

2:02 p.m.

Wednesday, October 10, 1990

[Chairman: Mr. Ady]

MR. CHAIRMAN: I'd like to call the meeting to order and would like to welcome the Auditor General. I appreciate that he and his colleagues are with us this afternoon. I'd like to open up the meeting for some preliminary remarks by the Auditor General, and perhaps he would introduce his colleagues he has with him so that their names will be in the record. Then we'll entertain questions from the committee members.

Mr. Auditor General.

MR. SALMON: Thank you, Mr. Chairman, for the opportunity to make some opening remarks.

I have with me some senior staff of the office responsible for the audit of the fund. On my right is Jim Hug, an assistant Auditor General; and on my left is Ken Hoffman, senior director of audits in the office.

The financial statements of the fund are included on pages 31 to 47 of the annual report which was released today. These statements were prepared by Treasury, and my Auditor's report is included on page 32. The balance of the fund's annual report is not subject to audit but has been reviewed by my office. The financial statements themselves are presented in a similar fashion to last year. The Auditor's report again contains a reservation of opinion with regard to the deemed assets. The issue is essentially the same as discussed in prior meetings, and in my opinion, that reservation to some extent helps to reduce the confusion regarding the size of the fund.

I'd like to comment briefly on some items in the statements and will focus mostly on the statement of changes in the financial position on page 35. This statement summarizes the transactions which created the increase in the cash and marketable securities between the beginning and the end of the year. The operating transactions in the statement show the contribution to cash from the operations of the fund, and it is the net income adjusted for accrual accounting entries.

In the section of the statement referred to as transfers and amounts expended, the amount transferred to the General Revenue Fund is the same as net income, and this is consistent with the requirements of the Act for the past several years. The investing transactions in the statement show proceeds and investments for each of the divisions.

The Canada investment division proceeds of \$83.3 million result primarily from payments by the province of New Brunswick and the New Brunswick Electric Power Commission for debentures which matured during the year. The Alberta investment division proceeds were primarily repayments from the five provincial agencies included in the division and amounted to approximately \$529 million as well as promissory notes which were disposed of amounting to \$150 million.

The division invested approximately \$109 million in Alberta Mortgage and Housing and AOC in the year. Also, there was an investment of \$24.5 million made in Nova Corporation common shares, the Alberta Energy Company common shares for \$42 million, investment in the Lloydminster bi-provincial upgrader for \$27 million, and \$4 million to the OSLO project. The Syncrude project itself had a net change in the year of approximately \$7 million.

The commercial division realized \$96 million from the sale of investments in the year and made additional investments of \$124 million in various Canadian equities. The nonrecoverable capital project division expenditure totaled \$133.7 million for the year,

and this is the amount of the reduction in the fund's financial assets in the year. The major projects which you're probably well aware of are in the irrigation rehabilitation – an expansion of \$25 million – the irrigation headworks for about \$40 million, and individual line services for \$46 million.

This year the audit went well, and we had good co-operation both from Treasury management and staff during the audit.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. Salmon. I recognize the Member for Calgary-Mountain View followed by Ponoka-Rimbey.

MR. HAWKESWORTH: Thank you, Mr. Chairman, and welcome to our Auditor General. I look forward to his responses to our questions this afternoon.

I'd like to ask him to turn to page 42, and that has to do with schedule 3. He made some comments about it in the overview, but I'd like to in particular draw his attention to the note (b) regarding the participation in the form of the debenture with Millar Western Pulp Ltd. I noted in that – and it's been a note on the financial statement now for a couple of years – that "no interest is due until the full principal amount has been repaid," which strikes me as being backwards from the way most debt obligations are dealt with by a lender. So I would like to ask the Auditor General, in reviewing this debenture – and there are others there as well – generally, does the province, when it extends money in the form of lender in this regard, place any kind of negative covenants with the obligants? There are some, for example, where a company has to meet certain liquidity conditions equal to their current liabilities: that's one test. Another is: if the net worth versus the total assets and so on – negative covenants to ensure that someone doesn't take assets out of the company, leaving the lender high and dry. I'm just wondering if the Auditor General can tell us whether there are any particular negative covenants that apply to this particular debenture, and then maybe some comments generally about debentures that the province has through this fund.

MR. SALMON: Mr. Chairman, as far as the Millar Western debenture, this note describes the particular agreement that the province entered into with respect to this arrangement. The wording of the note we have reviewed in comparison with the agreement itself, and it does reflect the basic understanding that we have as Treasury has outlined here in this note.

As far as the other debentures are concerned, each one is a separate agreement that the province has entered into and each of the notes has tried to describe the circumstances which reflect the various terms and conditions that should be given to anyone reading the financial statements for them to comprehend the kind of arrangement that has been made by the fund. I have no particular thoughts on any negative things, because we are more concerned with what the arrangement has been and whether or not there's compliance with that in describing the debenture and whether or not the figures shown in the schedule are in accordance with the stated value as of the end of the fiscal year.

MR. HAWKESWORTH: Well, Mr. Chairman, a lender usually takes precautions when he lends to an entity, to ensure that the money doesn't disappear or that he's not left high and dry. If the Auditor General is not in a position to review whether those precautions have been taken or could assure us whether those precautions have been taken, could the Auditor General tell us

whether anybody who has some responsibility for the heritage trust fund is performing that function?

MR. SALMON: Mr. Chairman, the management at Treasury who actually operate the investment fund itself do have systems and balances in place that would tell them whether or not these particular investments are being properly valued, and we are interested in whether or not the payments are being made on time and what is happening; we examine all of that in relation to what Treasury is doing. We have to do that in order to express the opinion on the financial statements that we do in the front of the statements themselves. We do monitor the actual operations of the systems, but of course we're not involved in any way in determining what the policy matters are. We are more interested in compliance with those policies.

MR. CHAIRMAN: A supplementary?

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MR. HAWKESWORTH: Thank you, Mr. Chairman. Again in the notes to this schedule. The actual schedule itself is to March 31, 1990, and yet under note (a) there's reference made to a date in July of 1990 which comes after the end of the financial year and again in August of 1990. The one that interests me, August 1990, just in that it appears here: "the sale of . . . \$607 million . . . will be used to prepay debentures held by the Fund." What I'd like to ask the provincial Auditor General is whether in reviewing he does have an opportunity to review these, whether that \$607 million will fully discharge the responsibilities that Alberta Mortgage and Housing Corporation has under those debentures to the fund. I notice that the outstanding amount as of March 31, 1990, was close to \$3 billion, so obviously this only reflects a portion of the portfolio of mortgages. Can the Auditor General tell us whether that \$607 million fully will fulfill the obligations of the corporation to the fund for the amount of the portfolio in question?

MR. SALMON: Mr. Chairman, I could answer that simply and say no, so I'll say that. But I would like to add that the reason for the note is that in any presentation of financial statements, depending on when that audit is completed, it is important that management include any significant subsequent events that occur after March 31 in their notes to disclose for the reader the status of the fund or an organization whatever it might be. Auditors are very interested in those subsequent event notes because we want to make sure that the statements are presented fairly. So this is the reason for the Telus note. You'll notice that the date on the Auditor General's report is August 9. The announcements came before that date; therefore, it was included in the statements. But obviously, on the basis of the debentures outstanding and the \$607 million, they don't match.

MR. HAWKESWORTH: Can I have just one clarification on that?

MR. CHAIRMAN: A clarification on that.

MR. HAWKESWORTH: I'm not sure. Maybe I didn't make my question clear. Obviously, the whole portfolio was not up for sale and all the debentures were not included in the sale. Of those debentures represented by the \$607 million: does that fully meet the corporation's obligations to the fund? Does that fully cover the outstanding amount, or is it short some figure?

Does that fully discharge the obligations for that portion of the portfolio that's being sold?

MR. SALMON: No; AGT will still have a debt.

MR. HAWKESWORTH: AMHC.

MR. SALMON: AMHC? Sorry, I'm still on Telus. AGT?

MR. HAWKESWORTH: No, I'm sorry. Alberta Mortgage and Housing Corporation, \$607 million. The last paragraph on note (a).

MR. SALMON: Oh, on the sale of the mortgages?

MR. HAWKESWORTH: Yes, and it relates to the single family mortgage portfolio. There'll be proceeds of \$607 million which "will be used to prepay debentures held by the Fund." Now, of those debentures held by the fund that are being prepaid, does the \$607 million represent the full obligation of AMHC to this fund, or will AMHC have to come up with some additional funds to fully discharge its obligations under those debentures?

MR. SALMON: Mr. Chairman, the Alberta Mortgage and Housing Corporation has disposed of the family mortgage portfolio, which is only part of the assets of the organization. Obviously, on the basis of the debentures outstanding to the heritage fund there are other assets that are making up the rest of the investment that heritage has in housing. I don't know whether that answers your question, but that's the way I got it.

MR. CHAIRMAN: If I could just make an observation, perhaps that question might better be put to the Minister of Municipal Affairs, who has responsibility for that action of the Alberta home mortgage, unless it's an auditing accounting question that you're really trying to get the answer to. Would you just rethink that and . . .

