

## Standing Committee on the Alberta Heritage Savings Trust Fund Act

9:05 a.m.

[Chairman: Mr. Dunford]

MR. CHAIRMAN: Let's call the meeting to order, please. This is a new experience for some of us. You have an agenda that's been circulated with your binders.

I should introduce Diane Shumyla. She will be the one that keeps me in order here and also will look after the needs of each of you as members of this standing committee.

Just to review, the committee's mandate is to review the '92-93 annual report of the Provincial Treasurer. That is in your binder after tab 2, I believe it is. Our responsibility, then, is to make recommendations on existing and potential investments. As you will see and can already determine from the schedule, we will be bringing in various ministers and other officials. You'll have an opportunity to question them -- I was going to say at length, but perhaps this is something we should discuss.

The normal format for committees and certainly the history of this committee has been to allow one question with two supplementaries. I would propose that we would continue with that situation. Any member once having their question and two supplementaries would then drop to the bottom of the list. If they had further questions, then we'll just work up and try and get as many questions in as we can while we have the minister available, because you see the schedule that will be put together. That is the period of time that we'll have with those ministers.

The member for . . .

MR. CHADI: You can just call me Sine. I'm wondering whether or not we would alternate the questions between the Conservatives and the Liberals as has been done with Public Accounts. Would we do that as well?

MR. CHAIRMAN: Yes.

MR. CHADI: Okay. So let's assume one has asked a question. Would we then go to the very bottom of the list, or do you continue to alternate?

MR. CHAIRMAN: Oh, I see what your question is. In my mind, I was envisioning two lists. If you were finished your question, you would drop to the bottom of the Liberal list, and then we'd continue to work up that way.

Okay. I want to point out that Diane is trying to arrange -- of course, we had the Auditor General in this morning, but also the Heritage Foundation for Medical Research will be here and also the president of Vencap. We're still trying to sort out the schedule on that. Where are we going to discuss the other meetings, Diane? Oh, we've got it coming up shortly. Okay.

I want to talk a bit, though, about recommendations. Again, it's been the standard procedure for this committee that any member can make any recommendation, pertaining to the subject of course, at any time. You could have a situation where we might be sitting discussing things with the Treasurer, but you want to make a recommendation that concerns the Minister of Municipal Affairs, who might have been here two or three weeks ago. You would be allowed to make that recommendation. The recommendation is read into the record, and then at the end of the last meeting with the ministers Diane will circulate a list of all of the recommendations.

That's what we will use as we go into the debates on the recommendations.

So I want to make sure that everyone understands, then, when they can make recommendations. Again, to repeat myself on this, it would be at any time up to the last meeting that has a minister or an official involved. We don't know when that meeting date is yet, because we don't have the schedule put together. Once you have that schedule, when you see that perhaps on January 24 or something the last official is coming in front of us -- maybe it's the Premier, whomever -- that will be your signal that that will be the last day to get your recommendations forward.

Now, I saw Red Deer-South and then Calgary-McCall.

MR. DOERKSEN: Thank you, Mr. Chairman. I want to come back to the procedure on order of questions, because if we adopt that strategy, that means we could have one from our party and one from their party here and dominate half the conversation if you alternate back and forth. So I'm wondering if that's appropriate. Do you know what I'm talking about?

MR. CHAIRMAN: I'm not following. No, I'm not.

MR. DOERKSEN: Well, if just one member from the opposition shows up and we alternate questions from . . .

MR. CHAIRMAN: Oh, I see.

MR. DOERKSEN: Okay. That means one person could dominate half the conversation.

MR. CHAIRMAN: It could work the other way around, too.

MR. DOERKSEN: I'm realizing that.

MR. CHAIRMAN: I'm aware of that possibility. To start to try to configure something else might prove almost disabling to us.

Calgary-McCall.

MR. SOHAL: All the recommendations have to be brought up for discussion here, or one could give you written recommendations at the end of the last meeting?

MR. CHAIRMAN: We need them read into the record. So if you've saved all of your recommendations to the last meeting, then be aware there's going to be a certain amount of time that you're going to have to be able to do that. You would read them into the record, and then you would provide Diane with a written copy of that recommendation. If your question was that we could have had the last meeting and that you could come and deliver to my office a list of recommendations, then no, that's not right. The recommendations would have to be presented during the committee hearings.

Edmonton-Roper.

MR. CHADI: Mr. Chairman, I would just like to mention for the benefit of the members on this committee that three of our members and our colleagues, namely Mike Percy, Grant Mitchell, and Danny Dalla-Longa, who are not here today are not here because of previous commitments and because of the fact that there was some juggling going on with these meetings here. They tried to make their schedules accommodate this meeting or the meeting previous that was arranged, and then when this meeting got scheduled for today, they couldn't get out of their other previous engagements. So I don't suspect that this is going to be a practice that you'll see happening frequently.

MR. CHAIRMAN: Well, we hope not. As the chairman, I accept full responsibility for the fact that people are not able to attend today. We in the south have a way sometimes of forging ahead on the basis that forgiveness is always easier to get than permission. It turned out, however, in this particular case that not only didn't I get forgiveness, I didn't get permission. So I forced Diane into quite a juggling act, and unfortunately this is what's happened. For the record, I appreciate your comments. Also, the Member for Edmonton-Whitemud has written a note to me acknowledging that they simply were not able to be here.

We're going to get to Schedule of Meetings here shortly. I want to discuss those dates and ask, then, for your co-operation in the fact that we want all of the members here whenever we do have a hearing scheduled, because clearly this is a very important matter that we have in front of us.

There is another matter, though, still talking about mandate. In the past this committee has made investigative visits. Other committees have visited southern irrigation districts and Kananaskis Country, and I know they've gone out to the Lloydminster upgrader and Pine Ridge nursery. However, the lateness of this particular session and the fact that with the spring session, predictably anyway, being earlier than what might be normal, we're really in a compressed time frame here. So my suggestion is that we not have any investigative visits. I think the reasoning would be, one, as stated, the time constraint that we have, and the other, of course, is that the budget we have inherited really doesn't provide for those visits. Would any member like to comment about that suggestion?

Calgary-Shaw.

9:15

MR. HAVELOCK: Thank you, Mr. Chairman. In just examining the budgets, we do have travel expenses and other matters in here. If we aren't going to be partaking in any of these excursions, then I would suggest that the budget reflect that. I certainly concur with your remarks.

MR. CHAIRMAN: Thank you.  
Edmonton-Roper.

MR. CHADI: Mr. Chairman, if you would just guide me to where -- I know that section 2(b) is 1993-94 Approved Budget Estimates. Do we have a budget for this, and where is it?

MR. CHAIRMAN: It's at tab 5 in your binder.

Now, you'll notice that there's been a rather substantial decrease in the budget for this committee. The travel expenses are primarily the per kilometre situation, are they?

MRS. SHUMYLA: It allows for travel of members to meetings.

MR. CHAIRMAN: All right. Just to maybe clarify that, the travel expenses are those charges for members to travel to meetings.  
Edmonton-Mill Woods.

DR. MASSEY: Thanks, Mr. Chairman. Does the committee make a decision as to whether or not to accept the per diem? Have they in the past made that decision?

MR. CHAIRMAN: My understanding is that it's been a matter of individual decision.

DR. MASSEY: In the reductions, I notice there are repairs to the chairman's vehicle. May I ask: is there still a chairman's vehicle attached to the chairman?

MR. CHAIRMAN: No, there is no longer a chairman's vehicle.

DR. MASSEY: And there's still a chairman's honorarium?

MR. CHAIRMAN: There is still a chairman's honorarium. We're not sure just exactly what it will be after January 1, 1994.

DR. MASSEY: It's \$4,200 at this point. Is that right?

MR. HAVELOCK: Yes.

MR. CHAIRMAN: Somebody has said yes. I've never multiplied it out. I'm not sure.  
Vegreville-Viking.

DR. MASSEY: I'm sorry, Mr. Chairman. Could I just finish off on that? There was an item for pension on page 7 of that, 1993-1994. Is that a carryover from last session?

MR. CHAIRMAN: Yeah. My understanding is that at the time this budget was approved, the pensions were still a fact of life. They are now no longer a fact of life, so that item will not be used.  
Vegreville-Viking.

MR. STELMACH: Thank you, Mr. Chairman. With respect to travel to various sites, given the lateness of the schedule and the fact that we're in a compressed time period and also the fact that we have to have these recommendations in by the early part of February, I would move that we forgo any travel to various sites in Alberta. For the next year, you know, we can always review that if the membership so desires.

MR. CHAIRMAN: Okay. Just on that point, certainly next year we would have an organizational meeting again such as this, and we could determine that at this time.

We have a motion. Any discussion? Edmonton-Roper.

MR. CHADI: Mr. Chairman, I quite agree with the position that no further travel to sites that were funded by the heritage savings trust fund take place at this time in light of the fiscal restraint that we as legislators are putting our constituents through. I would suggest that it just wouldn't be appropriate, and therefore I would agree with that motion.

MR. CHAIRMAN: Thank you.

Any other discussion? I'd call the question. Those in favour of the motion? [interjection] Just give us a minute.

MR. CHADI: Mr. Chairman, may I? I did happen to sit on the Public Accounts Committee, and it was one committee where new experience was gained by myself and by some of the members and my colleagues behind me. What we do on the Public Accounts Committee -- and it works well -- is that the chairman asks for all those in agreement, and we say aye, and then for any nays, however you want to use the term. I think it's sufficient, and it works very well.

MR. HERARD: Mr. Chairman, I think maybe we could have the motion read prior to voting so that we're sure that it's the way that we intend.

MR. CHAIRMAN: Okay. However, having voted on this one, are you asking it to be read again, or are you talking about future motions?

MR. HERARD: Well, I'm not sure you said that it was carried or anything at this point.

MR. CHAIRMAN: Oh, I see. Well, I think you're right.  
Would you read the motion, Diane.

MRS. SHUMYLA: Moved by Mr. Stelmach:  
That the heritage committee forgo any travel to various sites in Alberta and that for the next year we can always review the policy.

MR. CHAIRMAN: All those in favour of the motion, say aye.

HON. MEMBERS: Aye.

MR. CHAIRMAN: Opposed? Carried.  
Okay. Schedule of Meetings. Sorry; Edmonton-Mayfield.

MR. WHITE: Mr. Chairman, in the agenda there is item 2(b), approved budget estimates, for information only. I don't understand how a committee that has care and custody, by the recommendation of the Legislature, of a substantial number of funds doesn't set its own budget, because in effect the motion that was just passed varied the budget. The budget in fact does not reflect any of that discussion. Likewise, the Member for Edmonton-Mill Woods was speaking of an item that should in fact be modified and struck so that it would be reported to the Legislature. Likewise, your refusal or otherwise deemed refusal of an automobile is not reflected. Consequently, we have a budget estimate here that does not reflect the intent of the committee's performance of its work. I would like to know what the explanation is of why we do not set our own budget or at least make recommendations in the way of motions to the Legislature on our own budget. I think that's fairly important if the committee intends to be responsible.

MR. CHAIRMAN: Well, what you're seeing here is the transition. The budget that is in front of you was approved last April. This April we'll be approving a budget for what we'll be doing next fall. So we'll then be able to get the thing lined up at that particular point.

9:25

MR. WHITE: When will we discuss the '93-94 budget then? It has to be done and reported to the Legislature prior to the commencement of sitting because we don't have any more meetings thereafter, and presumably in that sitting of the Legislature we'll pass the '93-94 budget.

