

Standing Committee on the Alberta Heritage Savings Trust Fund Act

2:00 p.m.

[Chairman: Mr. Dunford]

MR. CHAIRMAN: All right; I'd call the meeting to order. Thank you for coming out on a Friday afternoon.

MR. CHADI: Thanks for having us.

MR. WHITE: What schedule changes do we have between now and 4 o'clock?

MR. CHAIRMAN: The hourly changes to our schedules: there are no new updates.

While we're getting the room set up for the Treasurer, just a couple of items. Mike Percy, did you want to read some recommendations into the record?

DR. PERCY: Yes. We had shipped them over to you, and unfortunately I do not have a copy. Ah, thank you, Mr. Chairman.

These are three recommendations to be read in from myself and Sine Chadi. The first is:

Be it resolved that an all-party committee of the Legislative Assembly, such as the Standing Committee on the Alberta Heritage Savings Trust Fund Act, be designated to enter into negotiations with Vencap Equities Alberta Ltd. relative to concluding an agreement respecting early repayment of the heritage savings trust fund loan.

Second recommendation:

Be it resolved that the negotiations relative to repayment of the loan ensure to the fullest extent possible that the original mandate of Vencap in diversifying the Alberta economy be respected and maintained.

Three:

Be it resolved that the negotiations relative to repayment of the loan require that VenCap retain its head office in Alberta.

Thank you.

MR. CHAIRMAN: Thank you, Michael.

Now, we have today the Provincial Treasurer and his staff. We are here exercising our mandate as a committee, sir, to review your report and to ultimately make recommendations. You're invited to perhaps make some opening comments. You are allowed to speak at whatever length you wish so long as it's less than 15 minutes. We would appreciate your co-operation in that manner. Questions will then alternate between the Liberal opposition and the government members. Each questioner has the opportunity for one question and two supplementaries. So that will be the procedure, sir, if you wish to proceed.

MR. DINNING: Well, thank you, Mr. Chairman. I won't tell you how delighted I am to be here, as I'm sure you won't tell me. But it is a pleasure to appear for the very first time before the heritage savings trust fund committee. I am joined today by two colleagues from the Treasury Department, the first one being, on my right, Mr. Stan Susinski, who is the chief investment officer in the Treasury Department, and on my left is Mr. Robert Bhatia, who is the executive director of finance planning and analysis within the department. I expect as well I'll be joined by Paul Taylor from my office. It is especially a pleasure for me to be here for the first time. Also, Robert Bhatia, having watched these proceedings for some 15 years from the gallery, has now taken a physical demotion and joined us on the floor of the Chamber and is now here to hopefully

be able to answer some of the more piercing questions that I'm sure I'll get from my colleagues across the way.

Mr. Chairman, as you know, I will be brief in my opening remarks by simply saying that the heritage savings trust fund has been in existence since the mid-1970s. As of March 31, 1993, that year-end which the committee is focusing its attention on today, the financial assets of the heritage fund were some \$11.95 billion, a significant savings account held in trust for the people of Alberta through the province. I think it reflects the foresight of some of my colleagues from the Conservative Party in the past, when the likes of Peter Lougheed and Merv Leitch and others in the caucus of the day created this fund. It is unlike most other financial institutions in this country in that we have been able to set aside these dollars. They generate today in the order of nearly a billion dollars in income to the general revenue fund of the province, and it's very much being used as a rainy day fund in these financially rainy times. That nearly a billion dollars worth of income is a significant contribution and means that the province, the government, doesn't have to go to the citizens to pay all of the costs of government, but that 9 or 10 cents out of every dollar that comes from the heritage fund is a significant, important part of our savings account that assists and supports services that Albertans deem essential.

So, Mr. Chairman, I would happily answer questions and ask my two colleagues to join me in answering the questions that come before the committee. As the Liberals would want me to forewarn them, there may be questions that might more appropriately be asked of some of my Executive Council colleagues, and I would naturally not want to pre-empt their ability or their opportunity to answer those questions as they come before this committee. I know, Mr. Chairman, I will perhaps ask for your assistance at times in deferring those kinds of questions so that my colleagues could enjoy this opportunity as well.

MR. CHAIRMAN: Not a housekeeping note so much but regarding questions, we've been allowing a fair amount of latitude, so I've been looking back to the ministers at times for perhaps some guidance as to their willingness to get involved. I think we're here to provide information in an open and complete way, so I guess we'll sort of feed on each other then, Mr. Provincial Treasurer, as we view this.

I might indicate, however, just before we start the proceedings, that we have visitors in the gallery, one or two that I recognize. I want to welcome the visitors this afternoon and let you know that you're observing the standing committee on the heritage savings trust fund. We are more informal than what ordinarily you might see here in the Chamber under the guidance of a Speaker. The people that are sitting on my right: it's an all-party committee, and we have members of the Liberal opposition and members from the government side. They are free to sit in places other than their designated spots, so if you attempt to recognize them by seat number, you might want instead to have a look at the pictures that have been provided in the parliamentary guide. To my left are the Hon. Jim Dinning, the Provincial Treasurer, and members of his staff. They are appearing here before us this afternoon. Again, welcome to our committee meeting and Merry Christmas to you all.

Now, Mike Percy, first question.