MR. HAWKESWORTH: Well, I appreciate that, Mr. Chairman, and I appreciate your indulgence. It would be helpful if I had the Auditor's view of it before putting the question to the minister. It may not require a follow-up with the minister if the Auditor could give me a clear answer.

MR. SALMON: Are you asking whether or not in this \$2.9 million of housing that portion of that that represents the family mortgage portfolio is paid off by the \$670 million? Is that what you're saying?

MR. HAWKESWORTH: That's right.

MR. SALMON: In other words, you want a breakdown of the \$2.9 million as to how much is in the housing?

MR. HAWKESWORTH: No. I'm just working from the note, Mr. Chairman, which refers to prepaying "debentures held by the Fund," especially those that relate to the "single family mortgage portfolio." I understand that within that \$3 billion figure there are debentures that cover multifamily and apartments and so on, and then some portion of it relates to a single family mortgage portfolio. Now, of that amount of the portfolio sold by AMHC, they realized \$607 million. Does that fully represent the obligation which AMHC has to the fund by virtue of those debentures that are being prepaid here, or will there have to be

some kind of topping up by the corporation, or conversely will they have made some sort of profit and be fully able to discharge their obligations and walk away with a surplus? That's what I'm trying to find out.

MR. SALMON: I'm sorry. Now I understand what the question is.

It certainly is something that would be known when the audit is completed. This happens to be 1990, and I wouldn't know that today because we will not be doing the audit until March '91. Certainly that will be taken into consideration in being able to see exactly what did occur in the discharge of this particular portfolio. I see what you're saying now, and it's a good question, but I certainly couldn't answer it today.

MR. CHAIRMAN: Thank you.

The Member for Ponoka-Rimbey.

MR. JONSON: Yes, Mr. Chairman. I'd like to just get into the whole business of deemed assets. Ever since I've been on this committee we've talked about how this could be best portrayed, so to speak. I'd just like to pose a couple of questions. Right now the value of the various investments is portrayed in terms of the initial amount invested. I'd just like to ask a couple of questions off that.

First of all, in the opinion of the Auditor, would it add anything to the accuracy of the resources of the fund if we took, let's say, the Heritage Learning Resources investment where, let's face it quite candidly, those books have depreciated in value unless they've gained some historic importance – perhaps some of them don't exist any longer and so forth – and if there was one of the auditing type formulas applied to that and we reported in the report of the fund that the initial investment was \$9 million and this is the estimated value of the investment at this particular point in time?

MR. SALMON: Mr. Chairman, one has to realize that if you're in the capital projects division, this is the amount of dollars expended by the fund on behalf of the Alberta Heritage Learning Resources. This is not reflecting the value of the books that might be still on hand or held by the department in the distribution of this particular source. This is the cumulative cost that has been paid into this particular so-called deemed asset. So it's not the value of what's there today.

MR. JONSON: Well, Mr. Chairman, I sort of accept what the Auditor General has said, but I think he's also very aware of the fact that we've had an ongoing argument over the years over the value of the deemed assets section of the Heritage Savings Trust Fund. So I'll ask on another part of it, if I could, by way of a supplementary.

Let's take either the foundation for medical research or the Alberta Heritage Scholarship Fund. My question to him would be: would it be of advantage, in terms of informing this Assembly and the public of the province, to report the actual value of the investments that have been made through, say, the Alberta Heritage Scholarship Fund in the reports that are provided to this committee?

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MR. SALMON: Mr. Chairman, I sort of anticipated that question; I don't know why. I have in front of me copies of the investments of both the funds, which were included in the public accounts of the province under their particular financial state-

ments. The heritage fund shows \$100 million that has been expended – and we have to remember that word "expended" – on behalf of scholarships to a specially set up and legislated scholarship fund which holds that \$100 million. Also, the heritage fund paid over \$300 million to the endowment fund of the medical research fund. Because they are now funds and legislatively set up, we actually perform financial statement audits on those two funds, and they're included in the public accounts as separate funds in the back part of the big blue book.

For the interest of the committee, one could go to the public accounts and determine exactly the value at March 31 of either fund. In fact, I can't tell you the 1990 market values because they are not publicly released yet, but the '89 values showed the scholarship fund at a market value of approximately \$150 million. So they're \$50 million more than what the cost was to the heritage fund. Also, the medical endowment fund had a market value at March 1989 of \$441 million, which is \$141 million more than the \$300 million that was invested by the heritage fund.

But my contention always has been and always will be that these funds are now set up and established in this particular way for scholarships and for medical research, and they're accountable for those funds through the financial statements that are published in public accounts. I say that the deemed assets are the costs to the heritage fund and they're not assets of the heritage fund. That's where I stand. But certainly that information is important, and it can be found in the public accounts.

MR. JONSON: Well, Mr. Chairman, in the limited period of time that I've been on this committee this has always been debated, and I think, if I might be so presumptuous as to say so, it's been debated from the negative point of view in terms of these deemed assets not being of the value that was originally invested, if I can put it that way.

I started out by using an example where I would acknowledge that in terms of the Heritage Learning Resources investment of \$9 million there's probably been, if you apply some kind of depreciation scale to it, some deterioration in terms of the value there. But on the other hand, in terms of the figures that the Auditor General has just given us, there's been major appreciation in the value of some other items in this particular section. So what I'm seeking here from the Auditor General is some advice, since from time to time he has, in his modest way, taken a bit of issue with this. Is there a better way of reporting it? I would conclude, Mr. Chairman, with a question with respect to another section, because I feel that these sort of fall into three categories.

Let's take the investment in Kananaskis as an example. To be more accurate and to better portray this as far as the public of the province is concerned, should we report, yes, the initial investment, but number two, the replacement costs if we were to have to do it today?

MR. SALMON: I guess we could talk about this all day. I don't know where the replacement costs would come from. I do know that the heritage fund has expended \$224 million on Kananaskis Country, and that's shown under Recreation and Parks; those are the actual dollars that have been expended. I suppose if you were going to follow the process of trying to update this particular schedule to reflect where the assets are, you could probably put some notes to the bottom of the capital projects division's deemed assets and make asterisks and put letters and explain that the scholarship fund is in the public accounts under a separate fund and it's worth this. You could

do that if you really wanted, provided the actual audit was done so you knew the figure. Or you could say that all of these parks are wherever they are and this is how much has been spent. You could say that the Capital City Parks is owned by the city of Edmonton; you could say that the irrigation headworks is down in southern Alberta, where I come from, and it belongs to the irrigation districts. You could do that; you could identify where these assets are. What I have to keep saying is that it's strictly a memorandum account of expended funds by the heritage fund. And it's good; I think this should be here. Whether or not this additional information would help . . . It may take some of the problem away that keeps coming up every year about what the deemed assets are.

Certainly \$3 billion has been spent in Alberta on this. Now, if the government wanted to close down the scholarship fund and put \$100 million back in here, they could, but you'd probably have some people screaming for no scholarships. It's just the way it's been done, and we're working on the accounting side. Certainly you could make some references here, but I'm not sure that the Provincial Treasurer wants to do that. I think he likes the fact that we've spent \$3 billion, and he likes to include that as part of the fund. I'd just as soon see the \$3 billion off the balance sheet. That's all I'm interested in. I like the statement. I like schedule 6. I think it's important. You could add some notes to give some further explanations about where these deemed assets are, because they're really not in the hands of the heritage fund.

If you want to look at the Treasurer's note in the heritage fund on note 2, this is what they say, and we agree with it. They say:

Amounts expended, not recoverable by the Fund, are included in the determination of Fund . . . and are shown as deemed assets on the balance sheet.

Now, that's strictly an accounting policy, and that's the way I'm coming from. I'm tired of the subject, but we will talk about it every year if we have to.

MR. CHAIRMAN: Thank you.

The Member for Westlock-Sturgeon.

MR. TAYLOR: I'd like to just ask a short question back on the gray pages again. I assume the Auditor General is familiar with the Mumey-Ostermann report. They mention how Alberta Crown corporations' income can be taken in the way it's being done now, taken in from debentures and listed. I gather from talking to other CAs, and having had a number of corporations myself and wrestled with them every annual report time to put a favourable light on, that this is probably the only place in the world that you can get really what are associated entities, which are the government and its Crown corporations, to be recording income flow that was given them in the first place from general revenue, as actual income. Now, the other way, of course, is to do as you already do when you pool all the assets together in a general reporting, but then there's no way of telling what the heritage trust fund is doing at all.

One of the recommendations - I gather it was from the chartered accountants association of Canada, and I think you are fairly familiar with it because I heard you mention the question of deemed assets. Have you also looked into the question of the separated Alberta Crown corporation method of reporting income? In other words, how good are those debentures that we're being paid on? How good is the debt that's owed to the Crown corporations by the farmers or the agricultural owners?

In other words, can we use that different system of reporting rather than to call it income?