MR. CHAIRMAN: Well, what you have in front of you is the '93-94 budget. What we will work on is the '94-95 budget.

MR. WHITE: Well, then certainly my argument doubly holds true. All of the variances that we're intending here today should in fact be reflected and should be spoken of, maybe not at this particular meeting but certainly in subsequent meetings. We should fix the budget before we report to the Legislature that you're going to take an automobile and that there are travel expenses and the like. Surely we should have either some recommendations from yourself as chair as how to repair it or perhaps the vice-chairman could work on that. Someone should do it. I mean, it's just silly to report that which is before us, which is not near what our intent is.

MRS. SHUMYLA: If I just may add here, this budget, as Mr. Dunford mentioned, was approved April 16 of 1993. After that time the election was called. The new committee was started up again, of course, as we know, but at that time there were provisions made

for a chairman's vehicle, which was not taken. At that time there was also the provision for pension.

As I mentioned, that was how the budget was approved in April. Come approximately January, the chairman will have the opportunity to look at the '94-95 budget, to put it together, and to get input from committee members whether they want to make investigative visits for the next year and be able to put that into the budget.

MR. WHITE: To finish off, Mr. Chairman, then I move  
that the '93-94 budget be referred to the chairman to report back in subsequent meetings on the rectification of the budget as discussed at this meeting.

MR. CHAIRMAN: Okay. We have a motion.  
Three Hills-Airdrie.

MS HALEY: Yes, Mr. Chairman. When a budget is set, even if it becomes incorrect towards the end of the year, I don't know that you can go back in and revamp it. Where it'll show up is on your final year-end when you do the reporting on this. You'll have a variance, and the variance will be positive because we will not have spent as much money as was budgeted. So at that point there can be a note to your financial statements explaining why or how or what decisions you've made, but you can't change it now. It is what it is.

MR. CHAIRMAN: Right. These are estimates.  
Now, Vegreville-Viking, are you on the motion?

MR. STELMACH: Yes. Mr. Chairman, I agree with the previous comments. We will agree not to expend the dollars that are in that budget, and it would show as a surplus. At that point you could report at the end of the year as to why we have a surplus, you know, either to the committee or to the Legislature, but there's not much we can do at the moment to change the budget.

MR. CHAIRMAN: Yes, these are estimates.  
Edmonton-Roper.

MR. CHADI: Thank you, Mr. Chairman. I truly believe that Edmonton-Mayfield, my colleague Lance White, has a very, very good point and a good suggestion. I agree with the comments that have been made so far with respect to the motion.

One thing that we all have to bear in mind is that these budgets have been put together for us and are passed down from year to year. It would be prudent on our part that come next term we establish a budget based on what we've spent and what we think should be done, so that the next committee would be looking at a different budget other than this.

I note that in Public Accounts we were passed down a budget as well. When we sat and discussed that one in the organizational meeting, there was an awful lot of discussion with respect to why this was passed down and why do we have to live within this budget. It was agreed at that point in time that that is the budget, and if we wish to change it, let's change it for the next committee.

Let's live with it. If we've saved money from this budget, then we're going to look darned good, and if we haven't, why then the budget should be the same amount for next year.

Those are my comments. Thank you.

MR. CHAIRMAN: Calgary-Egmont.

MR. HERARD: Thank you, Mr. Chairman. Just for my own information, perhaps our assistant could explain the process under

which this particular budget was approved in April. Who approved it?

MRS. SHUMYLA: Budgets for the committees were made up and approved by the chairman of each committee, and then each committee budget went to the Members' Services Committee for approval by them. That's where it was approved in April, at Members' Services.

MR. HERARD: Thank you.

MR. CHAIRMAN: So in layman's terms, as I understand the process then, for our deliberations next time around we would get our heads together, look at a proposed budget, and then I would have to carry it forward to Members' Services for its approval. That's why they pay me the big bucks.

Red Deer-South.

MR. DOERKSEN: Mr. Chairman, with the explanation by Diane, I think it's clear that the budget deliberations are proper and appropriate, and it's more up to us in terms of this committee to deal with the matters expeditiously and thus keep the expenses at a limited amount and not go way off on tangents when we're asking questions. If we can get through the important questions, we will indeed save money.

MR. CHAIRMAN: Thank you.

Any other discussion?

We have a motion. Does everybody have an understanding of the motion?

AN HON. MEMBER: No, I don't.

MR. CHAIRMAN: Okay. Would you read the motion, please?

MR. WHITE: Mr. Chairman, I'll withdraw the motion, then, and let's get on with the matter here. It's obviously going to take forever to get things done here.

MR. CHAIRMAN: The motion is withdrawn.

Okay. Now, Schedule of Meetings. I would like to . . .

MR. CHADI: I'm sorry, Mr. Chairman; I didn't realize that we were going to leave the budget estimates. If I may, I note Pay to Members of the Legislative Assembly under Other Expenditures, and there's a significant amount of money there that has gone to Members of the Legislative Assembly, namely \$38,800. In other committees what we have done is that there were motions made whereby members would not accept honorariums and they would not accept committee fees. I'm just wondering; I would hope that we'd have a little discussion on this because I'd like to hear what my colleagues have to say about it. I note that in Public Accounts we have done that, and it was unanimous that there would be no committee fees. I would hope that you'd open the floor for some discussion on that.

MR. CHAIRMAN: Well, with all due respect, the Member for Edmonton-Mill Woods and the chair were discussing that very matter. I looked and saw what I thought was consensus to the particular point that it was an individual matter. I might point out that the Public Accounts Committee meets in session by mandate and is required to. This committee meets out of session by mandate and is thus required to. But you have raised the issue, and certainly I want to be fair. If there is to be discussion on it then, did you want to open discussion?

MR. CHADI: Well, I would like to and perhaps even make a motion. We are elected to serve our constituents. We're being paid. As MLAs we have a salary. We have travel expense money. We have things like the PHH cards and enRoute cards and AGT cards, and we've got unlimited air travel, unlimited taxi fares that are paid to us in or outside session. I question why we would need to continuously bill for things like travel expenses. I can certainly see out-of-pocket expense. When we can travel and our fuel is paid for and the car repairs are paid for on those cards, et cetera, I don't honestly see why we should book in additional fees. I would move -- I'll save my motion for a moment. Firstly, I would suggest that the route that other committees have taken is decent, honest, and prudent in my mind, and that is with respect to not accepting committee fees. So my motion, Mr. Chairman, would be

that no committee fees be charged by any of the members of this committee.

9:35

MR. CHAIRMAN: We have a motion in discussion. Vegreville-Viking, and then Calgary-Egmont.

MR. STELMACH: Thank you, Mr. Chairman. First of all, I'd like some clarification from the member who says that we have unlimited air travel.

MR. CHADI: To and from constituencies.

MR. STELMACH: Well, I'm sorry. I don't get unlimited air travel, so don't paint everyone with the same brush, number one. Number two, Public Accounts meets during session only. This is out of session. Now, for me to get paid the car expense -- we're not talking honorarium -- just to get paid for travel from my home to Edmonton, I have to claim it only under the heading here. I just can't say: well, I'm just traveling to Edmonton. Believe it or not, we only do get 52 trips to Edmonton, with a cap of 60,000 kilometres, unless you are able to allocate the travel expenses to the various committees. So there's a big difference there for those that live in Calgary or a greater distance and those that live, you know, a hundred or 200 kilometres from Edmonton. The big difference here is that Public Accounts is during session. We will incur travel expenses, and I do insist that we allocate those travel expenses to those committees that we serve on so that we have a good accounting of that.

The other point I wanted to make is that those members who wish to claim, let them claim, and those that don't wish won't claim. That is my understanding in Public Accounts. I don't remember a specific motion that was made that nobody claims. It just so happens that nobody's claiming.

MR. HERARD: I think the Member for Edmonton-Roper has described sort of a litany of things that we have the option of using. Nobody says that you have to use your credit cards; nobody says that you have to claim gasoline and mileage, all of these sorts of things. I think these are things that each hon. member has the right to make a decision on. I think that in terms of meeting fees this is another one of these items that we all are free to make a decision on based on our own conscience and our own needs. To make a motion in the absence of several of the members from the opposition to this effect I think would not be fair, and personally I would vote against it.

MR. CHAIRMAN: Calgary-Shaw and Red Deer-South.

MR. HAVELOCK: Yes. Thank you, Mr. Chairman. I appreciate the intent of the motion that's been put forward by the hon. Member for Edmonton-Roper. However, quite frankly we're answerable to our constituents directly, and I have every confidence that members

of this committee who wish to claim whatever expenses or allowance they're entitled to will do so with a clear conscience and with the endorsement of their constituents. Those who don't wish to claim I think will do so on the basis of their own reasons, and I feel quite comfortable in letting the members make the decision for themselves as to how they're going to handle that.

MR. DOERKSEN: I, too, appreciate the intent of the motion, Mr. Chairman. Certainly from my point of view if there is an overlap of expenses being claimed, I think we should do away with that, but I think that is best dealt with in the Members' Services Committee. I would much rather support a recommendation that would suggest that the fees paid to various committees be examined to make sure there is no overlap or duplication when claiming expenses.

MR. CHAIRMAN: Edmonton-Roper.

MR. CHADI: Thanks, Mr. Chairman. There's no question that the members bring up some very valid points. One thing that I want to clarify is that the intent of the motion was with respect to Other Expenditures that are paid to Members of the Legislative Assembly under code 715A00. I had no intention at all with respect to travel expenses. I thought I made it clear that the out-of-pocket expenses was something that I don't expect anyone to cover. I firmly expect that within the budget we ought to be entitled to out-of-pocket expenses.

With respect to the pay itself, in other committees we've agreed not to accept pay to Members of the Legislative Assembly, and that is why I thought that what we ought to do is be consistent in the way we function, in the way that government works now. That is different from administrations in the past. That's the intent of the motion, sir.

MR. CHAIRMAN: Okay. We have the motion in front of us. Those in favour, please say aye.

SOME HON. MEMBERS: Aye.

MR. CHAIRMAN: Those opposed, please say nay.

SOME HON. MEMBERS: Nay.

MR. CHAIRMAN: The motion is defeated.

Now, I promised muffins and a break if we were finished by 10.

Schedule of Meetings. Diane is currently working -- are there any dates here? The dates that we are looking at, if people would like to make a note of this, are December 16 and 17; December 21 and 22; January 18, 19, and 20; January 24, 25, 26, 27; and February 1. I believe it highly unlikely that we'll have to use all of those dates. As we get things scheduled, we will advise you as quickly as we can.

I'd like to now advise you of additional meetings that have been scheduled. December 17 from 2 to 4 p.m. we have the Provincial Treasurer. December 21 from 10 a.m. till noon we have the Minister of Energy. January 19 from 10 a.m. until noon we have the Minister of Labour. Also January 19 from 2 p.m. to 4 p.m. we have the Minister of Community Development.

MRS. FORSYTH: Can I just ask you who is in the meeting from 10 to noon on January 19?

MR. CHAIRMAN: January 19 from 10 until noon we have the Minister of Labour.

MR. HAVELOCK: Why not just send us a list and we'll change it?

9:45

MR. CHAIRMAN: We'll send it out to you, E mail it.

We believe we have December 16 lined up for medical research, but we will confirm that as well.