DR. PERCY: Thank you, Mr. Chairman. Mr. Treasurer, the Auditor General has recommended that the Treasury Department initiate a review of the heritage savings trust fund. The Alberta Financial Review Commission stated that the retention of the heritage savings trust fund in its present form was creating a false sense of security among Albertans. The Institute of Chartered Accountants has recommended that the government initiate a comprehensive analysis of the fund, and eight months ago the

provincial government announced that it was going to undertake such a study. It was announced in the throne speech, yet we've heard nothing to date about setting up such an independent review that would solicit opinions from Albertans on whether or not the heritage trust fund should continue to exist in light of the debt load facing the province. Can you tell me what the status is of the proposed, long awaited review of the heritage savings trust fund?

2:10

MR. DINNING: The short answer, Mr. Chairman, is that it is still under review. The long answer is that the government has a large number of projects and initiatives on its platter, everything from preparing a budget, especially a budget that has made a commitment to bring forward three-year plans and three-year targets. That is a sizable task in and of itself. There is a Tax Reform Commission going on throughout the province today, and it will now report probably in the latter part of January rather than the previously expected end of December. The size of their task is a large one, and we have agreed to give them that extra time that they need in order to do the job right rather than just fast.

There are roundtables and other consultations going on throughout the province, and we believe that it's important to work on those and focus on those and enable Albertans to focus on those important reviews before a very important review of the heritage fund is begun. That's not to say that the heritage fund review is of less importance. It's simply a matter of what one can put on the agenda both individually and privately, as a minister and as a government, but more importantly in helping Albertans to focus their attention on such an important subject as this. I expect and I would hope that before the end of this fiscal year we would have launched this very important review.

I'd of course welcome from Dr. Percy and others here today advice or suggestions on who might be involved and what their focus of attention ought to be. I know the Liberal position may be that they don't, obviously, feel that the review is necessary because the Liberals have pretty well stated that we ought to sell it off. Maybe they've changed their views, so I'd welcome any suggestions from them.

DR. PERCY: A supplemental. In the Treasury subcommittee meeting of September 15 the Treasurer indicated that funds had been set aside in the '93-94 department of Treasury budget to conduct a review of the fund. Could you tell us how much funding has been set aside, since you've now stated that it's very likely that the review would be undertaken before the end of this fiscal year?

MR. DINNING: Well, we have earmarked some funds, but not having decided the scope or the extent and therefore the cost of the review, I would be hard-pressed to give you a precise figure. I believe it would be in the order of \$100,000 to \$300,000.

DR. PERCY: Final supplemental, and it is linked. It goes from the heights to the depths of minutiae. If you look at the notes on pages 55 and 49 of the annual report of the heritage trust fund, on page 55 it notes, for example, that the fund loaned \$7.78 million in common shares "to certain borrowers." On page 49 it indicates that the fund loaned nearly \$127 million in marketable securities "to certain borrowers." Can you tell us the nature of these transactions: a list of the investment houses involved, who the borrowers are, and the fees paid for these funds that have been transferred or used as collateral or otherwise made accessible to the private sector.

MR. CHAIRMAN: Perhaps, Mr. Treasurer, while you're reviewing that -- we have again some visitors in the gallery. I'd like to

welcome all of you today. I see that you're being positioned. Welcome. It appears to be a class of school children. We're happy to have you with us today. What you are observing is the standing committee on the heritage savings trust fund. We are more informal than what ordinarily you might see in the House. We're allowed to sit in chairs other than our own designated chair, and we're allowed to remove our jackets. To my right are the committee members from both the Liberal Party and the Conservative Party. We are here today hearing evidence regarding the heritage savings trust fund from the Provincial Treasurer and his staff, to my left. I'd like to say that I appreciate your attendance and your interest and would wish all of you a Merry Christmas.

Mr. Treasurer, whenever you're ready.

MR. DINNING: Mr. Chairman, I'd ask Stan Susinski to comment on the questions related to pages 49 and 55.

MR. SUSINSKI: The one on 49, sir, is the securities lending operation that we're involved in whereby we would lend out certain securities to investment dealers that have qualified, and against that they deposit back with us, basically, government of Canada bonds. We earn a fee off that securities lending operation.

DR. PERCY: And then page 55?

MR. SUSINSKI: That's fairly standard in the industry. Page 55 is a type of derivative security that we had invested in. Basically what we were doing was buying a deposit from either a trust company or a bank and a third party had undertaken to pay us. Instead of income, we would get the performance from the stock exchange over a certain period of time. So, in other words, it was a form of equity investment where the capital was preserved.

MR. CHAIRMAN: Okay. Thank you.
Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. Mr. Treasurer, in 1992-93 there were some accounting changes, and I'm particularly interested in the effect of the concessionary loan policy on investments of Vencap, Millar Western Pulp, and the biprovincial upgrader. Could you explain these accounting changes and what the net effect might be on the heritage savings trust fund?

MR. DINNING: Well, Mr. Chairman, the best explanation perhaps comes out of the Financial Review Commission and the Auditor General reports, which said: look, if you believe that you're not going to get the kind of income that you had originally expected and that there were concessions to those loans -- the biprovincial upgrader is a good example -- and that there is more to that investment than just a return on investment financially but that it's jobs related, that it's economic activity related, that's fine, but reflect that in your financial statements and reflect that in your accounting policy. So as pointed out at the bottom of page 44 in the notes to the financial statements, we have accepted those recommendations from the Financial Review Commission and from the Auditor General, such that you would write down the value of your investment to equal the present value of the expected stream of income back from that investment. That is exactly what we did in the case of the Husky upgrader. That's also the case with Vencap and, I believe, with Millar Western.