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MR. SALMON: Well, if you're talking about the provincial agencies that have, say, loans out on mortgages or farm loans of ADC and so forth, the audit of those organizations is done on the basis that we determine what the value is and make sure that there's proper provision for loss as well as write-downs, if it's permanent. This is in accordance with generally accepted accounting principles, so we're actually following that much with all of the provincial agencies.

When it comes to the interrelationship that you may be talking about between GRF and Heritage and the Crowns, which we've talked about in the past as well, you have to take into consideration the fact that legislation has established those entities. Then one does the work of accounting and the auditing in preparing those financial statements and giving an opinion on those financial statements on the basis that they are legislatively set up, and whether or not they follow GAAP, or where they don't follow GAAP, we would determine. Then it comes beyond that, where you get to the point where it's necessary to show what the status of the provincial corporations is as well as the GRF, and we perform the work of a consolidation. Certainly that's similar to the private sector to some extent. Maybe not all of the procedures are exactly the same as the private sector, but certainly in the private sector you would do a consolidation of the parent and all of its subsidiaries and so forth. So I think when it comes right down to it, one cannot look at this without considering a consolidation, and when consolidation comes about, you eliminate intercompany relationships and come up with what your net worth is.

MR. TAYLOR: I agree, Mr. Chairman, that they can't take it as consolidated, because it would be difficult. But I'm suggesting to the Auditor General: has he looked at the idea of a separated Alberta Crown corporation type of a reporting where it takes into account the type of debentures, type of debts they have? For instance, in 1987 it was reported that the assets would be down as much as 10 percent but the income by 28 percent, if you use that system. In other words, the present system of reporting the earnings - not the earnings; it's not even earnings - or the cash payments from the Crown corporations to the heritage trust fund, which are gathered from general revenue anyhow, kites or increases the rate of income by as much as a quarter to a third higher than what it actually is. I think you couldn't get away with it if you were listed on a public stock exchange. What is not legitimate to do between related corporations - in other words, you or I couldn't do that. If we have a publicly listed corporation and we take one of our subsidiaries that we fed money at the back door and then we call it income at the other door, we couldn't get away with that. Yet you're doing that here. Why don't we use a system . . . Because the people that read these reports are used to equating them with financial statements put out in Calgary and Edmonton and Toronto, privatizing and so on and so forth. Yet you come out here and they're not equated to anything.

MR. SALMON: Actually, in the private sector as well as in these, what we've tried to have the Treasury do is to show . . . The Canadian Institute of Chartered Accountants' handbook requires that disclosure be made of these intercompany relationships. I think by the Treasury including note 4, which is the segmented information, they've actually shown, and clearly

shown with (a) and (b), the total amount of dollars that have been generated between the provincial agencies and the Heritage. So you would do the same thing in the private sector if you had some intercompany relationships, and in the individual statements you'd have to show what they are. In a consolidation you would eliminate them. So I think it's quite similar in that sense.

MR. TAYLOR: Last supplementary. Just a note. Note 4 shows what went in; it doesn't show what comes out. Has the Auditor General made any effort to ascertain, seeing that these notes are debentures that are guaranteed by the government, just what the loss would be or will be or what the government will have to dig out to make good on the guarantee? Just what loss is there on debentures payable by the Crown corporations? How much will we have to make good on?

MR. SALMON: Well, I guess what we're after here is that . . . You say that we've got what's come in on note 4, and that's true. Some \$839 million has come in from the provincial agencies. What's gone out, of course, are all the earnings, including what has been transferred over to the General Revenue Fund. That's, of course, the full amount of the earnings, which is \$1.2 billion. I think we're maybe at cross-purposes here, because really we're saying, as far as I'm concerned anyway, that the investment in Housing, as shown by the Heritage, has to be shown at the full amount without any reduction because of that guarantee by the General Revenue Fund to Housing. Now, when it comes to Housing and Housing's assets, then we would look at them very hard because they're getting dollars from the outside through mortgage payments, repayments, and so forth.

Now, part of the money that Housing is paying over to Heritage is from that outside source. The only part that comes from the General Revenue Fund is the part that they can't meet, and it's the cash loss that has to be paid over.

It's a mixed-up thing. It's not necessarily as clean-cut as maybe some would like to make it.

MR. CHAIRMAN: The Member for Lacombe.

MR. MOORE: Thanks, Mr. Chairman. There's been a lot of questions as to the real value of a lot of things in the heritage trust fund. We get on to that quite often. I'm wondering if the Auditor General could explain our common share holding in Alberta Energy Company per se. Is that at today's market value? Or is that, you know, our investment? Because Alberta Energy shares have certainly gone up since the time we purchased them or participated in it.

MR. SALMON: Are you looking at the Alberta division?

MR. MOORE: Yeah, under the Alberta investment division, the common shares of Alberta Energy; just looking at that as an example.

MR. SALMON: Yes. As of March 31, 1990, the Alberta Energy Company shares held by the fund as shown in note (e) following that statement shows 23,207,640. The value shown over here in the schedule is \$159 million, which is the cost incurred by the fund in purchasing those shares. If you wanted to take the 23 million shares and multiply them by the value of the share today, and if you could sell that many shares, at \$18 a share you could probably realize another \$260 million.

The policy of the Treasury is to not show the market value of these Alberta investment division assets because they are long term. They are held long term, so the value as of today isn't as important as to show what the cost has been to the fund.

MR. MOORE: That was my next question, why some were at market value and some weren't, Mr. Chairman, so I'll have to think quickly here. But that's very good; I understand that point.

Now, this is the first year we've had mortgages listed in the cash and marketable securities. Has that any significant impact on the fund, by that reporting?

MR. SALMON: I'm sorry. I didn't get the question. Is that . . .

MR. MOORE: The first year that mortgages have been listed under cash and marketable securities. Now, what significance has that to the fund, doing that?

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MR. SALMON: Yes. It's another short-term investment that they have entered into. You could call it something a little bit different. We have determined that you could probably call it a mortgage-backed security. It's kind of removed from an actual mortgage. It's really a debenture secured by a mortgage, and that's what they're actually called on the investment certificate. We could have changed that title but didn't change it. This is what they put on the statement, and we lived with it, knowing this other.

MR. MOORE: Supplementary, Mr. Chairman?

MR. HAWKESWORTH: Could I just ask him to repeat one word for me?

MR. CHAIRMAN: With the indulgence of the Member for Lacombe, the Member for Calgary-Mountain View didn't hear something.

MR. HAWKESWORTH: It's also known as what kind of investment certificate?

MR. SALMON: A mortgage-backed security is what the debenture itself is called.

MR. CHAIRMAN: The Member for Lacombe, proceed.

MR. MOORE: Then, coming back to the value, are you comfortable with that figure for the value of those mortgages? Because we've known over the last few years a lot of mortgages that are at an inflated value. Are you comfortable with that point, to have a million dollar value?

MR. SALMON: Yes, we are comfortable with the value. They are guaranteed, if you might be interested, by CMHC as well.

MR. CHAIRMAN: The Member for West Yellowhead.

MR. DOYLE: Thank you, Mr. Chairman. I'd like to welcome the Auditor General to the Chamber. As a new member here it's certainly a new experience for me.

I'm sure the Auditor General knows that the three Es of value-for-money auditing, especially for a comprehensive audit, are effectiveness, efficiency, and economy. Has any value-for-

money audit been done of the heritage trust fund, either by the Auditor General or by any other organization, to establish these three Es?

MR. SALMON: Now, that's an interesting question. If you'd like me to philosophize about value for money, I can do so. You have to go back again and say, "What is the Auditor General of Alberta doing with respect to his mandate?" I have the mandate to do the financial audit of the fund. I can also examine the systems that are in place in the operation of the fund and measure that in relationship to economy, efficiency, and effectiveness. I have done some systems auditing within the fund area, and I do systems auditing in other parts of the government as well. That's the mandate on which we operate.

Now, if one wants to get into the value for money per se that you hear in the world today – the CICA, Canadian Institute of Chartered Accountants, in public-sector accounting, an auditing committee of which I happen to be a member is working on it – you get into different mandates in legislative auditors across Canada. Some auditors can actually do what we would call a value for money and express whether or not there's due regard for economy and efficiency on a particular item. The Auditor General of Alberta, thank goodness, doesn't have to do that, because I think in some ways that is the responsibility of management: to measure and to comment on their own performance and their own value and set up some system for measurement. Then the auditor, if necessary, can come along and comment on that performance. So, strictly speaking, I haven't done that type of value for money. I have done the type of systems auditing that we can do under the Auditor General Act.

MR. CHAIRMAN: Supplementary?

MR. DOYLE: Yes. Another part of my question, Mr. Chairman, was: has anybody else done this? I don't believe he answered that question.

MR. SALMON: Nobody's been in the heritage fund to do any auditing except myself, unless they've been doing it without my knowledge, because no one else is an auditor within that area.