Format of Meetings. Now, we allow our guest to make opening remarks, but as your chairman I will attempt to have these preambles limited. I was thinking in my mind that I would start giving them signs at 10 minutes and would attempt to cut them off at 15. Does that sound reasonable? I'm looking for a consensus. I see heads nodding. Okay.

We've discussed the past practice of questions: the question with two supplementaries, and then people would fall to the bottom of their respective party list.

Now, Voting in Committee Meetings we've already been involved in. Just to reaffirm, there's no seconder required on motions, but members cannot abstain from voting. So you must leave the Chamber prior to the vote being called.

MR. WHITE: Mr. Chairman, you can register an abstention where you have a potential conflict. That's the only way I understand you can register an abstention. It's a whole lot easier just to absence yourself though.

MR. CHAIRMAN: Member for Edmonton-Mayfield, I'm going to have to seek clarification. I'm assuming from the instructions I've been given that if you are in conflict, you would leave the Chamber. Okay. If I don't see hands, I'm going to continue to carry forward.

Procedure for Recommendations. We have discussed previously the fact that members can make recommendations at any time. However, you will be notified of what the cutoff date is. That will usually be at 4 p.m. on the day of the last meeting with a minister. If the last meeting with a minister is noon, then that's what the cutoff will be.

Schedule of Meetings for Recommendations. Based on the list of potential meeting dates that I've given you, we've provided for three days of debate on the recommendations and one day of voting on the recommendations. So just to give you a tentative schedule then, the debate on recommendations would be January 25, 26, and 27 and the voting day would be February 1.

Now, at the first recommendation meeting sponsors of recommendations have the opportunity to amend their own recommendations. Committee members are invited to withdraw or make suggestions for combining similar or like recommendations, and then after that, debate will begin. In past practice during debate committee members were allowed to speak more than once on each recommendation, if necessary. The member introducing can open and close the debate only. Any comments, concerns about recommendations?

MS HALEY: You made a comment that sponsors can amend their own recommendations. Does that mean that amendments can be made by other members?

MR. CHAIRMAN: Yeah, I think so. It would be proper under *Robert's Rules* to allow that, so we could do that.

Okay. Any other business to be brought forward?

MR. DOERKSEN: Mr. Chairman, if I may go back to the recommendation from Edmonton-Roper, I believe. In view of my comments I'm wondering if we can't make a recommendation to Members' Services to look at the honorarium and expense claims to ensure that there is no overlap from one to the other. After reading this expense claim, I note that in addition to the honorarium we can

also claim living expenses, which I thought the honorarium covered. I would like to put forward a recommendation that we refer it to Members' Services for their examination.

MR. CHAIRMAN: It's probably proper at this time, Red Deer-South, to make that in the form of a motion.

MR. DOERKSEN: I'll make that a motion.

MR. CHAIRMAN: Okay. Now we have Calgary-Egmont and then Calgary-Shaw. Are you on this motion?

MR. HERARD: Yes, on this motion. I believe that there's already an intent that's been communicated by the Premier to have all such matters examined by an independent committee. So I'm wondering if we're not really being redundant here with respect to passing a motion.

MR. CHAIRMAN: Calgary-Shaw.

MR. HAVELOCK: Thank you, Mr. Chairman. I appreciate the comments of the hon. Member for Calgary-Egmont. Perhaps the way to restructure the motion is to indicate that we're cognizant of the independent review, which we hope will be conducted in the near future, and this is one issue that certainly should be looked at in conjunction with that review. I guess to follow on that, too, I'm wondering: if we simply make a motion that we're referring it to Members' Services to look at the issue, would it not be appropriate for us to give some direction as to what they should be looking at: whether or not we want this eliminated or to stay in? I would suggest that the motion should be amended to include a recommendation that the honorarium be eliminated.

MR. CHAIRMAN: Now, as mover of the motion, Red Deer-South, are you . . .

MR. DOERKSEN: You want me to withdraw my motion and reword it?

MR. CHAIRMAN: Well, are you prepared to accept that amendment?

MR. DOERKSEN: Yes, I am.

MR. CHAIRMAN: So restate your motion now as amended.

MR. DOERKSEN: Okay.

That we will take the motion and refer it to the committee that the Premier has mentioned, which the hon. Member for Calgary-Egmont has brought up, that this be included as part of the independent review and that we look specifically at eliminating the overlap between the honorarium and living expenses.

MR. CHAIRMAN: Okay. Now, discussion, then, on the motion? We have Three Hills-Airdrie.

MS HALEY: Mr. Chairman, I'm not aware of any independent review that's going on. There was a study done last spring by Peat Marwick, who made a number of recommendations. I can't believe we're going to vote on a motion when we don't know that there is an independent review. If we're voting to have this referred to Members' Services, that's fine. It can be referred anywhere; I don't mind that. But let's not go on the assumption that there's some independent review, because I don't believe there is.

MR. STELMACH: Mr. Chairman, given that we only have five minutes for muffins -- I think we're just beating a dead horse here. Members' Services will be dealing with all of the honorariums, the committee expenses, et cetera, before the beginning of . . .

MS HALEY: December 8.

MR. STELMACH: Right. Okay.

Now, the other thing is what we perceive to be an overlap for living expenses. It really applies to those MLAs that are just on the edge here -- let's say 100 kilometres out of town -- that may or may not register themselves for living allowance. There are some evenings where in my particular case if we're here till 10 or 11 o'clock at night, I may have to stay in town for that evening to be here for an 8 o'clock meeting the next morning rather than driving home, and that just allows for that particular. Those that live a great distance and already have committed themselves to the living allowance are not going to double-bill. So I don't see a problem here. Everything will be reviewed, and recommendations will be brought forward. Well, they won't even be brought forward from Members' Services. That's it. Members' Services makes the decision. It doesn't go before the House.

9:55

MR. HAVELOCK: Mr. Chairman, I believe the Premier has stated publicly on a number of occasions that he will be establishing an independent review of all MLA remuneration, just for clarification for the hon. Member for Three Hills-Airdrie.

Also, as the hon. Member for Vegreville-Viking said, I don't want to beat a dead horse or whatever he was trying to say. Perhaps we should simply have this referred to Members' Services for them to look at. That's the easiest way to do it. I think the mover of the motion muddled the waters by talking about overlapping expenses and honorariums. I thought the intent was to simply look at the honorarium and whether it should continue to be paid to members of this committee. It was certainly an endorsement that any expenses incurred by members attending the committee should be reimbursed.

MR. DOERKSEN: Then, Mr. Chairman, let's go back to the original motion. My intent is only to ensure that this is looked at. If we refer it to Members' Services, as it should be, then let's go with the original motion, which is to refer this whole business of honorariums and expenses for committees to Members' Services for their look to make sure that they're appropriate and we don't have duplication in terms of various expense elements and honorarium elements.

MR. CHAIRMAN: Any further discussion? Having heard the motion, those in favour, say aye.

HON. MEMBERS: Aye.

MR. CHAIRMAN: Those opposed, say nay. Motion is carried. Any other business? Calgary-Egmont.

MR. HERARD: Mr. Chairman, I think there have been a number of things that have been decided here this morning. Some of them I think you've indicated and I'm sure the record will show that you had consensus on, but I think that to prevent any problems in the future with respect to the order of questions and the number of main and supplementary questions, perhaps we should have motions in the record that we vote on in order to make that the process for this committee.

MR. CHAIRMAN: Do you have a motion?

MR. HERARD: Yes. The first motion would be that each member will be allowed one main question and two supplementaries and that the order will be rotated between two lists and the speaker having asked his question will go to the bottom of the appropriate list.

MR. CHADI: Just some clarification, Mr. Chairman. I didn't catch the first part. I'm sorry. I was involved in another conversation.

MR. CHAIRMAN: One main question with two supplementaries.

MR. CHADI: Just what we had agreed upon earlier. Fair enough.

MR. WHITE: Just a question, Mr. Chairman, perhaps for yourself or the mover. There are times in committee where there is a particular expert. It perhaps could be education or medical research or something like that. Could a member on one list or another be passed over at that member's agreement? That happens in question period, where the Leader's question may be put by another member because they may be an expert in the area. It just seems to me ever so logical that that would be allowed to be done. Without having a formal rule on it, if that's the understanding, then I'm quite prepared to go with the motion.

MR. STELMACH: My understanding is that we follow the list whoever may be deemed the expert. Sometimes the best description of an expert is a drip under pressure. That will come up in due order; the name will come up following the other names on the list. Nobody is going to give up their right to speak and give it to one member only.

MRS. LAING: Mr. Chairman, I don't agree with that because every member would have their turn, every member would have the right to speak. I think that when you're on the list, if you want your experts to speak first, then they get on the list first. You know, it's not like we've got this limited time and everything else. If you don't want your turn, then you would drop to the bottom. I don't think you should give your place away to someone else. Everybody will have the same opportunity to speak.

MR. CHAIRMAN: I seek clarification, then, from Edmonton-Mayfield. I understood that I'd be running two lists, and if you were on that list and you wished to pass, then I'd just go to the next person under your name.

MR. WHITE: That's right.

MR. CHAIRMAN: You were not asking for someone to be substituted in your place?

MR. WHITE: No. Just the next order of business; that's all. A member would decide to speak or not to speak.

MR. CHAIRMAN: Is that clarification, Calgary-Bow?

MRS. LAING: Well, the way he worded it earlier was that we had to have our expert up. So you give up your place, the next person on your list comes up, and you go to the bottom. You lose your turn, in other words.

MR. WHITE: That's right.

MR. CHAIRMAN: Now it's Calgary-Roper and then Vegreville-Viking.

MR. CHADI: Thank you. I'm sure Calgary would love to have somebody from Roper.

With respect to the two different lists that we have, remember, hon. members, that we would alternate. We cannot overlook that fact. When somebody from one of the sides defers to the next speaker on that list, that's entirely possible and proper, I would think.

MR. STELMACH: Mr. Chairman, if the person decides to defer to the next speaker on the list -- let's say if I say: okay, I'll pass, and I'll defer to the member that's below me on the list -- it goes to the Liberals first, then it comes back to that speaker. I just don't say: oh, I won't be speaking, but the hon. Member for Calgary-Egmont will. You don't go directly to Calgary-Egmont. You go back to the . . .

MR. CHAIRMAN: Well, if I may, I believe we have a practice in the House -- I'm thinking about Committee of Supply -- where people have passed but you stay on that list. I think the important thing here is the alternation between parties, and that's what Edmonton-Mayfield is suggesting.

Having heard the motion and with the clarification, all those in favour, say aye.

HON. MEMBERS: Aye.

MR. CHAIRMAN: Opposed, say nay. The motion is carried.

We're at 2 minutes after 10. Would someone like to adjourn this portion of the . . . Oh, I'm sorry. Calgary-Egmont.

MR. HERARD: I think there was another matter that was also decided, and that was

that the people speaking, the experts and/or the ministers, would be given a maximum of 15 minutes for a preamble.

I think that should be formalized as well so we don't have a problem later down the road, and I would make that motion.

MR. HAVELOCK: Mr. Chairman, is 15 a typical length of time? Perhaps we could hack it back to 10. I'm not adverse to allowing more time for the committee to ask questions of ministers as opposed to simply listening to them explain their departments or various things to us. I think after four months I've certainly heard enough.

MS. HALEY: With regard to that, not everybody that comes in here is a minister. I think there are some things, with regard to medical research or with Vencap, where 15 minutes might be more appropriate. I think we can get so warped out when we're inside this room that we lose sight of what we're here for. We're here to learn. So while I recognize that questions are an important part of it, I think an hour and 45 minutes compared to a 15-minute presentation isn't unrealistic.