MR. HERARD: Now, on the assets side, is it similar thinking that prompted the change that the spending on capital projects no longer

be shown on the balance sheet as deemed assets? Is it a similar type of explanation here?

MR. DINNING: It is. Mr. Chairman, clearly the heritage fund and the kinds of important investments it has made, to the tune of some \$3.4 billion over its history, have made a significant contribution to the infrastructure and, really, to the quality of life in this province, whether it's Kananaskis Country, as Mr. Herard and I know all too well as southern Albertans, or whether it's the heritage scholarship fund or the medical research foundation. Those are important investments, assets in the province of Alberta, but because of our accounting policy and because of the Heritage Savings Trust Fund Act itself, they were deemed to be assets. Those who make a living out of counting beans said that it's not the wisest way to account on a financial statement, because you couldn't recover on Kananaskis Country. You couldn't recover, perhaps, on land reclamation. You certainly weren't going to sell the children's hospital. As a result, we finally accepted those recommendations. While they are displayed in the financial statements and in the annual report, they are not included as part of the financial assets of the heritage fund, but we still believe it's important in the report to recognize them as valuable assets of a different kind in the province of Alberta.

2:20

MR. HERARD: Would you be reasonably confident at this point in time, then, that what we see in the annual report is a more accurate representation of the assets and liabilities of the heritage savings trust fund?

MR. DINNING: Yes, Mr. Chairman.

MR. CHAIRMAN: Okay. Grant Mitchell.

MR. MITCHELL: Thanks, Clint. I wonder whether the Treasurer could tell the committee exactly how much income the heritage trust fund claims it makes on its investments in Alberta Opportunity Company, ADC, and AMHC, and you could throw in the other one. It's only about \$140 million.

MR. DINNING: I didn't hear the comment at the end, Mr. Chairman. It probably would be helpful.

MR. MITCHELL: You could throw in all four major debentures, investments in all four major Crown corporations. Yeah, \$3.15 billion invested in Crown corporations, \$3.2 billion: I'm wondering what the income is that the fund actually registers on that. That's the same question. Thanks.

MR. DINNING: Mr. Chairman, I don't have the specific breakdown of those income flows. I would encourage the member -- and I could perhaps help him -- to go to the annual reports of those various Crown corporations, which show the payments that were made. I don't have a specific listing of the income from each of those corporations.

MR. MITCHELL: Well, it seems to me that you could just give me a rough idea if you looked at the provincial Crown corporations. It says that the one-year return is 10 percent, so I wanted to confirm that it must be in the order of about \$320 million.

I wonder whether the Treasurer could tell this committee how much money those four Crown corporations lost last year in total, how much they actually lost.

MR. DINNING: No.

MR. MITCHELL: That's remarkable to me.

MR. DINNING: Now, I could provide that information to the hon. member, but I don't have it with me, no. I would suggest that he might want to refer to the three or four ministers that are involved.

MR. MITCHELL: The Treasurer has \$3.2 billion invested in four Crown corporations under his control, and he can't tell us how much they lost.

My next question is . . .

MR. DINNING: Mr. Chairman, the comment deserves a comment. It is that this is the Alberta heritage savings trust fund committee, and the Treasurer is quite prepared to come and answer questions about the Alberta heritage savings trust fund. If he is seeking specific answers on the performance of various Crown corporations, those ministers can be brought before the committee, invited, or they could be asked to account for those activities, as they have been, in Committee of Supply when the House is sitting and reviewing the provincial budget.

MR. MITCHELL: A point of order, Mr. Chairman. We cannot talk about these in Committee of Supply because all we can talk about is new investments that come under the Alberta heritage trust fund supply Bill. So I can't talk about that. What I will say is that we have every right to ask about the quality of the investments that the heritage trust fund invests in. When 25 percent of it is in four Crown corporations under the purview, the responsibility of the Treasurer, I would think that he'd be able to tell us, one, how much they pay the fund, and, two, how much they lose.

My next question is: could the Treasurer please tell us how much money his general revenue fund subsidizes these four Crown corporations each year so that they can pay what he claims is income to the fund so the fund can in turn pay the general revenue fund? I'm getting at the whole problem of counting these as any kind of investment at all and the kind of accounting that goes to say: they lose money; we pay them so they can pay us money.

MR. CHAIRMAN: I think I followed that.

MR. MITCHELL: Well, it's the chart of accounts that lines it out, because it's very complicated.

MR. DINNING: I would refer the hon. member to volume 3 of the public accounts. The number is in the order of \$280 million.

MR. CHAIRMAN: Thank you.

Jon Havelock.

MR. HAVELOCK: Yes, thank you, Mr. Chairman. I'm going to ask that you indulge me and give me a little bit of leeway. However, in light of the comments made by the Treasurer that we are here to talk about the heritage savings trust fund, I think my questions will be in order.