MR. DOYLE: Under schedule 1, Mr. Salmon, on page 40, the province borrows from the heritage trust fund in three separate categories, under bonds, short-term market securities – in two places, actually, they borrow from bonds. I was wondering: what interest rate does the province pay to the heritage trust fund from these borrowings from the fund?

MR. SALMON: All of the rates within the cash and marketable security area are established by the market itself, so if promissory notes were purchased, they would be purchased just like anyone else. If the heritage fund purchases promissory notes from the province, they'd pay the same rate as anyone else would pay in relation to those promissory notes at the time they're established. There are no special considerations, as far as we are aware anyway. Certainly in following the policies of the fund, there's no special consideration given in their involvement in investments with provincial paper. It's the same as anyone dealing with the same paper.

MR. CHAIRMAN: Final supplementary, followed by the Member for Lloydminster.

MR. DOYLE: Thank you, Mr. Chairman. I was wondering: on those mortgages, I didn't clearly understand where the mortgages came from, what was purchased by them. Were they commercial purchases? Were they residential purchases? They just appeared on paper in the Auditor General's report, and there was nothing there for 1989.

MR. SALMON: That's part of the portfolio. They've entered into the purchase of these types of securities, and that was what was on hand at the end of March 1990. This is the first time they've had them; we haven't had them before. Certainly it's within their guidelines, though, to do that.

MR. CHAIRMAN: The Member for Lloydminster.

MR. CHERRY: Thanks, Mr. Chairman. I want to go to page 43, part way down, under (f), and it has to do with the biprovincial upgrader. I notice in the bottom paragraph on (f) it states the shares that Husky has. Once the operation is ongoing in that – maybe I could ask your indulgence to break that down. Although I see what Husky is getting out of it, what are the other partners going to get? They are the operator, of course, but what are the other partners getting out of it? Would that be a reasonable question or not?

MR. CHAIRMAN: That question might better be asked of the Minister of Energy, unless the Auditor General has the answer at his fingertips.

MR. CHERRY: Sure. Okay, Mr. Chairman.

MR. SALMON: All we've done thus far, as you probably recognize – this is the second year, where they've made equity contributions of \$27 million this year. There are still no operations. If you're asking for the breakdown, that last sentence talks about Husky getting 53.33 percent and the fund approximately 16.19 percent of the net operating revenue of the venture. There have been no revenues to this point, so we haven't really got into that. I don't have it on hand right here, the breakdown of the other participants or how it's going to work.

MR. CHERRY: I'm jumping the gun.

MR. SALMON: Yeah, you're right.

MR. CHERRY: All right. Thanks, Mr. Chairman.

MR. CHAIRMAN: Thank you.

The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. One of several things that somebody should be able to expect to derive from an annual report and an audited statement of this nature is a true insight into the quality of earnings of the entity with which the report deals. My argument is that three Crown corporations pay a huge portion of the "earnings" of the Heritage Savings Trust Fund. In fact, the Crown corporation portfolio would pay about \$753 million of \$1.2 billion in earnings, the total heritage trust fund earnings.

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Three of those Crown corporations paying that \$753 million lost last year, or at least received subsidies from the province of

Alberta, in the order of \$276 million. The Alberta Mortgage and Housing Corporation, in addition, went into last year with a \$606 million unfunded liability. The fact is that given those observations, given the fact that \$753 million was paid by Crown corporations which lost \$882 million, this report does not reflect properly the quality of earnings of the Heritage Savings Trust Fund, period. It doesn't do that. We all know what is at stake here. What is at stake here is some kind of observation, from the objectivity of the Auditor General, that can offset the manipulation and political statements that are made by the Treasurer when he says, "Look at the earnings of this fund." The fact is that two-thirds of this are not earnings at all.

My question is: how can these audited statements gloss over or pass over that very pertinent fact that two-thirds of the "earnings" of this fund are paid by Crown corporations, three of which had losses last year and accumulated deficits or accumulated losses, unfunded prior to that, of \$882 million?

MR. SALMON: Mr. Chairman, I don't have all those figures in front of me today. I certainly do not understand the question of quality of earnings, but I do understand the question with respect to the disclosure that's here to clearly indicate that portion of the earnings that have come from those provincial agencies, which is in note 4. I think the other thing that one has to take into account is that the way this fund has been established is to be able to invest in places where a return could be made, an investment can be made. The dollars that were invested in Housing could probably have been invested elsewhere. I think the idea - I assume on the basis of having separate organizations in the province of this nature - was to try to determine on an individual basis and then on a consolidated basis how each one operates. The economics of the province and of Canada have certainly affected the housing corporation and some of the others as well. At the same time, as long as those entities exist the way they do, I personally feel, or else I wouldn't be able to give the opinion, that they are adequately disclosing the status of each. One needs to just take them all together, as the questioner has indicated that he has, and you can understand exactly what has occurred. I don't know that anything is really hidden. I'm not sure what you mean by quality of earnings though. That's the one part I don't understand.

MR. CHAIRMAN: Supplementary.

MR. MITCHELL: Well, let me pursue that then, because I think you should understand that, and I want to make certain that in fact you do understand that. You, and to your credit, have fought with the Treasurer of this government for eight or nine years now, saying: "You can't call them deemed assets and treat those deemed assets the way you want to." You took that chunk of assets, and I use the term loosely, and required that the Treasurer deal with it separately and deal with it differently. My point is this: I think there's a precedent set that should be applied in the case of Crown corporation earnings payments to the heritage trust fund. The only reason those Crown corporations can pay the interest they owe the heritage trust fund is because the General Revenue Fund subsidizes them. In this year, in fact, that subsidy is more than the amount of money they're paying to the heritage trust fund. So what happens is that they pay to the heritage trust fund, the heritage trust fund pays to the General Revenue Fund, and the General Revenue Fund turns around and pays the Crown corporations so they can pay to the heritage trust fund.

My point is that people should be able to see that. Just people, the public who review these audited statements, should be able to see that. Just as you have rightly insisted that deemed assets be set aside and be dealt with differently than the Treasurer wanted, I would argue that you should be making the case that "earnings," very loosely used, from Crown corporations should be set aside and not included in the mainstream of reported earnings by the Heritage Savings Trust Fund. Would you agree?

MR. CHAIRMAN: Hon. member, you barely have a question.

MR. TAYLOR: How about "deemed earnings"?

MR. MITCHELL: "Deemed earnings" is a great phrase, but . . . Okay, that's my question.

MR. CHAIRMAN: Hon. member, what you're doing is you're questioning the Auditor General's process of audit. I guess the Auditor General will move to defend it. I'll leave it at that.

MR. MITCHELL: I'm questioning his definition of "earnings."

MR. CHAIRMAN: I understand.

MR. MITCHELL: I'm asking that that definition be clarified so that people can understand what it is that they see when they read this audited report.

MR. TAYLOR: They're not earnings.

MR. MITCHELL: They're not earnings; they're deemed earnings.

MR. CHAIRMAN: This is not an interchange.
The Auditor General, if you have a response.

MR. SALMON: I guess I disagree, because I'm saying that the fact that the \$839 million is shown is an indication of the source, and the fact is that the arrangement between Housing and Heritage is that if they're legal entities, they can enter into that borrowing arrangement with debentures, which they have. I believe that under the laws of Alberta that can be done, and for the province, the way the legislation is set up. I think these are disclosing exactly what has occurred in each one of those instances. I still think my saving grace, from the point of view of the Auditor, is the fact that we do consolidated statements. If we could only recognize what those consolidated statements really are - I know that they're very seldom looked at and they're not even discussed - I still think that is really a better picture of the status of the province of Alberta.

MR. MITCHELL: Mr. Chairman, the Auditor General made the point earlier that he would put the \$607 million transaction that occurred after the end of this financial report in this financial report in a note. I'm talking about the Alberta investment division note. He said that it doesn't really properly fall within the year of this report, but it reflects, it gives some sense of what's going on by showing this after-the-year-end transaction, and we would need to know to express that properly.

MR. SALMON: That's a subsequent event note?

MR. MITCHELL: Yes, a subsequent event note, and it's important to bring that in. I would argue that if, as you say, the consolidated report feature of your entire auditing procedure brings a better perspective on this report, why don't you put the implications of that consolidation into a note in this report so that when people read this report in isolation, they can see that after consolidation there is in fact nothing but a circular accounting transaction and that the Crown corporations which pay two-thirds of the "earnings" of this heritage trust fund are the very Crown corporations that are supported by subsidies from general revenue? The earnings are meaningless. The earnings are only deemed.

What I'm asking is: could the Auditor General in future years simply put a note to the financial statements which would qualify the kind of income – the \$839 million or the \$753 million, depending on which entry you use – that is paid to the heritage trust fund by these Crown corporations? Simply qualify it in a note. It's true the consolidation outlines it. Bringing that consolidation to bear in these notes would provide better perspective in this financial report about this entity, the Heritage Savings Trust Fund. It's only right and it's only fair that that should be done.