10:05

MR. CHAIRMAN: Further discussion? Okay; you've heard the motion. All in favour, say aye.

SOME HON. MEMBERS: Aye.

MR. CHAIRMAN: Opposed?

MR. HAVELOCK: Nay.

MR. CHAIRMAN: The motion is carried. So I will instruct each person to appear before us, then, with that requirement.

Edmonton-Roper.

MR. CHADI: Just a quick question, Mr. Chairman. What kind of muffins are they, by the way?

MR. CHAIRMAN: Too late.

MR. SOHAL: Motion to adjourn.

MR. CHAIRMAN: Calgary-McCall adjourned.

[The committee adjourned from 10:06 a.m. to 10:16 a.m.]

MR. CHAIRMAN: All right. I'd like to call the meeting to order. Prior to introducing Mr. Salmon, I would like to make a couple of comments. I see we have some guests with us in both galleries. I'd just like to mention to you, then, that we are involved as the Standing Committee on the Alberta Heritage Savings Trust Fund Act. As a standing committee we are a little more informal than if we were in a regular session. You may note that the private members who are sitting to my right are sitting in places that may not be their own, and they're entitled to do this. Also, because it is more informal, we are allowed to drink coffee at our places, and also, if we wish, we can remove our jackets. So if we look a little more informal than what you might ordinarily see, that is the particular reason.

All right. I would like to introduce, then, Mr. Donald Salmon, the Auditor General. If you would proceed, sir, we have allowed you 15 minutes for your preamble.

MR. SALMON: Thank you, Mr. Chairman. We appreciate being here today. I'm sorry; I don't know how well this is going to go or not.

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

I'd just like to make a few remarks about the financial statements of the heritage fund and get the committee members to focus in on some of the things that we have done with respect to the audit. As you are aware, the financial statements of the fund are included on pages 40 to 58 of the annual report, which was released on November 9. These statements were prepared by Treasury, and my Auditor's report is on page 40. 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 except that deemed assets and deemed equity represented by deemed assets have been removed from the balance sheet. As a result, the Auditor's report no longer contains a reservation of opinion with regard to the deemed assets, and I'm very pleased that the Provincial Treasury has dealt with this long-outstanding matter.

As well, the financial statements reflect a change in accounting policy based on the province's acceptance of recommendations by the public-sector accounting and auditing board of the Canadian Institute of Chartered Accountants. Accordingly, the investments and loans included in the Alberta investment division and the capital projects division are now reported at their face value discounted by the amount of any concessions. The concessions are a form of financial assistance which typically results when the effective interest rate of the loan is lower than the province's average cost of borrowing when the loan was advanced. The new policy has been applied retroactively, and note 3 to the financial statements provides

more detail of the effect of the change in the accounting policy. Also, some of the detail is mentioned on page 1 of the annual report.

I'd like to comment briefly on some items in the statements, and we'll focus mostly on the Statement of Changes in Financial Position on page 43. 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. The investing transactions in the statement show proceeds and investments for each of the divisions.

Proceeds from Disposals, Repayments and Redemptions of Investments include the Canada investment division proceeds of \$8 million, which results primarily from payments by the provinces of Newfoundland, Nova Scotia, and Prince Edward Island for debentures which were mature during the year, and the Alberta investment division proceeds, which were primarily repayments from the four provincial agencies included in the division, which amounted to approximately \$310 million, as well as proceeds from the Syncrude project, which amounted to \$217 million. The commercial division realized \$26 million from the sale of investments throughout the year. The investments in the year concluded primarily were the Alberta division, with \$103 million that came from the Alberta Agricultural Development Corporation, the housing corporation, and the Opportunity Company, and also the Alberta-Pacific pulp mill project with approximately \$129 million, the Lloydminster biprovincial upgrader of \$85 million, and the Syncrude project with \$198 million. Then the commercial division is made up of additional investments of \$30 million from various Canadian equities and money market securities.

The Transfers and Amounts Expended section of this statement is the amount transferred to the general revenue fund, which is the same as net income. This is consistent with the requirements of the Act for the past several years. The nonrecoverable capital project division expenditure totaled some \$84.5 million for the year, and this is the amount of the reduction in the fund's financial assets in the year. The major projects are irrigation rehabilitation, water management systems, and urban park development.

I can say that the audit went well, and we had good co-operation both with the Treasury Department as well as with management and staff.

I'm sorry; my voice is really not going very well today. But I would be happy to try to answer questions with the use of my staff and myself as I can use my voice.

Thank you.

MR. CHAIRMAN: Edmonton-Roper.

MR. CHADI: Thank you, Mr. Chairman. Firstly, my questions are with respect to the value of capital assets and capital projects, as the Auditor General just referred to. In looking on page 43, particularly with respect to changes in financial position, the Transfers and Amounts Expended, in transfers to the general revenue fund, you said \$784 million, and then capital projects division, \$84 million in amounts expended. Now, I'm wondering why we would include these deemed assets in the Alberta heritage savings trust fund annual report at all. If they're not salable, how do we have a market value?

MR. SALMON: Mr. Chairman, the \$84 million is strictly the actual amount that was expended from the fund towards capital project items. Of course, they're described in the schedule at the back of the financial statements. They are not classified as deemed assets anymore. In fact, if you look at the head of the schedule at the back, it's called Capital Projects Division Amounts Expended. This is

what we've been wanting them to do for a long time. So the \$84 million is the amount of dollars that were spent by heritage in that particular year. That's the amount by which the fund goes down every year. So as they spend dollars on capital projects, that's the reduction in the fund, whereas the revenue earned by the fund is transferred to the general revenue fund, and that's those two expenditures that are shown there.

MR. CHADI: Just some clarification, Auditor General. Are you suggesting that the cost of these capital projects, then, would not appear in next year's statements?

MR. SALMON: I believe the reason, Mr. Chairman, they're included in the statements is strictly to give a historical view of where the dollars of the heritage fund have been expended. It's strictly a list of the projects they've supplied the money to.

MR. CHADI: The amount of 25 percent being the maximum that can be expended from the Alberta heritage savings trust fund towards these projects and particularly that division: does that still exist, then, today?

MR. SALMON: I believe that hasn't been changed; that's right.

10:26

MR. CHAIRMAN: Okay. Thank you.  
Calgary-Egmont.

MR. HERARD: Thank you, Mr. Chairman. The Alberta Financial Review Commission recommended that loans with concessionary terms be reduced in value by the amount of the concession. Accordingly, Millar Western Pulp and Vencap Equities and I believe the Lloydminster biprovincial upgrader were reduced in value. What is the Auditor General's opinion of this change in accounting of the Alberta heritage savings trust fund assets?

MR. SALMON: Mr. Chairman, this is something that we were recommending because this has been recommended by the public-sector accounting and auditing board, and they have a statement now that's been officially issued, number 9. We were very pleased this year with the willingness of the government to make the change in the accounting policy with regard to concessionary loans. They not only did it within heritage fund; they've also done it within the general revenue fund.

MR. HERARD: Does the Auditor General feel that there may be other investments in the heritage fund that should similarly be reviewed and re-evaluated?

MR. SALMON: Mr. Chairman, we of course would have considered that at the time of doing the audit. Each item of investment is looked at as to whether or not there were any concessionary values there that should also have been written down. We didn't feel that there was any need to move on anything at this present time but certainly would watch it if there is anything in the future.

MR. HERARD: Thank you, Mr. Chairman.

MR. CHAIRMAN: Before I recognize Edmonton-Mill Woods, we have some new guests in the gallery, and I might just take a quick moment to inform them that we are here at the Standing Committee on the Heritage Savings Trust Fund Act. As a standing committee we are a little more informal than what we ordinarily would be if the

House was in session and under the guidance of the Speaker. You may notice, then, from your maps that we have our private members sitting at their convenience rather than in their places. The private members are here to my right. We are currently hearing testimony from the Auditor General, and he and his staff are situated here to my left.

Okay. Edmonton-Mill Woods.

DR. MASSEY: Thank you, Mr. Chairman. The government manages a portion of the portfolio of the fund and lets the private sector manage a smaller portion. Can you give us any indication of the performance of the two?

MR. SALMON: Mr. Chairman, as that question is directed, that's comparing one versus the other. I think you have to sort of look at it as a whole in relationship to what they're trying to achieve. I think the investment committee has established the policies and procedures, and then the investment groupings of Treasury and those that they assign out to the private sector must make sure that they follow those investment policies. We as auditors would ensure that that policy has been adhered to.

DR. MASSEY: Is there any way of getting any handle on which is most cost-efficient?

MR. SALMON: I don't think we have that breakdown specifically. Ken, do you want to . . .

MR. HOFFMAN: No, we don't have that kind of information actually.

MR. SALMON: It's sort of taken, as a policy, as one thing rather than splitting it off. We know the costs, but they're all mingled together eventually. It would be hard, unless you did a specific study, to measure whether or not the volume of transactions done by the private sector equals the -- from the dollar perspective that probably could be done, but it isn't done as part of the audit.

DR. MASSEY: Would it be useful in terms of trying to make a decision whether the private sector should take a larger portion?

MR. SALMON: I think one thing that maybe the committee needs to understand is that the heritage fund is only one small portion of all of the investments that they handle. The portfolios of the Workers' Compensation Board and the general revenue fund and many others are also involved. All of that stuff is taken into account as well, so it's a bigger picture than just heritage on its own.

MR. CHAIRMAN: Thank you.  
Calgary-Fish Creek.

MRS. FORSYTH: Yes. Thank you, Mr. Chairman. In your report to the Legislature for '91-92 you recommended that the Provincial Treasurer review the Alberta heritage savings trust fund to determine whether the heritage fund assets are being used in the most effective manner in relation to the province's overall financial objectives. The Financial Review Commission reviewed the fund and made certain recommendations in relation to the fund. My question is: are you satisfied with the review that took place, and what is your opinion on the recommendations that were made?

MR. SALMON: I did make the recommendation, Mr. Chairman. It's in recommendation 14 in the Auditor General's report. As far as I can tell, it's an ongoing thing. I don't believe the review has been

completed. I understand, which I'm sure any member of the committee will also understand, that the Provincial Treasurer has indicated that he'd like input from the public. I certainly feel as the Auditor General that it was important that I make that recommendation, because there seemed to be some misunderstanding as to the use of the heritage fund in the public domain. Last year's report of the Auditor General was not only raising the issue of the review of the heritage fund and the new investments contained there, but also we continued to try to explain as clearly as possible the interfund transactions that are taking place in relationship to the heritage fund being used as a bank, you might say, to loan money to provincial organizations and those dollars that could be offset if they didn't handle it that way any longer. We know their policy is that they loan money only at the rate at which they could borrow it from the outside. All of those aspects come back to a full review.

Now, that hasn't actually been done yet. Otherwise, maybe a decision would be made as to what you want to do with the heritage fund. Certainly we're pleased with some of the progress that's taking place in that we recognize the government has acknowledged the need to consider seriously whether or not the basis on which the fund operates should be taken into account and some decisions made as to whether or not things should change. But we certainly haven't seen the conclusion of that yet.

MR. CHAIRMAN: First supplementary?

MRS. FORSYTH: No. Sorry.

MR. CHAIRMAN: Okay.  
Edmonton-Mayfield.

