of scholarships would be such as to meet but not exceed the revenues coming in. If the revenues come in at a lower rate by reason of interest rates, it would of course be only prudent budgeting to consider changing the parameters of the benefits, such that they match the lower total coming in. In other words, they would not be programs which would be subsidized out of the General Revenue Fund. If there are fewer dollars available by reason of a lower interest rate or a lower return, it would be only prudent to cut the cloth to fit that.

MR. MUSGREAVE: Mr. Chairman, to the minister. I have just one quick question. The $31 million which is part of the $106 million commitment to the Ridley Grain company: how will we get a return on that, or is that a capital investment which we don't get expect a quick return on? It's on page 5 of your report.

MR. HYNDMAN: There is a return on that. Frankly, it's not a commercial rate of return. It's a return which is partly reflected in simply a benefit to the agricultural and farming population of the province. It's not one which a commercial entity would have entered into, but there will be a return, partly based on the balance sheet of the corporation and depending how busy it is and what the throughput of grain is, that will come back to the province of Alberta.

But part of the return is simply providing a second port access closer to the world, and shipping our grain to export markets faster and on a more reliable basis.

MR. MUSGREAVE: As I understand it, Mr. Minister, part would be coming back in actual cash but part of it is similar to our irrigation works in southern Alberta, for example.

MR. HYNDMAN: The irrigation work financing through the capital projects division is an injection of capital dollars where there's no direct return of cash at all. With regard to the Prince Rupert grain terminal, there will be a partial return of cash dollars. But it's not as if one was going out and making a market investment and expecting to get exactly the same dollars as if you were investing in, say, a bank certificate.

I might mention that construction on that project will peak this fall, and there have been no major cost overruns so far on the Prince Rupert terminal. So it looks like it's pretty well on target. The return is in the form of an annual 11 per cent interest payment and our participation in the cash flow of the project until the outstanding debt from the fund is fully repaid. It's through a series of complex bond arrangements.

MR. CHAIRMAN: I have no additional committee member who wants to raise another question. Would there be an additional question forthcoming from members of the committee?

MR. R. SPEAKER: I'm not sure whether the minister can answer this, and most likely the answer will be that we have to wait. Are there any projections on the potential input into the heritage fund relative to the 15 per cent? I'm sure there are projections. At this time are we looking at, say, 75 per cent of what the diversion was in the last fiscal year? Are we looking at 50 per cent? In the minister's mind, how serious is the reduced amount of resource revenue for the upcoming fiscal year? Maybe the minister could indicate it in a general way; I'm sure not specifically.

MR. HYNDMAN: I'm afraid the member is right. It's not possible to be specific, for the reasons outlined by John Zaozirny when he was here, indicating the vicissitudes of the revenues from natural gas exports to the United States, or that the price of oil is determined in Vienna or Riyadh. However, our projections in terms of policy are as reflected by the amendments this spring; that is, to have a two-year time line in which a level of 15 per cent of the fund is diverted into the General Revenue Fund, and a two-year time line from September 1 relating to the income. That's as far as we can go at the moment.

As indicated, it's very directly a function of the amount of non-renewable resource revenue. That's only possible to determine on the basis of a projection of what the international price will be, what the demand for oil will be, and what the price and demand of both domestic and export natural gas will be, basically. I'm afraid I can't go beyond that at the moment; I don't think anybody really can.

MR. R. SPEAKER: Mr. Chairman, to the minister. At the present time, for example, oil per barrel could be just over $20; the projected price of it could be $22 or less, somewhere in that area. As you've indicated, the sales projections for gas are down, the market's down. I look at coal royalty, and the figures I have indicate that royalty from coal is down. The leases: down, in my information. In terms of your department, is that 70 per cent of what it was last year in terms of the gross? Then we take the 15 per cent of whatever the gross is, and determine what goes into the Heritage Savings Trust Fund. In the Provincial Treasurer's Department, what kind of estimates have been made at this time with regard to that projected income from resource revenue?

I think there must be some ballpark estimate that can be made: 60 per cent of what it was last year or 40 per cent. Or is that just an impossible figure at this point?

MR. HYNDMAN: I don't think it's possible to indicate that at the moment. The difficulty is — as we noted in the budget of the spring, we made certain estimates the best we could; for example, oil at $29. That seems to be holding. The situation in the United States with respect to the administration and the Congress's handling of natural gas prices is clouded. There were, though, changes in the policy of natural gas from the point of view of incentive gas and other prices which we put forward and the federal government subsequently endorsed. So at the moment, it's very difficult to predict what revenues will be.

All we know, as we knew in the budget in the spring, is that the rate of increase of revenues is certainly well below that of the increase in expenditures, and there is a limit to borrowings. So we have to look not only at cutting expenditures but increasing revenues, and all options must be open.