MR. SALMON: Mr. Chairman, I think that this becomes a debate on what's within the annual report itself. I know what he is saying. I do not feel that that would add to the understanding of an individual reader on the Heritage. As long as note 4 is there, they can tell that there are some moneys flowing from those provincial agencies. We did notice in the annual report that the Provincial Treasurer has included a statement to the effect – again, that's not part of the audit – that if someone was interested and referred to either provincial agency statements or the public accounts, they could obtain additional information. However, certainly this has been an item for discussion for a number of years, and I wouldn't be able to give the opinion that I give if it was misleading. I don't think it's misleading.

3:02

MR. CHAIRMAN: The Member for Wainwright.

MR. FISCHER: Thank you, Mr. Chairman. I asked a year ago about our Ridley Grain company and their paying back of their debentures or their loan that they got at that time. Last year there was a shortfall, and they paid only \$6.6 million. Forgive me if I don't understand it very well, but we still have the \$134 million this year and it doesn't show where there was any payment this year. Have they made one? If they did – and I'm thinking of the interest, the shortfall from last year – we don't seem to see it here.

MR. SALMON: The payment received this year was all applied to interest and not against the principal. We do not accrue the interest, and therefore it's not shown.

MR. FISCHER: Where is it shown then? Is it shown on the income side of the Alberta . . .

MR. SALMON: Yes, as an income item. We understand that next year actually more will be paid, so the costs stay the same. They've some additional information on what's occurring in 1990-91, and apparently we'll have some additional payments coming this year, more so than last year.

MR. FISCHER: Those are interest payments; the principal is not due until later and it's all due at once. Is that . . .

MR. SALMON: Yeah; 2015 or something, long after my time.

MR. FISCHER: Thank you.

MR. CHAIRMAN: You have no further questions, member?

MR. FISCHER: No.

MR. CHAIRMAN: The Member for Edmonton-Centre.

REV. ROBERTS: Thank you, Mr. Chairman. Several of my questions have been dealt with already, yet try as I may, I'm still having some difficulties. I'd like to pin the Auditor General down with some specifics, if I could, with respect to a lot of the activity in the Alberta investment division. I think that's where all of the eyes are on the fund. Even in the Treasurer's own report this year he says that during the '90s there's going to be a shake-up in that division with a preference to developing the fund in terms of greater liquidity.

I think it's incumbent upon us as legislators to have a good sense of the values we're talking about here. If I understand anything about accounting or auditing, it's trying to get a sense of what the values are. As has been discussed – and I fully appreciate, unlike the Member for Edmonton-Meadowlark, that you have offered your opinion that these are fairly presented and there's nothing misleading here. What I'm trying to find out: is there not another way of accounting for the value of the debentures and the interest which flows from the Crown corporations? Now, I'd like to put this to you in a question in terms of another way of accounting for this value which might take some calculation and maybe not have an answer here today. Could we not determine, for instance, the net debenture value for the five Crown corporations – which would be comprised of the assets of the Crown corporations minus the liabilities of the Crown corporations to creditors other than the fund – and in a sense get that net debenture value, not their full value, as is currently being presented?

Furthermore – I'm still trying to work through schedule 4 – in terms of what Westlock-Sturgeon and others were asking about, the net interest, could we get a sense of how this could be accounted for in a way that would show the annual interest paid by the ACCs to the fund minus the concurrent government operating grants which they have received, and get that net value? I'm not saying that what is presented is unfair or dishonest or misleading; I'm just saying that if we're going to stop this circular accounting and get down to the net value, could this value not also be determined? If so, is there enough information in the document or in your audit to give us those actual net figures?

MR. SALMON: I think when one looks at the heritage fund and one looks at, say, the provincial agencies that are involved with borrowing from the fund, we automatically have to consider the relationship also with the General Revenue Fund. What we're faced with is the reality of, you might say, five provincial agencies of the fund and the General Revenue Fund, and they're the ones that are always discussed because of the interflow of funds between them all.

I think I've talked before about the possibility of doing a miniconsolidation with just those, and that's really, I think, what

you're talking about. There's no legal requirement to do that, and there isn't any way in which it would be possible to include information from the GRF or information from the provincial agencies of that nature within this fund unless the Provincial Treasurer chose to do it, because these are his statements. But I think what you're talking about, if I'm understanding you, is that it's sort of a miniconsolidation.

Now, what we've been trying to do over the years is to ensure that the information available in the fund and the information available in the agencies gives sufficient information for someone who wants to do that kind of thing, to sort through those transactions and pull out that information. In other words, the debts are shown clearly on Housing, the flow of dollars from the GRF is shown in Housing, and that kind of information can be picked up, but there hasn't been any way in which we've really done that because there's no particular requirement to do that, and it would have to be on the basis of management wanting to do it.

REV. ROBERTS: I understand that and appreciate that response and your guarantee that the information is available when we dig into it.

My second question would pertain similarly outside of the Crown corporations but to do with the promissory note by the province of Alberta. I mean, what value is that \$1 billion to anyone but the fund? I mean, is it not again . . . What page is it on?

MR. SALMON: Are you in Cash and Marketable Securities?

REV. ROBERTS: Yes.

Yeah, there's the \$1,067,000,000 listed there. Should that figure not really be expunged from this statement insofar as who is it value to? Is it value to the fund or to the government of Alberta, or can it be assessed independently of this currently circular accounting method? Is it not sort of borrowing out of your back pocket and paying it back into your front pocket with very little real value outside of this circularity?

MR. SALMON: Well, my understanding is that those promissory notes or any of the paper that the heritage fund invests in that's provincial paper can actually be disposed on the market tomorrow. Therefore, the value is there. It's just a case of rather than go on the outside market, they've chosen, because the dollars are available out of the fund, to use those dollars rather than go the other way. That's really part of the old argument about this circularization thing: buy your own paper because that's better than if you have to go off to New York or to Toronto or elsewhere. So the value is here; this is current cash and marketable securities which they could turn around in a very short time. Some of the short-term investments are beyond a year, but they're certainly not any long term in that sense of not being able to realize the value.

REV. ROBERTS: Thank you. My third question, again in this vein of trying to get another appraisal of some of these figures in terms of questions from Ponoka-Rimbey about how the public accounts documents show the net value or the market value. You just mentioned the two funds, the Alberta heritage learning resources and medical research funds. Are those the only two scholarship funds? I was interested to know that, and I guess I just would like that to go a bit further. Maybe you could explain to me why it is – of the deemed assets, is it just those two funds that are represented in public accounts with that

appraisal? Is there a way that we could, for instance, get an appraisal of the Walter C. Mackenzie Health Sciences Centre or, as you talked about, Kananaskis or any of the other deemed assets, whether it's replacement value? And if we can get that, why aren't those figures also listed in public accounts? Why just the two funds that you mentioned earlier?

3:12

MR. SALMON: Mr. Chairman, the two funds are actual securities held in those funds that are marketable today, and market value as of the end of the year is something that is determined in those funds. So they're available for information of the reader because they're quoted market values at that particular time.

As soon as you move into things other than the medical endowment fund and the scholarship fund, you're talking about expended moneys that are into other types of assets – buildings, parks, and so forth – and that's not the same as a marketable security, which you can determine the value of fairly easily. You'd have to have an appraisal if you were going to do a building or a park or this kind of thing. That costs money, and is there any value in doing that when the asset belongs to somebody else and that sells for that anyway?

REV. ROBERTS: So these deemed assets are just the cost expended; they do not figure in any kind of depreciation or replacement costs for these assets other than the marketable securities?

MR. SALMON: They're actual dollar costs.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. On page 34, Statement of Income, Retained Earnings, Transfers, Amounts Expended and Fund Equity. Mr. Chairman, there's a write-down of investments of almost 8 and a half million dollars. I'm just wondering what the details are of that. Is that one investment or several investments? Could you perhaps point me in the direction where I could find those?

MR. SALMON: Mr. Chairman, those were several investments within the commercial investment division, which is on schedule 4. They're not shown specifically, but this was the write-down of investments that had a permanent loss, and the investment in the commercial division – it was felt that it was necessary to take the provision now rather than wait until the security was actually sold. So they actually wrote down the value by that much money.

MR. HAWKESWORTH: Okay. Thank you.

Mr. Chairman, I guess I'm still a bit unclear as well about the question of these mortgages and what is a mortgage-backed security and a certain kind of investment certificate. I perhaps could ask, because this is now the third time the question's arisen, for the Auditor General to perhaps give us some more detail. Does Canada Mortgage and Housing Corporation market some kind of an instrument that people can buy into and these are backed by CMHC-insured mortgages, yet you're not putting money directly into mortgages? I wonder if you could just give a bit more extensive description. What is that instrument that's noted there?

MR. SALMON: This is an investment instrument that you can actually buy on the market. It's backed by a mortgage, and it's also guaranteed by CMHC. It's a marketable product. It's a specific sum of dollars. A certificate is drawn up, and this is the amount of the investments they had at the end of the year. I guess it's based on a pool of mortgages rather than just on a mortgage. They draw those dollars into this certificate, then you buy that certificate at a certain rate of return, and that's part of your portfolio.