MR. WHITE: Mr. Auditor General, there is an area of concern centring around that which you were speaking of just a moment ago. It's the Alberta Opportunity Company and the Alberta Mortgage and Housing Corporation and the funding that goes back and forth between the two. It's my understanding that there's a sort of tight little loop that goes around here, and my questions really relate to this loop that I'll explain in a moment. Is it acceptable under the general rules of accounting principles, the GAAP, to do it in the manner it is? It's from the general revenue fund that AOC and AMHC get some operating grants, which they in turn, in order to pay a debenture debt, pay back to this particular fund. This fund then returns back to the general fund some \$700 million-odd, of which at least a portion of that would be this money. So it seems to me that last year it was about \$100 million all told that went from the general fund, from general revenues, over to these two operating entities through to pay a debenture debt, which is in effect a loan, and then back this way. It seems to us, to me for sure, to have two things: one, it may or may not in fact violate the rules of accounting; and the second one, it certainly stands to confuse the issue, particularly when you want to look at a stand-alone entity. Would it not be wise to do it by another method perhaps?

10:36

MR. SALMON: Mr. Chairman, I like that question. I've answered that question half a dozen times at least in this session over the years. It's one that has been debated long and hard and will continue to be debated as long as you take them in isolation.

I would state that as far as the financial statements of each individual organization are concerned, they are proper and are not in any way out of line with generally accepted accounting principles, but one has to recognize that the emphasis has to be on the consolidated financial statements of the province. The Auditor General has been recommending that for a long time, and the

emphasis only took place this last year. In the past anytime budgeting was done or the emphasis was discussed with respect to finances of the province in the House, it was always to do with the general revenue fund. Then when you do that, you do get into this problem of the circular process of accounting.

As they've done this year in presenting the public accounts in volume 1 and also in taking into consideration the consolidated budget which was recommended by the office last year, you get the right picture. All of the interrelated transactions between the housing corporation, the general revenue fund, and the heritage fund get removed, so you get a financial statement that has all of that interplay gone. I think that's very key, to concentrate budgeting as well as the review of the net expenditures in the consolidated financial statements, to being much more understandable to everyone, because you don't have that interplay. But the legislation has established the individual entities, and therefore from an Auditor's point of view we really can't issue financial statements separately. Just like any company that has subsidiary companies, if you really want to see the true picture of the operations of the organization, you consolidate them all and eliminate all intercompany transactions and come up with a good consolidated financial statement. That's why I believe that volume 1 of the public accounts is really the answer to all of the problems with that circular process.

MR. WHITE: Is it not reasonable, then, to expect that if your office cannot do it -- it has to look at the overall picture, and I understand that. I have no difficulty with that. But when you're looking at the managers of one of these entities -- take, for instance, the Alberta Mortgage and Housing Corporation -- would it not be much wiser for them in their statements, either subsidiary statements or main statements, to list how they are this self-sustaining entity only by virtue of the fact that they get these grants and then they pass through? When you read them by themselves, each entity appears to be managed in the best manner possible, and it doesn't assume that the banker is the general revenue fund, which in fact is the case here, so it's revolving. It's difficult to set it aside, particularly for a layman.

MR. SALMON: I think, Mr. Chairman, maybe part of it is the newness of some of the members. If you take Alberta Mortgage and Housing Corporation, with the deficit they show, it is indicated that that is payable by the general revenue fund. This year it was recognized in the general revenue fund that that deficit was payable by the general revenue fund for the first time. I believe that it's much clearer the way they're presented in the current year. In the past often questions would come that you should write down the value of the housing corporation more. Really, in effect there's no need to do that when they are entitled to receive money from the general revenue fund. What we were after was that the general revenue fund recognize the need to show that they did owe this money to housing, which they've done in the current year.

The interesting thing is that once you understand that you've got about four or five organizations that interplay with one another, because in a sense this organization that we're talking about today, the heritage fund, is like a bank to the other organizations, I don't think it's difficult to understand the way it's presented. It's just a case that you could do a miniconsolidation of those five or six and eliminate the interfund transactions. We do that really in the overall consolidation, which also has the Auditor's opinion on it. So I think it does answer the question in the long run.

MR. CHAIRMAN: Second supplementary.

MR. WHITE: I think your statement of the newness of it is right. Looking at previous years, this year being different, it was difficult to follow the trail, the history of this organization, so perhaps with the acceptance of your recommendations, hereafter it will be easier to understand what is transpiring.

There is no supplementary, Mr. Chairman. Thank you kindly.

MR. CHAIRMAN: The Member for Red Deer-South.

MR. DOERKSEN: Thank you, Mr. Chairman. I just want to ask a question to do with the Canada investment division investments on page 50, the debentures there mainly from other provinces. Do I understand correctly that these are not stated in market value?

MR. SALMON: No, these are stated at cost.

MR. DOERKSEN: If you were to state them at market value, would they not be substantially higher than the value given there?

MR. SALMON: I suppose if you wanted to consider the sale of these particular debentures on the market with the higher interest rates that are attached to them, you'd have a higher value; that's true.

MR. DOERKSEN: Okay.

MR. CHAIRMAN: Second supplementary.

MR. DOERKSEN: That's good.

MR. CHAIRMAN: Edmonton-Roper.

MR. CHADI: Yes. Thank you, Mr. Chairman. Auditor General, my colleague from Calgary-Fish Creek touched on something that I would like to talk about just a little bit further and ask you a question on. I want to expand on what she commented about, and that is your recommendations to the Treasury Department to initiate a review of the heritage trust fund and determine whether the assets are being used in the most effective manner, et cetera. Has this indeed been done?

MR. SALMON: Mr. Chairman, I don't think it's been completed.

MR. CHADI: The Alberta Financial Review Commission came out and said that the retention of the heritage fund in its present form may be creating a false sense of security amongst Albertans, and they therefore recommended that the investments of the fund be transferred to the GRF. Do you concur with those recommendations?

MR. SALMON: I guess, Mr. Chairman, I would say that it certainly could be done without any loss in the way of misunderstanding. If those investments were sitting in the general revenue fund, they could easily handle it there as well as separately. Legislation has designed it separately. The purpose of our recommendation was that someone needs to seriously consider whether or not it should be handled in a different way than it is at the present time.

MR. CHAIRMAN: Second supplementary.

MR. CHADI: Yes. Auditor General, I would take it that you are a chartered accountant and that indeed the Institute of Chartered Accountants has also made recommendations. One of the recommendations was that the government initiate an analysis of the fund, including an evaluation of this portfolio. They also felt that

there would be an inevitable conclusion, that being that the fund be liquidated to pay down debt. Is that something you can agree with?

MR. SALMON: Mr. Chairman, that's also one that we've considered. Again, I don't believe that just to make the blanket statement that that's what you do is necessarily the answer, because I believe there has to be a very serious review of the fund -- I understand there are some things going on -- to the point where you know whether or not there's an advantage to keeping it as a savings account and borrowing money from it at the going rate at the time the loan is made versus comparing the cost of borrowing on the outside. It's not a simple matter because this is an ongoing fund. The dollars are there. There may be very distinct advantages in maintaining the investment versus selling it and paying down your debt and then having to borrow on the risks of what might happen in the future versus what might happen in the investment scene, with having these invested and gaining more dollars that way. I mean, there are some real serious factors between going one way or the other. I don't believe that study has been done, or at least it hasn't been made public at this stage. We're not aware of whether or not that has actually been done at this stage. So we're just walking right through that saying: there's one way or the other; now let's do the study and find out.

10:46

MR. CHAIRMAN: Calgary-Bow.

MRS. LAING: Thank you, Mr. Chairman. In the last year the Alberta government sold its 25.1 percent interest in the Alberta Energy Company. Following the sale, an amount equaling the book value of these shares, approximately \$183 million, was returned to the fund. Can you provide your comments on this process?

MR. SALMON: Mr. Chairman, this was an investment of the heritage fund. It was necessary to return the dollars back to the heritage fund because that is where the original investment took place.

MRS. LAING: In light of the AEC and the Telus share offerings by the Alberta government, what are your comments on the appropriateness of selling off the fund assets and paying down the provincial debt?

MR. SALMON: Well, I think I kind of made my comment just a few minutes ago about how I think there are two ways of looking at it, and until that has really been looked at seriously, I don't feel that I would comment directly.

I do feel that what is happening, as everyone is noticing, is that the fund is becoming much more liquid in that the cash and marketable securities are growing every year as the opportunity, you might say, to sell certain investments has taken place, which makes it very possible for the dollars to be used to pay down the debt, if they so choose, or to continue to invest at the best return that they can get and then use the dollars to offset costs needed in the general revenue fund, as presently is taking place.

MR. CHAIRMAN: Edmonton-Mill Woods.

DR. MASSEY: Thank you, Mr. Chairman. On page 57 where capital projects amounts expended are listed, I notice that under, for instance, Education, Alberta Heritage Learning Resources, the original \$9 million is listed there. A number of those learning resources -- the Kanata Kits that were \$200,000 of that -- are 15, a dozen years old, mostly worn out or sitting in closets of schools or

not being used at all. I wondered from the list how you go about valuing the deemed assets.

MR. SALMON: Mr. Chairman, there is no attempt to value deemed assets. There is no attempt to determine the value of the amounts expended. These are the dollars that have been removed from the heritage fund for these various types of projects.

Now, some of the projects are very clearly and distinctly available for review in another way. In other words, if you take the medical research endowment fund, which is just above that about four steps, you know there is \$300 million invested, and that is accounted for in a different way in a different set of financial statements, which I examine as the Auditor General. There's also \$200 million set aside in the scholarship fund that still exists and also is audited by the Auditor General. Some of these are for capital purposes and may have been expended and are long gone. It's more of an indication by historical means of the dollars expended since the heritage fund came into existence. That's the only way I think you can look at capital projects division amounts. There's no attempt to value these because this isn't the source for valuation. This is strictly an historical record.

DR. MASSEY: Should there be an attempt?

MR. SALMON: Certainly in the learning resource end of things, whoever ended up with the dollars either spent the money, such as it was, or -- whether there are any assets? It certainly isn't, I think, the place of the heritage fund to do that, no.

DR. MASSEY: And who would track those assets?

MR. SALMON: Well, take irrigation districts in southern Alberta. If you look at the financial statements of irrigation districts, which we also audit, those assets are accounted for in their own financial statements. I believe you recognize that in the energy area. The oil sands spends money on research and it's gone. Otherwise, there's a product that they've got that's of some value. I certainly don't think that's the role of the heritage fund to decide. The government and the committee who reviews this understands that those moneys have been spent for these purposes, and that's basically as far as you can go as far as heritage is concerned, as far as I see.

MR. CHAIRMAN: Okay. Thank you.  
The Member for Calgary-Shaw.

MR. HAVELOCK: Yes. Thank you, Mr. Chairman. Mr. Salmon, just to change gears a little bit. This is a general question. The NovAtel issue is one which is constantly raised by Albertans. I recognize that the government adopted a number of your recommendations regarding that issue. Generally speaking, are you satisfied that existing government procedures and checks are sufficient to preclude a similar situation arising?

MR. SALMON: Oh, boy. I'm not sure how that comes from the heritage fund, Mr. Chairman. Is this a general question you'd like me to comment on, or do you want me to stick to the heritage fund?

MR. HAVELOCK: I did mention it was a general question, I guess. You can look at it generally. Are you satisfied that existing government procedures are satisfactory to ensure that Albertans are getting value for their money? You could respond to that in light of the way the heritage trust fund is set up or virtually in anything the government does. I guess it's pretty wide open.