MR. GOGO: Mr. Chairman, the question is directed to page 3 of the report, regarding the rate of return. I guess the rate of return is a real rate of return, in that the heritage fund and the Crown in the right of Alberta pay no taxes. That rate of return is based, obviously, on income-earning investments, as referred to in paragraph two.

I note with interest the common stock portfolio; for example, there's a rate of return — and I can appreciate that you can't take market value and claim a rate of return unless you sell it. I can appreciate that, but I think it's very impressive at some 25 per cent.

For my clarification, the rate of return is the total investments by the Heritage Savings Trust Fund in interest-bearing securities, which would exclude the capital projects division of the fund and the commercial investment division as related to equities. Is that accurate?

MR. HYNDMAN: It excludes the capital projects division, but it includes the commercial investment division. I think the chart on page 10, at the bottom, probably assists in explaining that very complex, I find, difference between rate of return on amortized cost and yield to maturity on amortized cost of fixed income securities, which are slightly different by .3. But you will note that the 13.9 per cent rate of return includes the commercial investment division, with the note that it's only dividends on shares. For example, it doesn't include the market value increase of the stock. It only includes the dividends which come in, because the stock hasn't been sold and the money hasn't been realized yet.

MR. GOGO: That, Mr. Hyndman, is one of the reasons I would find on the document you provided today, schedule 5, current yield on the common stock portfolio of great interest. I think one could then put the two together.

Mr. Chairman, a supplementary question. I should know the answer to this, Mr. Hyndman, but I don't. This government announced the economic resurgence program last year. With regard to the source of the funds to the Heritage Savings Trust Fund — namely the non-renewable resource sector, of $5.1 billion over X years — could you clarify for me the source of the funds of $5.1 billion in terms of the foregone revenue the government would anticipate if normal royalties were paid and the amount of cash given to the industry? In other words, I'm having some trouble trying to relate. It obviously is not $5.1 billion in cash being given to the industry. Could you give me an approximate breakdown of the balance of the two?

MR. HYNDMAN: There is certainly a mixture there of foregone revenue and cash which relates to the oil and gas activity plan, which I believe totals $5.4 billion. But you are certainly correct. It involves foregone revenues, royalties and such, as well as payments out. I don't have the exact balance of that. I recall that the original news release a month after the budget in the spring of 1982 contained those breakdowns. I can certainly provide that information, as to the way it now looks.

MR. GOGO: A final supplementary. What you are saying, Mr. Treasurer, in effect, is that some 55 per cent of the revenue of this government comes from non-renewable resource revenue. I think that was in your budget of last year. Then this government, in turn, has turned around and said that to protect our sources of revenue, we should do what we can to encourage that source of revenue; namely, the non-renewable resource sector. So part one or part (a) of the resurgence program — birth was given to that program. And we are injecting some cash in addition to the foregone revenue to sort of guarantee or ensure that in the future the royalty revenue will in fact be increased, plus providing many thousands of jobs. That's what we're saying, I guess.

MR. HYNDMAN: Programs such as the royalty tax credit and the development drilling program are examples. But that's right. There's no question that on a cost/benefit basis, the amounts of money that can be returned to the province and its citizens through royalties and indirectly through jobs, by having a healthy, active, dynamic oil and gas industry, makes it an excellent investment to have an oil and gas activity program.

THE CHAIRMAN: Ladies and gentlemen, we have once again evaporated our list of questioners. Are there additional questions forthcoming from members of the committee?

That being the case, we will adjourn in one minute, after I bring you up to date with respect to our agenda for tomorrow. We will reconvene at ten o'clock in room 312 for an audio-visual presentation by the Minister of Recreation and Parks. At the conclusion of the audio-visual presentation, we will come back to the Legislative Assembly for the question and answer time frame. Tomorrow afternoon, we will be meeting with the Hon. Dick Johnston, Minister of Advanced Education.

Members of the committee, I would also draw to your attention that in the organization binder that Mrs. Davidson provided for us today, there are two changes in the agenda for the upcoming meetings of this committee. One is that originally we had slated the Hon. Don Sparrow for Monday, September 12, 1983. He has advised us that he will be unable to attend on that day, and we have rescheduled him to Monday, October 3, 1983, at 10 a.m. The second change is that previous to this we had hoped to meet with Mr. Rogers prior to the date that we now have him down for, which is Tuesday, September 27, 1983. It appears that Mr. Rogers is out of the country until that time frame.

Those are the two changes. We might spend a couple of minutes on the schedule tomorrow after you have all had a chance to reassess it.

Mr. Hyndman, thank you very much for being with us today. If all goes well, we'll all be back here one year hence, and we'll have a further opportunity to discuss this year's annual report of the Heritage Savings Trust Fund.

[The meeting adjourned at 3:04 p.m.]

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