MR. HAWKESWORTH: Final supplementary, Mr. Chairman, and that again has to do with the rate the government pays itself for borrowing money from the fund. I don't believe I've heard the Auditor General actually give us a rate. He said there's something called a market rate and so on. I guess when you're borrowing from yourself, I don't understand how there can be some independently set rate of return; that is, unless you tie it to, say, perhaps a rate of return on treasury bills or you tie it to guaranteed investment certificates that are provided through the chartered banks or something like that or unless you say it's going to cost 14 and a half percent to borrow from New York, so we're going to pay ourselves 14 and a half percent instead. There are so many rates you could choose to pay yourself. I don't understand your explanation earlier, and I'm wondering again if you could take a minute or two and tell us how this rate is established.

MR. SALMON: My understanding is that if you took an instrument like a promissory note or provincial bond and you were going to issue that, you will know on that day or that time - their policy is to try to determine what those rates are. If you were going to issue this to the public to purchase, you would know approximately what those rates are. If they issue those many times, they could issue those investments to the public or to anyone on the market and Heritage would choose to buy them rather than go through and buy something that's in Ontario. Those rates are established on the basis of the going rate for that type of an instrument at that particular time, so it's treated by the investment group as being a fair rate of return for that particular investment because they could get that from someone else. Therefore, that's what they would enter into and pay for in Heritage's case. So it's not a case of inflating, and it's not a case of getting a special deal. It's a case of determining what that rate would be for that type of an instrument, and that's what they'd issue it for. That's my understanding.

MR. CHAIRMAN: Thank you.
The Member for Calgary-Foothills.

MRS. BLACK: Thank you, Mr. Chairman. I'd like to also welcome the Auditor General. It's nice to have you back in here again.

The Member for Calgary-Mountain View made reference to a write-down of investments of \$8,460,000 on the Statement of Income, Retained Earnings and, as I understood, according to note 2(f) in here:

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Did I understand you to say that your devaluation's a provision for loss on an investment, or is this a realized loss?

MR. SALMON: This is a recognized loss of a permanent value, and they've written it down.

MRS. BLACK: Will you be writing down further provisions for that in the next year? Because there wasn't any write-down last year.

MR. SALMON: No. This is the first year that they've had one of these.

MRS. BLACK: This is a change in accounting policies, is it?

MR. SALMON: They've had some write-downs before, but this was investments in specific Canadian equities where the permanent loss was in existence. They have taken the write-down in the current year, which is an investment decision and one which we would want them to do in order to value the investments properly.

MRS. BLACK: I have another question, Mr. Chairman. There's been so much talk about circular and cyclical and all this sort of nonsense accounting that our Member for Edmonton-Meadowlark brought up. You probably used it in the Principal Group, and that's why they got fouled up there. But just so we have the record clear, are you comfortable, Auditor General, with the asset value of \$12 billion that you've accepted in your opinion on page 33 of the balance sheet? Are you comfortable with \$12 billion as the assets of this fund?

MR. SALMON: I'm comfortable on the basis of the accounting policies as shown in the notes; that's right.

MR. MITCHELL: And that's the question.

REV. ROBERTS: There are other opinions about that, yes.

MRS. BLACK: Well, we didn't ask for your opinion. I asked the Auditor General for his opinion.

You are comfortable with that number, and even though you've made an exception in the financial statement, you are comfortable that the deemed assets have been adequately isolated from the other assets to show that there is a differentiation, and the value of \$3 billion is adequate?

MR. SALMON: The cost is \$3 billion. That's what they actually expended by the fund; that's true.

MRS. BLACK: For a total asset value, then, of \$15 billion in the fund. Is that accurate?

MR. SALMON: No. No, that's not accurate.

MR. CHAIRMAN: Hon. member, you're running him through something he signed his name to.

3:22

MRS. BLACK: Well, I'm just clarifying it. In accordance with that, I felt that the other members, from the other questions, were questioning his signature. I just want to make sure that you are comfortable with these numbers, sir.

MR. SALMON: I'm comfortable with those numbers. If you'll read my report, you'll know what I mean by deemed assets.

MRS. BLACK: Thank you very much.

MR. CHAIRMAN: Did you have any further supplementaries?

MRS. BLACK: No.

MR. DOYLE: Mr. Chairman, on page 41, the debentures outstanding to other provinces, a total amount of \$1,319,850. My question to the Auditor General is: are there any terms set out on which this should be paid, except that they're due in the year 2005? Can they pay them at any time, or is there a reason why some provinces are paying and some aren't?

MR. SALMON: Mr. Chairman, they're all different maturity dates, with the maximum going to that particular year. All of the provinces are paying on their maturity dates. This particular year the province of New Brunswick had some due, and they were fully paid. New Brunswick Electric Power had some due, and they were fully paid. There were some other minor ones as well, but they're all at different dates, and they've all been coming in regularly without any problem over the years.

MR. DOYLE: So when you include the actual cash value of the heritage trust fund, do you include these figures of the moneys owed by the provinces?

MR. SALMON: This is the actual cost, the amount that's been loaned, amended for the amortization of premium and discount on those particular debentures. That's right.

MR. DOYLE: Where can I find the actual cash value for today for the heritage trust fund? What is the cash value of the heritage trust fund today? What money is left in there?

MR. SALMON: I think you'd have to define what cash value means before I'd answer that question. I'm not sure what you mean by cash value.

MR. DOYLE: How much money can we put our hands on today of the heritage trust fund if we needed the money today?

MR. SALMON: You're asking the liquidity of the assets? All I can tell you is that the financial assets are \$12.2 billion, and some of those are composed of some provincial corporation debentures that might take a little while to get the money out of.

MR. CHAIRMAN: Hon. member, in fairness, the Auditor General can't pick a number with the market fluctuating as much as it does on a daily basis and also the fact that almost \$3 billion of the fund is invested in marketable securities. That's a moving target. It would be difficult for the Auditor General to come with that type of information.

Is the member finished his set of questions?

MR. DOYLE: Thank you, Mr. Chairman.

MR. CHAIRMAN: If so, I'll move to Edmonton-Meadowlark. Just before Edmonton-Meadowlark speaks, it's the intention of the Chair to adjourn this portion of the meeting a few minutes prior to the appointed hour to deal with a point of procedure prior to adjournment for the day, so that all committee members are aware that that's the intention.

The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. On page 4 of the report, the upper right-hand corner, it is pointed out that the Agricultural Development Corporation, the Alberta Mortgage and Housing Corporation, and Alberta Opportunity Company received grants of \$171 million, \$94 million, and \$11 million respectively, which

enabled these three corporations to deliver their programs at less than full cost, thereby helping thousands of Alberta farmers, small businesses, homeowners, renters and senior citizens.

What that statement does very clearly is define these three Crown corporations as instruments of social policy, probably good social policy, but instruments of social policy. Two pages over it points out that the Alberta investment division, in which investments in these Crown corporations are found, must "yield a reasonable return or profit." I don't see how an instrument of social policy can be, one, defined as an investment and, two, yield a reasonable return or profit. In my estimation, a social program or instrument of social policy is no more an investment than a deemed asset is an asset. How can the Auditor General allow to have construed as investments yielding a reasonable return or profit the money that has been placed by the Heritage Savings Trust Fund in these three Crown corporations?

MR. SALMON: Mr. Chairman, I think we're getting into the question of where the social programs are, and that would be within the three provincial agencies referred to. Certainly, based on the fact that instruments have been issued to those corporations by the heritage fund, it would be obvious that there would be an attempt to have some type of a return. I do believe that in many ways I have to be careful, because I assume that was probably a good question for this morning. I don't know whether it was answered this morning.

MR. MITCHELL: We ran out of time. But you have to have these definitions in your audited statement. I mean, you have to understand those definitions.

MR. SALMON: That's right. So that's why I say we have a reasonable return. There's an investment determined on the issue of the debenture, and we determine whether or not that payment has been made and all payments are made. True, there are funds flowing from the General Revenue Fund which the Legislature has control over to offset any cash deficit that's happening in those corporations, but certainly it's the same question again.

MR. MITCHELL: Would you sign a statement that said this government had control over funds?

My next question concerns the real value of the debenture in Alberta Mortgage and Housing. The note that my colleague from Calgary-Mountain View pointed out - I bring you back to note (a) on page 42, where it says that the proceeds from the sale of the corporation's single family mortgage portfolio was approximately \$607 million. Then I look at last year's annual report for Alberta Mortgage and Housing and I note that the portfolio for housing mortgages - and I assume those to be comparable - has a value in this financial statement of over \$1 billion. What that says to me is that they have taken assets of \$1 billion and they've sold them for \$607 million, a shortfall of about \$400 million. In light of that, how can it be construed in any way, shape, or form that that debenture is worth what this financial report says it's worth, because it's backed up by assets whose value has been proven on the market to be \$400 million less than what they're being carried on the books at?