Mr. Treasurer, we had the representative of Vencap here recently, and he actually provided some very good information with respect to what has happened to the venture capital industry in this country. For example, the members in a particular association he belongs to have dropped from 100 to 38 in the past few years, and it looks like there are very few companies providing venture capital in the private sector. I asked what his view was on what had to be done in order to get the private sector involved again, and he indicated two things: one, that the institutional investors are not putting money into risk capital simply because they can purchase government bonds and get

a reasonable rate of return; secondly, he felt that the elimination of the capital gains tax was essential. He looked at the United States' situation, where some funds had \$3 billion in venture capital projects and then when they eliminated the capital gains tax, it went up to about \$33 billion in I think a year or something, if I remember the numbers correctly.

The question I asked him was whether or not the government has skewed the industry by becoming involved and, in particular, by giving Vencap, for example, \$200 million at a tremendously favourable rate of interest and therefore undermining the private market's ability to compete. I'd like your comments on whether or not this government should continue to be involved in Vencap and ventures of that nature.

MR. DINNING: What you're asking me is perhaps my own personal opinion because, as you know, the Minister of Economic Development and Tourism has line responsibility for being accountable for Vencap's financial situation and our investment in it. So my personal opinion is that government shouldn't be, from a financial point of view, involved in the business of business. Clearly, at the time that the government went into Vencap, they did so because they were going into it for more than just financial reasons. The government was going into it to help broaden and deepen the diversity of the economy and provide to the marketplace access to financing that it believed at the time was not readily available. So for me to go back and second-guess the wisdom at that time is an exercise in political finger-pointing that doesn't do much today.

Clearly, from a financial point of view, the best decisions for the marketplace are made by the marketplace. Where government has a role, it is to ensure that it's a fair marketplace and that the environment is right. Providing assistance, reasonable infrastructure, a good basic postsecondary education system, and all those other things that you and I have talked about in the past: that is the role of government. As a financier, my personal view is no. I believe that this government's view is that under Premier Klein we've made it clear that we are moving as best and as fast as we can to be out of the business of business.

2:30

MR. HAVELOCK: To follow up on that -- and thank you, Mr. Treasurer -- I'm asking more in your capacity as the CFO of the government, because you are the chief financial officer. It has been suggested by some members of this committee that we ask Vencap to repay the loan. Now, I've looked at the numbers. I think we've written it down. It's, I think, valued now at \$127 million based on the interest we're receiving. I can't recall the exact numbers. I'd like your input on whether or not that's something that should be done at this stage, having regard to the fact that Vencap is a publicly traded company, and whether that could have serious ramifications for that entity on the financial markets.

MR. DINNING: Well, clearly the arrangement that was made with Vencap back at its inception was as Mr. Slator described it to the committee. The investment and the return and the repayment: that's done on a contractual basis. I think all of us would find it difficult morally to break contracts unilaterally, so I'm not an advocate of that. Clearly, there needs to be some discussion, negotiation if you wish, with the company, with its shareholders to figure out how we would repatriate our investment if that was the final decision of the government. The Minister of Economic Development and Tourism and I probably would be involved in carrying out that policy decision by the government.

MR. HAVELOCK: I'll waive my final supplemental, and we'll come back to things more on point later.

MR. CHAIRMAN: Thank you.
Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Mr. Dinning, I'm going to refer you to page 26 of the annual report, particularly the category of Cash and Marketable Securities. I'm curious to know. In the past five years, from the 1988-89 fiscal year to where we're at today, 1992-93, we've seen a consistent increase in that category from \$2.8 billion to the \$5.3 billion that we're at today. Could you perhaps explain to me the investment strategy behind putting these assets and increasing our cash and marketable securities?

MR. DINNING: Mr. Chairman, there was a policy decision made during that time that we would maximize the ability of the fund to invest its dollars for maximum financial return. To be able to do that to the max, the policy decision was made to maintain a strong liquidity, a high liquidity, in cash and marketable securities to achieve that end.

MR. CHADI: Mr. Treasurer, I find that fascinating: to maximize our financial return. Yet when we look at the same scenario of the 1988-89 fiscal year and we look at the amount of money that was transferred to, I would imagine, the GRF, the general revenue fund, back then it was \$1.257 billion. To 1992-93, consistently it was over a billion dollars, and in 1992-93 we've got actual funds transferred to the general revenue fund of \$785 million. Now, if we're out there trying to maximize our financial return, I'd say we're not doing a very good job, given the fact that you now have less money going into the general revenue fund with \$5.3 billion in that category than you did when you had \$2.8 billion in that category.

MR. DINNING: Mr. Chairman, I'd refer the hon. member to page 42, where the actual investment income before write-down investments is now at a billion dollars and change. That is not an insignificant amount of money given a period of lower interest rates. The hon. member would want to make sure that all the facts are on the table and note that there was a write-down of investments because of a change in accounting policy, primarily in this case to write down the Husky upgrader, which is also reflected and noted in these financial statements. That is not just a mere paper or accounting transaction; that would be a disrespect of the accounting profession. The actual investment income in that period of time is, I'd say, pretty darn good, given that the effective rate of return before that write-down was in the order of about 9.2, 9.3 percent. Last year that wasn't bad. Even the hon. member would probably want to agree with me on that score.