MR. SALMON: Okay. I'll go for that for just a little bit. I think my concern in doing NovAtel, of course, was that there would be no such future NovAtels, recognizing, however, that there are certain guarantees that exist out there that may have some effect on having some future losses. I believe the plan of making any recommendations by our office is to ensure that in the future those things don't occur. I'm satisfied that with the acceptance of the recommendations and the direction the government is presently taking, we at least shouldn't see such large-type things take place, although I'm not sure there won't be some additional losses yet out of guarantees that still haven't been reported. In reviewing the guarantees, we certainly do ensure, as Mr. Hoffman here could explain, that we do have adequate provision against them in each year now. We're also pleased that we've had now a couple of years where they've considered recording provisions against guarantees where it's known that there is going to be a loss even though the expenditure of the dollars doesn't take place till later. So certainly in a general sense we're hoping that we're not going to see anything of any major concern at least.

MR. CHAIRMAN: Second supplementary.

MR. HAVELOCK: Yes. In furtherance on that answer, then, are you satisfied with respect to the heritage savings trust fund that something like that could not occur?

MR. SALMON: Yes, we're satisfied that the valuations placed on the investments in the heritage fund financial statements as of 1993 are adequate. We certainly recognize that circumstances can change to the effect that you'll have to have more provision possibly against some of the other investments in, you might say, the Alberta division. Certainly we're not aware of any; otherwise, we would have been encouraging them to have them book them last year. We're satisfied with the current year.

MR. HAVELOCK: Thank you for your indulgence.

MR. WHITE: On a different topic but a similar vein of evaluation of potential losses, I direct the committee's attention to page 50, which is the Canada investment division. Without pointing out any in particular, the question relates to three: Province of Newfoundland, Newfoundland hydro, and Newfoundland Municipal Financing Corporation. Now, the protection against loss -- they're only in par value here. Obviously, as a question earlier said, it was not true value, that it may in fact be higher. In this particular case the marketing of these particular assets may in fact be lower. How can we view this investment portfolio at par and have a realistic view of it?

10:56

MR. SALMON: Mr. Chairman, it hasn't been a matter of policy to record the long-term investment, such as Canada division, at cost and consider the present value of those investments because these particular investments have been long-term. All payments have been made, all interest has been recovered, and there hasn't been any reason to have it on a different basis because of the long-term nature of the investments.

I suppose that the only time you would consider the value as of today would be if you were going to change your policy to a potential disposal of such investments tomorrow. Then you'd have to consider all of the factors that have been mentioned, whether it be the potential to sell even on the market, the high interest rates. If someone really wanted to invest in these debentures, you could sell them because of the nature of them and the repayment schedules that

are coming in. Someone else might want to buy them for those high interest rates if you could come up with the right figure. That has never been the policy, and there really hasn't been any need to dwell on the actual potential if you were going to sell it today, unless that of course is part of the overall study that we're talking about in determining the actual value as of a certain particular time. These are long-term investments.

MR. WHITE: Even though one recognizes that policy which currently doesn't allow it, would it not be in the interest of those of us that are layman to understand the value of our heritage savings, to always know and have a running tally on the value of these assets so at any point in time one could say that this is almost \$1.2 billion of the assets? At least that portion could say: this is the present value as of the last evaluation. I guess the final question and the real question is: would it not be wise to change the policy thereto?

MR. SALMON: I recognize where you're coming from. On page 25 Treasury has listed the market values of all of the assets within that fund. It's not part of the audited financial statements because that's not part of the policy, but they have indicated those values. Jim Hug would just like to mention one thing for you that might help you to understand a little better.

MR. HUG: Just going back to your earlier question about the Canada investment division, under the fund's accounting policies these investments are recorded at cost. Now, as far as market value is concerned, what we're looking at is a question of whether or not there has been any permanent impairment in those particular investments. Under the accounting policies if we feel that there had been permanent impairment, then those assets would be written down to what we feel they could realize on those investments. We've looked at that question. We don't feel that there's been any permanent impairment in those investments, and therefore we're satisfied that they are correctly recorded at cost. Because they're recorded at cost as opposed to recording them at market from year to year, we don't deal with the particular question that you're asking about tracking the market value. We track it only from the point of view of whether or not there has been a permanent loss on these investments and therefore because of that would have to be written down.

MR. WHITE: Are those three funds -- the Province of Newfoundland, Newfoundland and Labrador Hydro, and Newfoundland Municipal Financing Corporation -- coming to maturity very soon?

MR. SALMON: I don't know off the top of my head. We'd have to look it up. If you look on page 25 at the Canada investment division, the Treasury Department has classified the portfolio as being worth about \$1.338 billion versus the book value of \$1.175 billion. That would be basically on the high interest rates in today's market.

MR. CHAIRMAN: Sir, just to help me, then, with the process we're in, will you answer the question? Will you get back to me, then, on the specific question that he's had so I can refer it to the member?

MR. SALMON: Yeah. We could give you the general comment. We may be able to find it before the meeting is out. I don't want to list all the maturity dates, though, because they're not for public disclosure even in the financial statements. We could certainly give you an approximate idea.

MR. CHAIRMAN: Thank you very much.

The Member for Calgary-Egmont.

MR. HERARD: Thank you, Mr. Chairman. Is the Auditor General aware as to whether or not the heritage savings trust fund and perhaps in some other capacity the Alberta government still owns any part of AGT?

MR. HOFFMAN: They might have some shares in the commercial division. I'm not 100 percent confident of that. If they have any, it would be in the commercial division.

MR. SALMON: It would be strictly on the basis of investing in the market, though, rather than specifically holding any particular block or anything.

MR. HOFFMAN: Just as we might have shares in Shell or any other company on the market.

MR. HERARD: So there's no residual ownership of the government in Telus or AGT?

MR. SALMON: No.

MR. HERARD: Thank you.

MR. CHADI: Mr. Salmon, I'm going to just touch back briefly on your recommendation that the Treasury Department initiate a review of the heritage fund and determine what assets are being used in the most effective manner. I appreciate the fact that as at current there has been no review of the heritage fund, given the fact that originally we were promised back in the May 6 budget -- it was reiterated again in the throne speech of August 31 and mentioned again in the September 8 budget update -- that a review would take place. It would appear that the Treasurer has set aside funds for such a review within the department of Treasury in the '93-94 budget under Departmental Support Services to conduct this review. Those funds are there. Given also the fact that the government has made a number of decisions with respect to certain assets of the fund and particularly things like Syncrude and AEC, do you agree with these changes in the fund, the sale of these assets prior to a review being undertaken or completed?

MR. SALMON: Mr. Chairman, he's asking for my opinion on the policy of the government, and I'm certainly prepared to ensure that the actions on their policy are proper. The Auditor General tends not to go into public debate on what the government policy is versus what it should be. Certainly I look forward to following up and watching the member ask the Treasurer, when he shows up at this committee, how soon he's going to complete the review. I'd be interested in that too.

MR. CHAIRMAN: Supplementary.

MR. CHADI: Yes. My question was leading up to one other one, and that is of course the sale of these income producing investments that we've had, say, in comparison with concessionary loans that we have out there. Would it not be wise to at least conclude a review in your mind, sir, of the fund prior to making some of these drastic changes?

MR. SALMON: Mr. Chairman, again it's a case of whether or not the government is taking advantage of an opportunity versus whether it's against their policy. Certainly their policy would allow them to sell whenever they chose to sell. It is possibly a factor, although the

fund still holds the dollars. I mean, it's just a case of whether or not you're getting them in the form of cash and marketable securities versus holding possibly an investment such as Syncrude in the Alberta division, which was at one time considered to be very long term. Now part of Syncrude has been sold. Certainly the proceeds from that will end up back in the heritage fund as they receive them. Then that makes this fund that much more liquid, you might say, because those dollars are then available for immediate investment or use, whichever they choose to do with it.

Mr. Chairman, just to clarify, we can give you the range for Newfoundland. They have maturity dates from 1993 to 2001.

11:06

MR. SOHAL: My first question is regarding the cost of administration of the heritage trust fund. Mr. Auditor General, how would you compare the cost of administration of the heritage trust fund with the cost of other institutional funds' administration?

MR. SALMON: Mr. Chairman, can I clarify whether or not he's talking about other funds that are not provincial?

MR. SOHAL: That are not provincial, yes.

MR. SALMON: In the past there's been some review of the heritage fund in relationship to other such investment funds in Canada. In our own look at those comparisons, we find that the heritage fund is peculiar. In other words, you don't find any of them that are specifically like the heritage fund and certainly not with the same policy matters and the way that it is handled. So it is hard to compare. Certainly we are interested in the cost of administration that's included within the financial statements, and we are able to observe whether or not we feel like it's a reasonable charge with respect to what's included. The comparison has been hard to come by because it's a different fund than many of the large funds that exist out there. You can't compare it with the Caisse de Dépôt of Quebec or anything like that because of the size. Some of the other funds aren't quite the same as this one, so it's been hard to do that.

MR. SOHAL: Thank you.

MR. CHAIRMAN: Supplementary?  
Edmonton-Mill Woods.

DR. MASSEY: Thank you, Mr. Chairman. The report of the Financial Review Commission gives a far lower realizable value for the fund than is set out in this report. They estimated its value at March 31 as being \$7.6 billion. Dr. Mumey, in his discussion, gives a lower actual liquid market value because he discounts debenture investments in provincial corporations such as the Municipal Financing Corporation and the Opportunity Company. Would you comment on the differences? Why would he value it so much lower?

MR. SALMON: Ah, yes. I really don't like to comment about the University of Alberta studies because I think they kind of get off track there sometimes.

The commission's figure, the \$7.7 billion, if I remember rightly, is the value of the fund after the intercompany transactions are taken out. In other words, the money borrowed from the heritage fund by the housing corporation, the Opportunity Company, or any of those is removed. So you end up with about \$7 billion, whatever it is, that is invested with third parties outside. So that would return immediately to the heritage fund if you were to dispose of it. The rest of it in a sense offsets the debt. You could take all of the

transactions of the provincial corporations that are investments of the heritage fund and just collapse those if you chose to do so and just say: okay, you don't have to pay those anymore. The heritage fund would just drop in value, and then you have what is left over. That's the only part you're really considering anyway, because as indicated earlier in the meeting, you're paying yourself in a sense. You can mesh them all together as we do in the consolidated, and it removes it all anyway. So you end up with only \$7 billion or \$8 billion that really exists in the heritage fund.

DR. MASSEY: I'm sorry. That last comment: do you mean that you're agreeing with him?

MR. SALMON: I'm not agreeing. I would never agree with a study when I haven't really reviewed his assumptions or anything, but I don't believe that you have to discount anything unless you're going to, say, dispose of something immediately. Then, of course, you have to take into consideration the potential for sale, and I don't know if that's what he was doing or not.

MR. CHAIRMAN: The Member for Red Deer-South.

MR. DOERKSEN: Thank you. I'm going back again to market values placed on investments. I know this isn't necessarily within your jurisdiction but just a clarification. Alberta Investment Division Investments, which is on page 51, with regard to the corporate debentures: I'm noting on page 25 that the government excluded a number of them from a market value. Now, as the Auditor General, when you place a value on the corporate debentures, does any examination take place to do with the companies to make sure that there is in fact repayment ability of those debentures?