MR. SALMON: I believe one has to consider the fact that this transaction has taken place in the current year, and this information is of value, knowing that there'll be \$607 million flow back into the housing corporation for the benefit of paying out part of this debt to the heritage fund. The other thing that comes into being when one values the investments in Housing is that one has to take into consideration the potential of the guarantee by the General Revenue Fund. You're back to that situation where you can call on the General Revenue Fund if you're short.

MR. MITCHELL: That guarantee is an interesting point. I just want to raise it for your information that I made this point this morning – it was made in this article by Mumey and Ostermann – that in fact that guarantee is like an insurance company taking out an insurance policy on its own building. It guarantees its payment to itself. So I think that should be pointed out in a note.

My final question concerns the unfunded deficit that is listed on the bottom of the statement of revenue, expenditure and unfunded operating deficit of the 1988-89 Alberta Mortgage and Housing annual report. They have here an entry which I have never seen anywhere. In fact, I've never seen a statement of this nature titled anything but revenue and expenditure, but here we have a revenue, expenditure, and unfunded operating deficit statement, an unfunded operating deficit of \$606 million. Is there any precedent in any public Crown corporation across this country or, for that matter, in any operating, functional private corporation where you would leave dangling at the bottom of some page a \$606 million unfunded deficit and then say this firm is liquid enough to pay \$380 million in interest on a debenture to the Heritage Savings Trust Fund? How can that be?

3:32

MR. SALMON: The province of Alberta has guaranteed the payment of that deficit when it becomes a cash deficit. The cash deficit has been calculated every year for the last number of years. Legislation was passed by the Legislative Assembly to the effect that they only had to pay the cash deficit. Yes, that's true. There are corporations in this province that are sitting with deficits on the bottom of their – and it's the only time, till they get into consolidation, that they ever get it all in one place. There's no time to get in there. This is not uncommon. There are other organizations across Canada that are doing similar types of accounting. But it still comes back to consolidation where you pull them all together.

MR. CHAIRMAN: The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I'd like to come back to an earlier answer which the Auditor General gave – again, it has to do with the write-down of investments – so I'm clear, so I can understand the answer he gave earlier this afternoon. He made reference to schedule 4, which has to do with investments in Canadian equities, common and preferred shares.

Earlier this morning the Provincial Treasurer circulated a detailed listing of these equities in each of the different categories. What I'd like to ask the Auditor General is this, so I understand. In going through this list I see, for example – let's take the category of Transportation – the Alberta government spent \$3,120,000 to purchase 290,000 shares in Air Canada. The market value as listed in this schedule presented to us by the Provincial Treasurer is \$2,864,000. Now, there's a loss there between the current market value and the cost to the govern-

ment in the purchase of those shares. Is it fair for me to assume that in a situation like this the government would simply write down the Air Canada shares by, say, \$250,000, just to pick a round figure, and that new figure would appear in next year's annual report as the cost to the government for the acquisition of Air Canada shares? I don't mean to pick on Air Canada. There are probably another 10 or 12 companies in this schedule where the value of the shares has depreciated from the original purchase price. Am I understanding your answer earlier as: that's what represents a write-down?

MR. SALMON: Yes. Also, one of the members referred to the accounting policy, where if it is definitely a permanent decline in the value, they will write it down and the cost is then the new figure. The new cost is the written-down value. Now, that's what would take place in anything where they knew it was a permanent loss.

MR. HAWKESWORTH: This is a supplementary. As I go through the list, those companies whose value has depreciated from the cost value – and it may well be simply one of those things about the stock market, that perhaps this year that particular company may be in a difficult industrial sector and therefore it's near the bottom of the cycle. Who makes the decision at what point, and what are the criteria for deciding that this is a temporary decline in the value of a particular investment and when is it seen as being something permanent?

MR. SALMON: Mr. Chairman, I think one has to think about the second column on schedule 4, which is the market value of items. By the way, I don't have that list, nor do I want it. I'm looking at the Canadian equities listed here and the short-term money market securities that are in the commercial division. You'll notice that the market value is in excess of \$200 million more than the cost. One of the largest difficulties that management has and that, of course, the Auditor has to verify is to know whether or not the values you're putting on these types of equities are the proper values. You may be in a situation where there's known information about a particular organization. Maybe it's no longer trading very well on the market; it's been low for a number of years, and the likelihood of it pulling it out might not be there. That's the kind of thing where you would say it's a permanent decline.

A temporary decline is just the fluctuation of the market itself and isn't necessarily a permanent one. They would not adjust for that, and it would only be affected at a particular time if you were going to go for the market value. So really all we're saying here is that there was a write-down of some \$8 million on particular equities where it has been considered both by management and the auditors that it would be better if they wrote it off, and this is what they've done.

MR. HAWKESWORTH: Okay.

MR. CHAIRMAN: Final supplementary, followed by Ponoka-Rimbey.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I'll pass for the moment on my second supplementary.

MR. CHAIRMAN: Thank you.
Ponoka-Rimbey.

MR. JONSON: Mr. Chairman, I'd like to refer, if I could, to page 15 of the annual report. I think I understand it. Quite frankly, I'm asking the question for reinforcement of what's stated there. That is that we have here the Canada investment division, its cost as of March 31, '89, par value March 31, 1990, which works out - of course, with redemptions and other evaluations and so forth - to appear on the bottom to be somewhat less than we started out with at the beginning of the year. But as I go across, I notice that we could take, I suppose, any particular province or hydroelectric company and there hasn't been in the evaluation much of an appreciation, with possibly the exception of Hydro-Québec. Yet when we look over to the page where the rates of return are shown, the Canadian investment division has one of the highest rates of return of the various sections of the fund next to the cash money or the liquid securities and so forth. Could the Auditor explain why in the auditing procedure we have a sort of overall devaluation of the Canada investment division and for the commercial investment division a great appreciation, yet when we're looking at the actual return to the fund, the Canada investment division is higher? Do I make sense? I'm not an accountant.

MR. SALMON: If I know what you're talking about: why is the rate of return on the Canada investment division much higher than some of the others?

3-42

MR. JONSON: Do I know why?

MR. SALMON: Yeah.

MR. JONSON: Well, the side I'm looking at is the par value evaluation.

MR. SALMON: The par value is strictly the actual full value of the instrument that's been entered into between heritage and the province. What's happening here is there's an amortization and discount that's having to be amortized over the life of the debenture to bring it up to the par value so that the full par value will have to be eventually paid. It's a case of an accounting entry bringing that up to that figure.

MR. JONSON: I'll ask the question a different way, if I could, Mr. Chairman. I'll take it as a supplementary. If the various items that are on page 15 were put on the market for sale, is this representing what we would likely get for it? Or is there a different set of principles or rules that would be applied if there was any possibility at all of these investments being put on the market for somebody else to buy?

MR. SALMON: If this type of instrument went on the market, it would have to take into consideration the premium or discount anyone would want in order to purchase it based on the balance of the time the instrument would run and the quoted rate of return or the interest rate. All of that would have to be taken into account to determine today's value. These values here are working toward the ultimate value when these become matured. When they're mature, then the provinces have been paying the heritage the full amount, and of course they have been paying the interest all along.

MR. JONSON: Okay. Mr. Chairman, the reason for asking the question is that it's another of these areas where we're dealing

as a committee with the value or the merits of particular investments, and I think the Canada investment division has come under some criticism. I think there's been some shift actually between the Canada investment division and the commercial investment division, and the vision is that it's better to put money into the commercial side.

But the question back to the Auditor would be in auditors' terms, and that is that when we're determining the par value under the Canada investment division versus the commercial investment division, we're really applying two different sets of tests in terms of coming up with that figure. Is that correct?

MR. SALMON: Par value is not a market value. Par value is the instrument value at maturity. In other words, if you had a hundred dollar bond and it was one that was discounted, you might buy it for \$87. If you hold it until maturity, it'll be worth a hundred dollars. This is what this type of instrument with the provinces is. In other words, they were bought by the heritage at a discount. As they hold them and get the interest, they'll eventually get the full amount. We have the full amount paid as well by the province.

When you get to the commercial division, the market value shown there is the market value as of that day based on market rates for those particular equities on the market if you are on the Toronto exchange or whatever. So you're talking about different things, if that helps.

MR. CHAIRMAN: Thank you.

Members of the committee, we have about 12 minutes left prior to the appointed hour when we usually adjourn. I believe . . . Just a question, please.

MR. MITCHELL: Mr. Chairman, couldn't we put on the administrative matters after 4 o'clock so we can continue with the Auditor General at this time?

MR. CHAIRMAN: That's not generally done. We usually conclude all of the business of a meeting within the appointed time. I believe we really should try and stay within that parameter. If the committee feels strongly that it should be done, the Chair is at your disposal, but I believe there's been a good series of questions today. The opposition members particularly have had a good opportunity, I believe, to put questions to the Auditor General. In view of that, do I have agreement to adjourn this portion of the meeting at this point?

SOME HON. MEMBERS: Agreed.