MR. CHADI: Well, thank you, Mr. Treasurer, but I find that I'm still having difficulty, and you're going to have to do a little bit better in explaining it to me. When you have \$2.8 billion back in '88-89, and then you have almost doubled the cash and marketable securities position that you've got, and the revenues have decreased considerably, even if you do not include the write-off of the Husky upgrader -- you're going to have to do better in explaining, sir.

MR. DINNING: Well, Mr. Chairman, I'd ask the hon. member to go back to an interest rate chart over that same period of time, '88-89.

MR. CHADI: It's still not enough.

MR. DINNING: No, Mr. Chairman. He can quibble about the numbers, but you simply must look at rates of return and investment performance vis-à-vis other funds, especially other publicly administered funds, and vis-à-vis interest rates at that time and the period prior to it, because naturally there is holdover in some of that investment income from long-held, high interest rate securities, investments. Clearly, the heritage fund has benefited from that. But when I tell the hon. member that were you to for a minute put aside the investment write-downs and tell him that the rate of return on the fund's investment came in at just under 10 percent in '92-93, that's good performance.

MR. CHADI: You didn't get 10 percent.

MR. CHAIRMAN: Thank you.
Heather Forsyth.

MRS. FORSYTH: Yes. Mr. Dinning, I'd like to ask you: why are Crown corporations borrowing from the heritage fund? That's my first question.

2:40

MR. DINNING: Mr. Chairman, it was a policy decision of the government that those entities would exist. You can go back and revisit whether they should or not, but they do. In order for them to carry on their activities, they need capital. They can access capital in either one of two ways. They can borrow it on the open capital markets, which would have the full backing and support of the Provincial Treasurer because they're Crown corporations. Secondly, they could borrow at the same rates on any given day as they might get in the capital markets from an arm or a pocket of government that has the capacity to lend them that money, again at the same market rate as they would have borrowed on the day they borrowed that money. Given their financing needs, given the ability of the heritage fund to lend them that money, again at equal or hopefully maybe even better than market rates of interest, it was the decision of the government to allow them to do that.

MRS. FORSYTH: A clarification. Do they borrow at low interest rates, or does the heritage fund subsidize their operations?

MR. DINNING: They borrow at exactly the same rate that they would have to go out to the public market on that given day and borrow at in New York or London or Tokyo or anywhere. That would effectively be the Alberta rate, and that's because it has the backing of the government of Alberta and the Provincial Treasurer, whose paper is well valued in the capital markets.

I might mention that in my note here the amount of borrowing from the heritage fund in '92-93 was in the order of about \$103 million, but the actual repayments by those Crown corporations back to the heritage fund were in the order of \$309 million. So in fact today they are paying down more of their debt to the heritage fund than they are borrowing.

MRS. FORSYTH: Okay. My final question is: why does spending on projects through the capital projects division reduce the assets of the heritage fund?

MR. DINNING: Because we no longer count the CPD investments, capital projects division investments, as financial assets of the heritage fund, any expenditure from the fund on those projects is in fact no longer an asset. It's a transfer, really, from assets or capital to spending of a capital nature. As I say, we don't include in the

assets of the fund any longer the Farming for the Future research program, but it's intended that the \$5 million investment, give or take, last year will pay returns of a different kind in agricultural productivity in this province over the longer term. That expenditure comes out of the financial assets of the heritage fund and goes into the likes of Farming for the Future, as it did last year, or irrigation rehabilitation and expansion or urban park development but is no longer considered a financial asset of the heritage fund as such.

Was that clear?

MRS. FORSYTH: Yes. Thank you.

MR. CHAIRMAN: All right. Perhaps before we start, we have three visitors in the gallery who have been patiently sitting and observing. I might indicate, as you've no doubt deduced by now, that you're watching the hearings of the standing committee on the heritage savings trust fund. The people to my right are a combination of both the Liberals and the Conservatives that are members of the committee. We are more informal, as you can see. People are allowed to sit in different places and obviously some of us have our jackets off, which wouldn't ordinarily be allowed if the Speaker was in his chair.

To my left is the Provincial Treasurer, Mr. Dinning, and some of his staff. You've already been hearing some of the exchange between questioners and the Treasurer's answers. So we welcome you. Thanks for sitting in, and Merry Christmas to you.

MR. HAVELOCK: Mr. Chairman, aren't they staff members of the Provincial Treasurer's department?

MR. CHAIRMAN: Well, if they are, I've just said Merry Christmas to them.

Don Massey.

DR. MASSEY: Thank you, Mr. Chairman. I wonder if I might ask the Treasurer about a specific, the Ridley Grain Ltd. In July he indicated that there were discussions ongoing with Ridley Grain concerning the capital expenditure program for the terminal. I wonder: what was the nature of those discussions, and are there implications for the fund growing out of those discussions?

MR. CHAIRMAN: Where is that part? I'm sorry, Don.

DR. MASSEY: Pardon me. Ridley Grain is under the commercial . . .

MR. DINNING: Mr. Chairman, I talked about a lot of things, but I don't believe that would have been one of them.

DR. MASSEY: I believe it was in a letter to Mike Percy that you indicated there were discussions going on with Ridley Grain.

MR. DINNING: I'd welcome a copy of the letter. I'd ask the hon. member to perhaps talk with Mr. Kowalski or Mr. Paszkowski on that. I want to be helpful, but I'd encourage you to talk to them.