MR. SALMON: Yes. As was indicated earlier, our prime concern in valuing the investments in the corporate debentures is to know whether or not there's been a permanent loss at all in those investments since the previous time we've audited. If there was a permanent loss, we would take that into account and encourage Treasury to book it, which they have done with Millar Western and so forth as they've taken in these concessionary loans. Otherwise, we're satisfied with the values that are shown here.

Now, the market value is a different matter. Because of the long-term nature of these things it really isn't essential to record the market, because then you start getting into the present value. That's really not necessary under generally accepted accounting principles. So on these long-termers we must take into account whether or not there's been a permanent loss or not.

MR. DOERKSEN: Just to clarify. Under Millar Western the \$74 million you have there is a reduced figure from the past because of a write-down?

MR. SALMON: No. That's because of that concessionary loan thing in the change in accounting policy that I commented on in my opening remarks, and that's shown on note 3 in the financial statements. It was retroactively applied. So if you saw last year's annual report, you'd find it was a much higher value. The 1992 value has been adjusted for that concessionary loan portion. It's also kind of summarized in that little block on page 1 of the report, where it shows that Millar Western book value was \$45.9 million below its \$120 million face value, which was what it was last year. Okay?

MR. DOERKSEN: So again just to carry on with that same line of thinking. By producing the numbers that are on there, there is no

guarantee or you haven't satisfied yourself again that there's ability to repay?

MR. SALMON: Yes, we have. We've satisfied ourselves that these can be recovered at this stage.

MR. CHAIRMAN: Thank you.  
Edmonton-Mayfield.

MR. WHITE: That covered the exact same ground that I was just about to cover.

Moving on to another subject then. As I read page 9, which is the heritage fund's investment divisions and the objects of those exercises, I read time and time again that the policy is in Alberta corporations and Canadian corporations. In review have you found any violations of the policy, particularly perhaps through any one of the Alberta division loans and investments in some of these corporations that have tentacles in many other political divisions, particularly pulp and paper in British Columbia and those things? Have you found any of substance, and does it concern you at all?

11:16

MR. SALMON: Mr. Chairman, we don't know of any where they've actually gone against policy.

MR. WHITE: Is there a manner in which the knowledge would come to you in time to make some kind of a judgment on policy, or would it be your traditional auditing role, that it would be after the fact? I'm just particularly thinking of perhaps the Alberta Opportunity Company; they have so many different loans out in so many different places. Would it come to your attention in time to make a judgment?

MR. SALMON: Certainly in the normal audit of each year the examination of the loans is extensive, and the opportunities to determine whether there are any unusual situations is taken into account. We certainly will do everything we can to ensure that the values are correct and the financial statements are properly presented so that we can give the opinion. We certainly have been satisfied with the heritage fund. We have full co-operation of Treasury with respect to information and have been able to be satisfied. We have been pleased that they've been able to recognize the concessionary loan part, because that had been always some kind of a concern. Certainly the establishment of a standard by the Canadian Institute of Chartered Accountants helped to bring that to a head.

MR. WHITE: Then I would presume that should there be some judgment made on behalf of those that do invest, whether it be AOC or under the commercial division, the Treasurer -- if there were some significant amounts to be invested outside either Alberta in the Alberta division or commercial investment outside of Alberta or Canada, then your officers would be made aware of that somehow or other?

MR. HOFFMAN: The audit process that we follow would look at the transactions after they've been entered into. We check at that time to see if they've complied with the policies that they have established. In our preliminary meetings with the Treasury Department we would get any changes in their investment strategy. They would advise what those were as well. From an audit perspective it's historic that we look at the transactions after they've taken place. That's when we would detect noncompliance with policy and comment on it if that did occur.

MR. CHAIRMAN: Okay. Thank you.  
The Member for Three Hills-Airdrie.

MS HALEY: Yes. My question is with regard to the Alberta Mortgage and Housing Corporation. I want to know your opinion on the value of the assets held by the Alberta Mortgage and Housing Corporation. Are they equal to the amount that had been borrowed from the fund?

MR. SALMON: I guess I'll have to answer that question similarly to what I did before. The Alberta Mortgage and Housing Corporation financial statements per se are audited and valued, and an opinion has been expressed without reservation. Of course, you remember that the Mortgage and Housing Corporation has a deficit shown, which is the portion of the losses that have occurred that haven't yet been funded by the general revenue fund. Now, based on the fact that they borrowed their dollars from heritage doesn't mean that you must necessarily say, "Change the value in the heritage fund with respect to the amounts that are recoverable from the Mortgage and Housing Corporation." The Mortgage and Housing Corporation get their funds to pay off the heritage fund from the general fund, and as long as that exists and as long as that's the way the legislation lies, so that you have separate statements, it is proper, and you can give a clean opinion on those particular statements. So it's back to this circular thing. We feel that we can give the opinion because it's very clear as to who owes the money. Certainly heritage will recover all of the dollars that they've loaned to housing, so we can also leave the provincial corporate debentures in heritage at their full value as well.

MS HALEY: In Airdrie, where I'm from, we had a really rough time back in the early '80s with all the people that walked out on Alberta Home Mortgage. Are you satisfied that now, 10 years later, we've got a handle on this, that we're on sound footing with Alberta Mortgage and Housing Corporation again?

MR. SALMON: Yes. All of those losses that occurred in the housing markets have been taken into account in presenting the financial statements of heritage. That's right.

MS HALEY: Thank you very much. That's all.

MR. CHAIRMAN: The hon. Member for Edmonton-Roper.

MR. CHADI: Thank you, Mr. Chairman. Mr. Auditor General, you'll be pleased to know that I will no longer ask you -- or not this question, anyway. It's not related to the recommendation to the Treasury Department.

I'm curious to know -- page 45, note 2(g) reads:

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.

This is an easy one for you. Could you explain what you mean by "a temporary decline"?

MR. SALMON: It's "other than a temporary decline."

MR. CHADI: Oh, "other than a temporary decline." But what is deemed to be a loss that is only temporary?

MR. SALMON: One which would change to the next year; in other words, it's not permanently gone. This is under the rules of generally accepted accounting principles. Only when it's other than a temporary loss -- in other words, a permanent loss -- would you

write it down. Maybe Ken would like to comment on it, but the one that was written off this year, of course, is the Lloydminster upgrader. Not only did they write one off last year, but they also wrote it further down in the current year. Those are classified as "other than temporary."

MR. HOFFMAN: If you look at the commercial division, these are shares in public stock exchanges. The market value of those shares would vary from time to time, differing from cost. You, say, spend \$10 at one point, and because of market fluctuations it may be \$9 one day and \$11 the next day. That's what's temporary. So when you look for the nontemporary or permanent, you look for something with regard to the organization. Say there's been some fundamental change in the organization that you have your investment in that now tells you that that decline is not going to be recovered, it becomes other than temporary. Typically you're looking at three or four years of experience to determine whether or not you've got a decline in value that's other than temporary.

MR. CHADI: Mr. Auditor General, my thoughts of what temporary may mean would be something like a concessionary loan where you've used the present value of a future dollar. For example, Vencap: would that be deemed as a temporary value when we valued it a \$127 million?

MR. SALMON: Well, Mr. Chairman, a concessionary loan is a new concept that's just come into being. You weren't required to write down concessionary loans in the past, but the losses other than temporary have been around for a long time. So the fact that we have a couple of concessionary loans that were written off in the current year is because of the new policy of the Canadian Institute of Chartered Accountants. We certainly agree with that process. We've been carrying Vencap at the full value for a number of years. Obviously there was a difference in rates, and I think that's one of the reasons why they've now recorded it. They also recorded it retroactively because it always existed since the beginning of the loan. That's why they applied it retroactively rather than in the current year.

11:26

MR. CHADI: My second supplementary for clarification then. Vencap, \$127 million: is that deemed temporary at this point in time?

MR. HOFFMAN: They are different concepts. That's the fundamental problem. A concessionary loan -- when you look at valuing an asset for financial statement purposes, we're starting with this historical cost as a premise. Then you have a number of reasons for adjusting it. One reason is the concessionary loan policy. Is it a loan? Well, yes. Was there a concessionary component? That's typically unique to government.

Another issue -- and this applies not just to loans but equity investments as well -- is this permanent decline in value, a quick way of phrasing it. That's a separate process or a separate accounting policy, and you could apply both concepts to the same investment, for example. The Vencap one: there's no permanent decline conceivable there. It's just the concessionary loan accounting policy that was applied. What's going to happen is that there's a discount recorded, and that discount is amortized back over time so the value will slowly increase with the amortization of that discount. So it's a different concept. It's analogous to when you buy a bond. You buy it, and you pay a discount for it because its interest rate is different than the current market rate. It's a way of coming at your base cost as opposed to the accounting policy of decline in value that's other than temporary. What that does is look at: when you continue to hold the investment, how much is that worth now,

or is there something in there that tells you that you're not going to recover that money for whatever reason -- the company went bankrupt or what have you. Does that answer your question?

MR. CHAIRMAN: Okay. Thank you.  
The Member for Vegreville-Viking.

MR. STELMACH: Thank you, Mr. Chairman. Albertans are quite concerned about credit rating, and I guess Canadians as a whole are, given yesterday's information on the deficit. Does the performance of the heritage savings trust fund affect or impact in any way the credit rating of the province?

MR. SALMON: Mr. Chairman, my understanding from past experience in this area is that, yes, it is taken into account because it's a positive asset that the province does own. With the emphasis on the consolidated financial statements that has occurred in the past year, this has been a little easier for others to understand, but even prior to that when emphasis was on the general revenue fund, the heritage fund was always taken into account as well.

MR. CHAIRMAN: Edmonton-Mill Woods.

DR. MASSEY: Thank you, Mr. Chairman. Not being an accountant, I wonder if you can help me again understand: the general revenue fund gives grants to AOC and to AMHC to pay down the debenture debt obligations held through the heritage trust fund, and then this interest income is paid into the general revenue fund. I don't quite follow. How does that make sense?

MR. SALMON: I'm going to let Jim answer the question.

MR. HUG: When the financial statements are prepared for the individual entities, they are prepared on the basis that they have to stand alone and represent what has happened in each individual entity. So to the extent that the heritage fund has earned income on money that it's received from AOC, it then records that money as income in the heritage fund. The Alberta Opportunity Company would have to recognize the fact that it had an interest expense, and it records that interest expense in its financial statements. In other words, the individual financial statements accurately reflect the revenues, expenses, assets, and liabilities of those funds on a stand-alone basis. The only way you can deal with this question of the movement of the funds is, as Don was indicating, that you then have to default to the consolidated financial statements of the province. For instance, the interest income that the heritage fund reflects and the interest expense that would be paid by AOC are in fact eliminated, so the consolidation eliminates both the revenue and the expense from the consolidated financial statements.

DR. MASSEY: Okay. Thank you.

MR. CHAIRMAN: Okay.  
The Member for Calgary-Bow.

MRS. LAING: Thank you, Mr. Chairman. Mr. Auditor General, in regards to the commercial investment division what do you think about the current makeup of holdings in this division in terms of the long- or short-term growth of the fund?

MR. SALMON: The commercial division is an established policy of the fund, and they invest in the market. I understand that because of the policy they can go on the Toronto Stock Exchange but they

can't invest in banks. Ken can comment a little further on how that operates.

MR. HOFFMAN: I'm not too sure what you're driving at. The mix is a passive investment fund. They tend to try to mirror the TSE 300. As I understand it, the policy is to have investments in commercial enterprises in Canada. So this is their mechanism for doing it: to mirror the TSE 300 index to the extent they are allowed to. They can't invest in certain kinds of investments, so they don't do that. I don't know how that answers the question relative to long-term viability of the fund.