MR. HAWKESWORTH: Just one question, Mr. Chairman. Will there be any possibility, any opportunity, that we might be able to bring the Auditor General back at some point? I know that at least one or two of us have another series of questions we want to put to the Auditor General.

MR. CHAIRMAN: That opportunity always exists if it can be worked out with the scheduling. Certainly the Auditor General or any minister can be called back an additional time.

REV. ROBERTS: Are you saying that with the 12 minutes now left we can entertain no more questions? I have a series of questions I think are very important that I'd like to ask over the next 12 minutes.

MR. CHAIRMAN: Hon. member, perhaps I could read the list of questioners that are ahead of us. Edmonton-Meadowlark is next.

REV. ROBERTS: In fairness, he's at least had two this afternoon.

MR. CHAIRMAN: Hon. member, as each person has put their hand up, I've put their name down to the best of my ability. If I've missed you and didn't see your hand, I apologize. It's been my intent that as you've asked your question, if you put your hand up, I put your name down again, add you back to the list.

AN HON. MEMBER: Does this point of procedure have to be dealt with today?

MR. CHAIRMAN: Yes, it probably should be dealt with today. It perhaps may take only a very few minutes, but I don't want to get into the middle of it.

REV. ROBERTS: I wasn't on the list then?

MR. CHAIRMAN: Pardon?

Edmonton-Meadowlark, Edmonton-Centre, and Calgary-Mountain View.

Do I have any opposition to adjourning this portion of the meeting to deal with the procedural matter? If not . . .

MR. MITCHELL: Wouldn't we need to have unanimous consent on that?

MR. CHAIRMAN: No.

All those in favour?

AN HON. MEMBER: Adjourning this portion?

MR. CHAIRMAN: Adjourning this portion and dealing with the issue. All those opposed? It carries. Thank you.

Perhaps I could just take a moment and thank the Auditor General and his colleagues for being here with us today. I think they have been very forthright and have endeavoured to answer the members' questions. Some of them were quite detailed and difficult. We appreciate you taking your time to come and meet with us today. Thank you very much. You can remain or leave at your discretion.

The Chair has been served notice that a member would like to appeal the ruling given by the Chair yesterday in one of the meetings wherein the Chair ruled that language used by the Member for Edmonton-Centre was unparliamentary and issued a caution to the member that he may choose perhaps more appropriate wording in the future to make his point. However, there does remain the right on the part of the member bringing forth a point of order to appeal the decision of the Chair. The Member for Clover Bar has seen fit to make an appeal. We will ask the Member for Clover Bar to bring forth his motion with the appropriate citation.

MR. GESELL: Thank you, Mr. Chairman. Before I commence on that, I appreciate the support on the motion as put by the Chair to adjourn the procedure. The other alternative I would have had – and you may have noticed that I did not appear on the list – would have been to appear on the list and then raise the matter at that point, which would have been my privilege.

I wish to appeal a specific ruling of the Chair related to *Beauchesne* 821(1) on page 232, and let me read that portion. "All rulings of the Chairman may be appealed to the committee." So I'm appealing to the members of this committee.

I want to clarify certain things before I get into the details of my appeal, and that is that I'm not appealing the general chairmanship of the MLA for Cardston. I feel he's an able and excellent chairman, and that is not the issue here. The issue is with the specific ruling on whether a certain phrase is unparliamentary or not. I want to confine my appeal to that specific item. If it were the situation that the appeal I'm launching were upheld and the Chair would thereby be vacated, I would abandon that appeal because I don't think that is appropriate. I value the chairmanship of the Member for Cardston.

3:52

Now, specifically, then, the appeal relates to the phrase "cooking the books" as it was used by the Member for Edmonton-Centre. I need to put that into context. The way to do that perhaps may be to read the entire sentence. I'm quoting now.

I mean, this kind of procedural wrangling around by the Treasurer and thinking this committee is just a rubber stamp of his cooking the books in any way he'd like to has got to stop. The particular phrase I'm objecting to is "of his cooking the books in any way he'd like to." The Chair's ruling on a point of order then was, and I quote again:

MR. CHAIRMAN: Thank you. The Chair finds that the term is not unparliamentary but . . . would ask that the member use some caution in the terminology he may use for such a description in the future.

Now, there has been some discussion about the definition of the term "cooking the books." I've researched that to some degree. The dictionary does not offer a definition. The thesaurus, however, does, and the synonym that provides the same meaning in that particular context is "defraud." Now, I wasn't quite ready to deal with that, so I looked at the origin of that particular expression. The origin that I could determine from the library is that it's a slang term, originating basically in laboratory research and in the bookkeeping/accounting profession. In laboratory research it refers to the student or professor who knows what the hypothesis is, the results he wants to achieve, and then adjusts the experimental findings in such a way to prove that final conclusion. In accounting and bookkeeping the same applies. There is an outset conclusion determined by whoever the party is, and then adjustments take place in order to prove that specific outcome.

That to me is clearly unparliamentary, and I want to refer to a section of our Standing Orders, 23(i), as well as to *Beauchesne* 481(e) and *Beauchesne* 484(3). Mr. Chairman, and to the members, I quoted originally in my point of order *Beauchesne* 491. Now, 491 is appropriate. However, it's extremely general, and I'm citing the additional references to clarify the context that is referred to in 491 and the meaning of the specific phrase. I should quote 23(i):

A member will be called to order by Mr. Speaker if that member imputes false or unavowed motives to another member. *Beauchesne* 481(e) is very similar in its reference and states:

Besides the prohibitions contained in Standing Order 18, it has been sanctioned by usage that a Member, while speaking, must not impute bad motives or motives different from those acknowledged by a Member.

Beauchesne 484(3) similarly outlines "In the House of Commons," and I quote just the pertinent sentences: "or to impute to any Member or Members unworthy motives for their actions in a particular case."

Now, I find that this particular expression not only imputes false and unavowed motives to another member; it signifies that the information that has been provided is intentionally distorted, that it is provided with the intention to deceive. That is the meaning of that particular phrase: to present a deceptive position with the intention to defraud, a deliberate deception, an illegal action in fact.

I also want to cite *Beauchesne* 486(1), and I need to quote that as well because it relates back to the original citation of 491.

It is impossible to lay down any specific rules in regard to injurious reflections uttered in debate against particular Members, or to declare beforehand what expressions are or are not contrary to order; much depends upon the tone and manner, and intention, of the person speaking; sometimes upon the person to whom the words are addressed . . .

and so on.

Now, to the members and to you, Mr. Chairman, I find that we've been subjected in this House to some very outrageous statements by members. They appear to be escalating, and that concerns me enormously. There appears to be a deterioration of the credibility of the House and all the members in it. I would ask the members of this committee to thereby overturn this one specific ruling, finding that the term "cooking the books" is unparliamentary, and to find with the appeal such that that term does in fact become unparliamentary, and not to set a precedent which I believe will erode the credibility of this committee, the House, and the members.

MR. CHAIRMAN: Hon. member, could I ask you to just be succinct and give the parameters, which you've done an adequate job of, of the reason for your appeal and your citations, because this is not going to be debatable. When you finish, the question is going to be put.

MR. GESELL: It's not debatable?

MR. CHAIRMAN: It's not debatable.

MR. GESELL: Mr. Chairman, I have one final sentence to conclude. I feel that if we allow this type of comment to go unchallenged in this House, there will be an escalation of derogatory and unfounded statements by certain members here.

Thank you.

MR. CHAIRMAN: Thank you.

MR. HAWKESWORTH: Just for the members, Mr. Chairman, could you give us the reference of this procedure, why it has to be put without debate? Could you give us a reference? I'm here without any of my Standing Orders or *Beauchesne*. Further, having been asked to vote on this – I wasn't present yesterday for yesterday's discussion – I haven't had a chance to review the Blues.

MR. CHAIRMAN: I can't give you time for that provision to review the Blues, hon. member. However, I will say that when the hon. member making the appeal read from the Blues, they were accurately read; I did review them myself. So that point is valid.

Quoting from Standing Order 62(7), after the appeal is made, "Mr. Speaker shall then submit the matter to the determination of the Assembly," in the case it was the Assembly, or the committee in this case, "in the language reported to him and put the question without debate." The question will be . . .

MR. MITCHELL: Mr. Chairman, we're now past 4 o'clock. Why couldn't we have started this at 4 o'clock and gone on with the Auditor General until 4 o'clock. We are now past 4 o'clock.

MR. CHAIRMAN: I'm going to put the question. You'll be out in 30 seconds. [interjections] We have not adjourned the meeting, hon. member. [interjections] Hon. member, we've already been through that debate.

Okay, we're going to put the question. Let me be very clear on what the question is. The question is that the decision of the Chair not be upheld. All those in favour that the decision of the Chair not be upheld? Two. All those opposed? Thank you. The decision of the Chair is upheld. The matter is closed.

Hon. Member for Calgary-Foothills.

MRS. BLACK: I move we adjourn, Mr. Chairman.

MR. CHAIRMAN: Thank you. The meeting stands adjourned.

[The committee adjourned at 4:02 p.m.]