MR. CHAIRMAN: We've had a question. What's come up in conversation, Jim, is the fact that it was in a letter to Mike Percy. If you would clarify it without getting provocative, I'd appreciate it.

DR. PERCY: No, no, never provocative, ever. That was a letter from the Provincial Treasurer on July 23, 1993. We had just requested information regarding the restructuring of the loan to Ridley Grain made by the heritage savings trust fund. The

Provincial Treasurer had replied that there were no negotiations with regards to restructuring but there were discussions ongoing with regards to their annual capital expenditure program for the terminal and future taxation issues. We were curious. I think it's just implications for the fund and its investment as a consequence of a capital investment.

MR. DINNING: Mr. Chairman, I'm advised, obviously from something that was written in July, that there must be discussions going on, and I thank the hon. member for advising me of that. My best guess is that those discussions are perhaps still ongoing.

MR. CHAIRMAN: Don, first supplemental.

DR. MASSEY: I'm still not clear where the answer is going to come from, Mr. Chairman.

MR. CHAIRMAN: What I heard was that this was something you might want to bring up when the Hon. Ken Kowalski is in front of us, which will be, I believe, January 18.

MR. DALLA-LONGA: But subject to change.

MR. CHAIRMAN: As pointed out very well by Danny Dalla-Longa, that's subject to change, yes.

You have two supplements.

DR. MASSEY: Obviously, the supplements are along the same line. One was about taxation. The Treasurer had indicated that taxation is also part of those ongoing discussions, and I was going to follow up with . . .

MR. CHAIRMAN: Well, it's Christmas. I want you to be happy. Welcome back on the rotation.

DR. MASSEY: Mr. Chairman, I appreciate your concern. Thank you.

MR. CHAIRMAN: Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman. Mr. Treasurer, it's nice to have you here in front of the committee. Can you explain the circumstances that have led to a market value below the book value for the Nova Corporation debentures held by the fund?

MR. DINNING: I'll ask Robert to comment on that, Mr. Chairman.
2:50

MR. BHATIA: The investment in the Nova debenture was made some six or seven years ago and was made at a time when the outlook for the petrochemical industry, which is a key part of Nova's operations, was more positive than it has been over the last few years. Nova's share price, which is an influence on the value of the debenture, has been lower relative to where it was when the investment was made. Therefore, the value of the debenture, which is convertible into shares, reflects that lower price.

MRS. LAING: Thank you. My next one is about the Alberta Energy Company and the share offering that was done in the spring of this year. Can the Treasurer tell the committee what exactly was done with the moneys that were returned to the heritage fund?

MR. BHATIA: The purchase price of the shares sold in the AEC offering was structured as two payments: a payment up front of half

the value and a payment one year later of the remaining half. The profit from the sale has gone to reduce the province's debt, transferred to the general revenue fund. The second installment payment hasn't been received yet. It will be received next May, so the cash that will come to the heritage fund hasn't actually been received yet. It will be received in May of next year and would in the first instance be invested in the cash and marketable securities portfolio when it's received.

MRS. LAING: Thank you.

MR. CHAIRMAN: Okay.
Danny Dalla-Longa.

MR. DALLA-LONGA: I'd like to maybe go back to the question of the loan to Vencap. We had Sandy Slator here from Vencap earlier this week, and there was an indication on his part that Vencap would be willing to repay the loan in conjunction with some financial restructuring, such as conversion of the debentures and that sort of thing. It's our understanding that Vencap gave a return of approximately 3.4 percent. Sandy said it was 2.3 percent, but in any event it's something substantially lower than what the province is paying on its own debt. That fact, in conjunction with the fact that Vencap by its own admission can't carry out to the same extent its original mandate, would seem to make it logical that both sides agree, contractual agreements notwithstanding, to have this debt repaid. I'd like the Treasurer's comments on that aspect.

MR. DINNING: Danny, you know I don't like to operate under the old adage that there's no problem we can't make bigger. Even Mr. Slator said that the process would be a difficult one. I'm referring to -- they're all page 1 in here, in the Blues; there are 40 pages here, and they all have number 1 at the top -- where he talks about how doing that "would have an impact on our ability to raise capital and equity in order to pay off the loan." So it's not as easy -- I think he began to acknowledge that later on in his appearance before the committee -- as someone might think, that you can just say, "Don't worry; we'll do a few transactions between now and the end of business today in the next couple of hours, and we'll write you a cheque on Monday," because it does affect how Vencap does business and how it would structure its financing in the future. They've been operating under the premise that they would pay back those sums as he described in the schedule over a period of time, and they've arranged their affairs and their corporate structure accordingly.

Now, you could enter into discussions. There have been informal talks once in a while over the subject in the last few months, years, but nothing on a formalized basis that I know of recently. Clearly, I think where there's a will, perhaps there's a way, but the province certainly doesn't want to take a bath on its investment. I have a feeling that you know an awful lot about that business, and if you -- I'm serious -- have some suggestions on how we might reduce our investment but in a way that doesn't hamstring or hurt or harm that company, I'd welcome the comments here or in a letter or even over a cup of coffee.

MR. DALLA-LONGA: Well, where do I start? I guess the degree of difficulty shouldn't be an issue in proceeding with the transaction, certainly. You know, we've seen from the sale of Gainers, the government getting out of that investment -- that's got a level of difficulty.