MRS. LAING: In light of the fact that the funds are transferred to GRF, will it ever see any real growth? I mean, we're taking the interest off it. Will it ever see growth?

MR. HOFFMAN: The heritage fund itself won't grow; that's true. While you may have assets shifting between divisions, between the commercial division and the cash and marketables or vice versa, the fund itself won't grow, and any of the market value adjustments or the dividends received or what have you down at the commercial division -- you're correct; it just goes straight to the GRF. Any gains on sale go straight to the GRF, and that's true of any of the divisions. Any revenue realized is transferred to the GRF. So you're not going to have the heritage fund itself grow by virtue of that policy. In fact, because they spend money on the capital projects division, it diminishes each year.

MRS. LAING: Thank you.

MR. WHITE: On page 11 of the annual report there's a statement that says, in effect, that "it held almost \$12 billion of . . . assets at March 31, 1993." Then it goes on to describe those assets. Nowhere in that brief description of the assets is there anything said about the capital assets that in fact are nonrecoverable. They're the ones that are in the parks program. When you read this statement to Albertans, is it not bordering on being misleading?

MR. SALMON: No, Mr. Chairman, it's not misleading. In fact, they've finally caught up with what the Auditor General has been telling them for years, and that is that the capital assets expended, which used to be called -- and I'm sorry to use the term -- deemed assets aren't assets of the heritage fund. That's why you don't say it. So they're listed as expenditures from the heritage fund. If there are any assets that exist such as parks, investments in scholarship funds, or irrigation works in southern Alberta, those are assets now of somebody else, some other organization rather than the heritage fund. That's where I think we keep coming back and saying it belongs to the heritage fund, but it doesn't. That's where it's now been separated, and it's much more understandable.

11:36

MR. WHITE: I thought that was the case, because it's changed from previous years. That was the classic one, the one that bothered all of us reading from the outside and saying, "How can you do this?" That one's cleared up. In your opinion are there any others in here, not of the same magnitude, that you would like to see some major or even minor changes in the way that they're reporting? If you can explain those.

MR. SALMON: I believe that the reporting in the current year is a good thing. I think that committee members who weren't here in the past have to go from an old one to the current one, and it is a little bit hard because we talked about some of these problems for so many

years and became so used to it that I didn't have to explain it. They would just raise it, and it was gone.

I do feel that the Treasury Department has done a good job also of explaining the distinction in the \$12 billion worth of assets that the heritage fund has, the distinction between what is invested in securities and projects unrelated to the Alberta government versus what's related to the government. That in the past was not well explained, and it's now showing about \$5.1 billion invested in other organizations within government. If you take that away, or canceled it out you might say, you've got almost \$7 billion that are sitting there for outside of Alberta organizations.

MR. WHITE: Thank you kindly, sir.

MR. CHAIRMAN: Just before I recognize the Member for Calgary-Egmont, again we have guests that have arrived in the gallery. I would like to point out to our guests that we are somewhat informal today. This is the Standing Committee on the Alberta Heritage Savings Trust Fund Act, and as such we are allowed some informalities that you wouldn't normally see if you were here with the Speaker in charge of the proceedings. On my right and not sitting in their particular places are the private members from both parties that sit here on this committee, and of course to my left we are currently questioning the Auditor General and his staff on the heritage savings trust fund report for '92-93.

Okay. The Member for Calgary-Egmont.

MR. HERARD: Thank you, Mr. Chairman. I think the previous questioner pretty much asked the question that is being asked of us very, very frequently, and that is: what's it really worth? Is it fair to say, then, that the book value at \$11.951 billion is really what the fund is worth?

MR. SALMON: Mr. Chairman, we always come back to it. I'll answer it this way: within the audited financial statements themselves there are two items that are included in here that have market values. The cash and marketable securities, which is the number one item on the balance sheet on page 41, shows that the value of those investments is \$5.338 billion, when the market value shown in schedule 1 also shows that it's \$5.391 billion. So if you take the commercial investment division, showing at \$339 million on schedule 4, you'll find that the market value of those investments if you sold them today is worth about \$512 million. If you wanted to take the market value at a certain date, you can always say that the fund is worth more, but the way it's presented, the best way to not get confused is to take the \$11.9 billion and say, "Here's the value as of such and such a date."

MR. HERARD: Thank you. It is a question we get asked a lot.

I see that the book value has dipped under the \$12 billion mark for the first time. Can the Auditor General discuss the factors that led to the decrease in fund equity?

MR. SALMON: Yes, Mr. Chairman. The fund equity has been going down. Ever since -- I can't remember the year -- all of the revenue has been drawn to the general revenue fund, expenditures on capital projects have reduced the fund equity each year. So as the Legislature approves capital projects, that's the portion that reduces the equity, and that's why this year for the first time it's dropped below the \$12 billion. It will go down every year as long as they continue to spend money on capital assets.

MR. HERARD: Thank you.

MR. CHAIRMAN: Edmonton-Roper.

MR. CHADI: Thank you, Mr. Chairman. Auditor General, going back to concessionary loans, my question is: is your department consulted, or is it in fact your department that calculates the present value of these concessionary loans?

MR. SALMON: Mr. Chairman, this was a change in the current year not only for heritage but also for the general revenue fund and any other organization that had concessionary loans. Certainly the matter had been discussed, but the actual calculation is done by Treasury, and then we verify that calculation.

MR. CHADI: I see.

With respect to the present value of these loans, I'm curious to know -- you brought my attention to page 1 showing Vencap and Millar Western Pulp, et cetera, and the fact that Vencap is now almost \$73 million below the \$200 million face value and Millar \$46 million below its \$120 million face value. What sort of interest rates are used to calculate the present value of these loans?

MR. HOFFMAN: PSAAC requires the interest rate to be the provincial cost of borrowing. The way the process is carried out is you look at the date that the loan was issued and the cost of borrowing for the province at that point in time. That's considered your market rate. Then you look at the internal rate of the investment itself, and it's the difference that is the concession. Presumably in these cases the internal rate is lower than this provincial cost of borrowing.

MR. CHADI: Understandably so. It seems like a significant decrease in value, though, and I'm wondering whether or not these concessionary loans are somewhat of a performing type loan; meaning, is any interest being recovered from these loans currently?

MR. HOFFMAN: In the case of Millar Western, there's no money being received on it. It's a complicated process. What they do is share on the positive cash flow of Millar Western. I think that's discussed in the notes under the Alberta division schedule.

In the case of Vencap each year we've been getting money. We've got the principal payment, and we've also received our share of their income. So I think we got something slightly better than \$5 million from Vencap last year. They pay each year. So it's performing in that sense. In the Vencap case that's why Treasury amortizes the discount back: because ultimately they're going to get the face value. In the case of Millar Western it's not being amortized back because there's uncertainty as to whether or not you're going to realize the revenue.

MR. SALMON: That's in note (c), page 52, on Millar Western.

MR. HOFFMAN: That's where you have an overlapping of accounting principles happening. The Vencap one is meeting its obligations and generating revenue.

MR. CHAIRMAN: Supplementary.

MR. CHADI: Yes. Ken mentioned something with respect to the principal on Vencap. It shows here \$200 million face value. Are you suggesting that Vencap did indeed, then, pay down some of that principal amount?

MR. HOFFMAN: Yes. If you go to the note on page 56, they state what their obligations are in terms of making principal payments. All they have to do is make a thousand dollar payment each year

from 1993 to the year 2002. They've made that thousand dollar payment. Okay? Then starting after that, they make a much larger payment.

MR. SALMON: The bigger ones come later.

MR. CHADI: Thank you.

11:46

MR. CHAIRMAN: The Member for Red Deer-South.

MR. DOERKSEN: Thank you, Mr. Chairman. I just want to ask a question -- and you've partially answered my question already -- under the capital projects division amounts expended, in that the fund is going to decrease in its assets as the capital expenditures increase. Have you identified the amount of future commitments we have made from that fund? Like, there are some commitments in terms of the parks, for instance. Are those identified as, say, a contingent liability?

MR. HOFFMAN: Page 58, note (b) states certain commitments. These were the commitments as at March 31, '93.

MR. DOERKSEN: So there's another commitment for \$12 million coming down in the future.

MR. HOFFMAN: Yes.

MR. DOERKSEN: Okay.

I guess the second question that would come with this, then, would be: is it possible for the government to off-load all of its capital expenditures through the heritage savings trust fund in meeting its deficit reduction targets?

MR. HOFFMAN: The Heritage Savings Trust Fund Act puts a 25 percent limit on the amount of money that can be spent through the capital projects division. I believe that's almost at that level. There's only a couple of percentage points left, so there's not very much money left within the heritage fund for the capital projects division. The government would have to change the Act, then, to alter that 25 percent.

MR. CHAIRMAN: Thank you.

The Member for Edmonton-Mill Woods.

DR. MASSEY: Thank you, Mr. Chairman. May I go back and revisit a question that was asked by the Member for Edmonton-Roper?

MR. CHAIRMAN: Well, if it's on the Treasury, I might rule you out of order.

DR. MASSEY: Okay.

I didn't understand completely the answer. On pages 44 and 45 there's the footnote (g) distinguishing between temporary and permanent losses. What is the criterion you use? As I understood it, you said if it was just lower than the previous year. I still don't understand what was the criterion.

MR. HOFFMAN: It depends on the nature of the investment. If you look at a shareholding, an equity investment, then you're going to look at where the market value of that equity investment has been below the cost for a number of years. That would tend to imply that there's something fundamental within the organization that says that

you're not going to recover that cost. But again, equally with the equity investment the market value will shift over time. Since it's not market value accounting, it's cost accounting, all you're trying to do is find out: are you going to recover that cost? So you're looking for information about that. One of the indicators is a prolonged market value lower than the carrying value. Another one might be where the organization has gone through a fundamental change in its nature where it no longer has the same value that it might have had in the past. Maybe they've had a bankruptcy with one of their subdivisions or something like that, that tells you that the value just isn't there anymore. So you look at several different things, but the first indicator is: what's the market value?

Now, where you don't have market numbers, then we go to other sources -- discounted cash flow models, a variety of things -- that try to tell us whether or not there is a decline in value that's other than temporary. So what you don't do is record these temporary movements in the market value. You're only looking for the ones that are, well, other than temporary, are permanent. Okay? Did that answer your question?

DR. MASSEY: Yes. When you say "prolonged": three, four, five years?

MR. HOFFMAN: Yes. Typically you're starting with three years of history, you know. You want a minimum of three years of history.

DR. MASSEY: Thanks.

MR. CHAIRMAN: All right. I just want to mention before we go further -- and ask the Auditor General's indulgence with me, if he would -- that we called the meeting to order at 10:14, so it is my plan if there are questions to continue to 12:14 to provide the members with the two-hour opportunity. Thank you.

Edmonton-Mayfield.

MR. WHITE: I have no further questions.

MR. CHADI: Mr. Chairman, I don't have any further questions at this time.

MR. CHAIRMAN: Edmonton-Mill Woods.

DR. MASSEY: I have an obligation.

MR. CHAIRMAN: Well, it worked out very well then. With no further questions, then, I would like to thank the Auditor General and his staff for coming today and appreciate the co-operation and candidness. I appreciate you proceeding, sometimes unwillingly, but certainly to provide us with the information. On behalf of the committee, thank you very much.

[The committee adjourned at 11:53 a.m.]