MR. DINNING: Sandy probably wouldn't want you to link the two companies.

MR. DALLA-LONGA: Well, we even tried that.

I guess the fact is that if you look at the balance sheet -- and I don't really recall Sandy having made those comments in that way -- Vencap has \$144 million that would take, according to its classification, probably in excess of a year to liquidate, so there is some time to be involved. Nonetheless, that \$144 million is not being used in their investment activity, and they are currently operating just fine with the balance of their funds, which I think is approximately \$32 million. I understand that the government hired a consultant, as did Vencap, to look into this. So I guess my next question -- you probably can't provide the information now -- would be: what were the recommendations of the consultants to liquidate, to get out of that loan?

MR. DINNING: You're right; I don't have those with me. I could try and find them and consider the question. His comments are precisely as I read them on page 60 of the committee's *Hansard* transcript 23-1-4. I did my best not to paraphrase but to read directly. As for the use of those funds, you might suggest that they're not being used in their business. Well, on the contrary; dollars are spilling off those debentures into the coffers of the company for investment purposes. They are most definitely involved in the financial activities of Vencap.

MR. DALLA-LONGA: Next question. I'd submit to you that if they didn't have to pay 3.4 percent, an enormous return of 3.4 percent on \$199 million, there would be less expenditure. Furthermore, it's contemplated that they'd probably convert the debentures, which wouldn't require cash flow out of the company, as well. I guess the issue that remains is if the province says that that loan only has a value of \$127 million. Then Vencap would probably be able to get approval of its shareholders to liquidate that loan for \$127 million. In all seriousness, it's not worth any more to the province, because it's earning less than what it's costing, it's effective cost of capital. That's how the \$127 million is arrived at. So my question is: would the Treasurer have any idea what he'd want for his \$199 million face loan?

3:00

MR. DINNING: Well, quite simply, Mr. Chairman, I'd want at least \$199 million, to answer the question specifically. But let me go back to page 61 of that same *Hansard* transcript. Danny, you were here. You asked the question. I'm only reading it.

Could Vencap not use the \$144 million or part of [it] in investments to repay the government?

Mr. Slator says,

It theoretically could, Danny . . .

Very chummy.

. . . but once again -- and I responded to another questioner in the same vein . . .

So he did it twice.

. . . I would want to replace that capital. I believe it would be important for Vencap to replace that capital once again to be a significant player. Theoretically, it could, but we would be a much different company at that point because of the fact that we would have approximately \$35 million left.

So again, I don't believe there is any problem that we can't make bigger. Once we sat down and perhaps focused on this for a period of time, maybe, but it does pose a real challenge to Vencap's capacity to do business.

If you want to talk about restructuring the kind of pretax profit sharing which has overwhelmed us, let's go back and revisit the contract at the start. I'd be very willing to enjoy some of the other \$60 million-odd that had been paid out, but again that also affects Vencap's financial structure and its capacity to do business and the

nature of its business. Clearly, in any discussions that would take place between the government and Vencap, you're right: all of that would have to be addressed.

MR. CHAIRMAN: Okay. Thank you.

Ed Stelmach.

MR. STELMACH: Thank you, Mr. Chairman. Mr. Treasurer, there have been questions raised from time to time by constituents and, of course, probably Albertans right across the province with regards to some of the loans we have entered into with various provinces. I'm just wondering if you could advise this committee as to the number of loans we have with other provinces in Canada.

MR. DINNING: Mr. Chairman, I'd refer the hon. member to page 7, in what I hope will be a helpful addition to information about the heritage fund. It answers that very important question, because it's one of the more often asked questions. It points out that over a period of six years loans were made to those various agencies in provinces. In fact, today they are some of the province's "best investments." They amounted to about \$1.9 billion "and the interest rates were fixed at between 9.5 and 17.75 percent." Investments were made in the early 1980s at a time when it was good as a lender to be in a time of high interest rates. The actual dollar summary is on page 27. I think, Ed, you could go home and tell the folks that that investment, having earned an average rate of about 11.7 percent in '92-'93, continues to pay a healthy sum of investment income to the heritage fund and directly into the operation of the Mundare school.

MR. STELMACH: I'm glad, Mr. Minister, that you entered that into the record. We can take that and show that other than the report.

So the payments, then, have been on schedule, and none of the loans really are in any sort of jeopardy?

MR. DINNING: The short answer is absolutely not; no jeopardy whatsoever. You've got to remember that these are sovereign governments. They are governments that rely on capital markets these days because they're not exactly flush with cash. They need to borrow money. If they even dreamt of not repaying, paying interest and repaying the principal, the likelihood of their borrowing money again is virtually nil, and the notion that they borrow it cheap is mythical in the extreme. So they have a responsibility to pay back folks in New York or Toronto. The obligation is no less to the Alberta heritage savings trust fund, which is an entity in these days not unlike the streets of New York or London. So they remain good investments; they returned an 11.7 percent rate of interest. That interest income flows to the heritage fund but then flows directly into the general revenue fund to run the schools and hospitals of Vegreville and your particular constituency and meets the needs of the people in your constituency.

MR. STELMACH: Mr. Treasurer, there wasn't any money that was literally given away in terms of grants to any of the provinces from the Alberta heritage savings trust fund?

MR. DINNING: No. The heritage fund is an investment fund that attempts to make investments that not only (a) maximize financial returns but (b) also have economic returns such as the Husky upgrader and other investments in the Alberta division that might return not just a financial return but also an economic return in the number of jobs they create in efforts to broaden and deepen the economic base of the province so we don't rely so heavily on the cycles that oil and gas and agriculture to a degree bring to bear down

on Albertans. So the notion that we gave away money is wrong. The fact that we lent money, you know, over those six years between 9 and a half percent and 17 and three-quarters percent is just that. It is a fact. It's verified annually by the Auditor General when he does an audit of the fund. There's no smoke and mirrors there. They are good investments, today returning 11.7 percent to the fund.

MR. STELMACH: Thank you very much.

MR. CHAIRMAN: All right, thank you.
Lance White.

MR. WHITE: Mr. Treasurer, enough of the hard numbers here. I have a different concern that perhaps you hear an awful lot. I come from a constituency that is in the middle range of socioeconomics. Whenever the fund is mentioned, they continually say that if this fund was set up for the proverbial rainy day, how much does it have to rain in order to spend some of this money or invest some of this money in human terms as opposed to the bricks and mortar? How would you suggest that I answer these people?

3:10

MR. DINNING: A fair question and a wonderful opportunity to explain it. First of all, Lance, I would quite sincerely encourage you to take the Just the Facts section, and copies of just those four pages are available in my office. We took the 12 most often asked questions about the heritage fund and tried to put it into those four pages so it would mean something to the people of Edmonton-Roper and Calgary-Lougheed. I would encourage you to take that.

When you look at the page that I think Sine was trying to walk me through, page 26, and the net income earned on the fund's investments and add up all those dollars -- and those are dollars that have flowed directly to the general revenues of the province, which then go to fund schools in your constituency, health needs of your constituents, and provide assistance in operating the LRT in this city and provide social services for those who are in need. That's been a major source of income for the province, for the government of Alberta, to be able to spend dollars on those kinds of people programs. If we didn't have that income and still spent that money, we would have to borrow that money or raise taxes, and that is not something Premier Klein's government or the Progressive Conservative government is wanting to do. That's the dollars and cents terms that we are talking about and perhaps we might want to avoid.

I ask you to turn to page 57 and look at what the capital projects division expenditure has done. The first line of page 57 is the Alberta heritage scholarship fund. I'm sure even you, Lance White, have been proud to go to annual high school award ceremonies in the last two months or so and present heritage scholarship funds, particularly the Alexander Rutherford scholarship. I know I have in going to Dr. E.P. Scarlett high school in my own constituency. There's a fabulous story to be told there. No matter what political party you're a part of, there is a story to be told there: that \$100 million has generated over \$110 million worth of income in the last 11 years and made payments to over 100,000 young Albertans for scholarships and other kinds of bursaries. The beauty of it is that it took \$100 million in the first year to do it, it's generated about \$110 million over time, and today the fund is worth over \$200 million. You look down the list from the heritage scholarship fund to the likes of AOSTRA, to the Heritage Foundation for Medical Research endowment fund. Those farsighted investments, especially the Heritage Foundation for Medical Research, have created an environment in this province that is the envy of the medical community around the world, and we are developing a medical

research reputation that hopefully is going to continue to generate economic opportunities for our graduates so that our students leaving school -- high school or SAIT or NAIT or Grant MacEwan or U of C -- are going to have business opportunities, job opportunities in those fields.

Now, you can appreciate that I could go down the list and spend a long time, but I believe and this government believes and I think the people of Alberta believe that this asset of the heritage savings trust fund has paid off many rewards, many returns, is there as a rainy day fund, and is very much being used in these rainy days for the benefit of Albertans.

MR. WHITE: You say Albertans believe that. Have you ever tested that? Well, I'm afraid you haven't, and I have. Agreed, it's only anecdotal, because I don't have the funds to put to those purposes.

You quoted a number of pages here. I read back to you page 59, simply the glossary, sir. I'm sorry, but most Albertans are not familiar with any of these terms even when you define them. Liquidity to them is what comes out of the tap. When you talk about all the advanced education opportunities, they can understand that, although we and you the government do have a great number of other avenues to provide those funds. The problem is one of simple perception in your mind. In their minds it's reality.

The only way they can look at the way a government collectively runs things is that it collects money from me to do things for me, hopefully. They oftentimes don't believe that, but they try to do that. They have their house to manage. The Treasurer says: we do all these wonderful things for you, and we have this savings fund. Yet the suggestion comes back to them that their kindergarten may not in fact be operating next year for some reason. If their child doesn't have what it takes to get out of high school in one year, they may, then, have to provide funds for that. They're saying that all these things add up. They're saying: wait a minute; we are supposed to be able to have these services.

How, on the one hand, do I explain to them that we have Vencap, which is investment funds, that we're advancing the medicine of the world through the two world-class centres we have in Calgary and Edmonton and, on the other hand, say: you're going to have wait for your kidney operation. I mean, surely to make it simple -- the first four pages do a lot to tell one exactly what is happening in the fund and how that works, but that has nothing to do with the reality of how they view things.

Now, the question I started off with: have you tested it? Have you and will you?

MR. DINNING: Yes.

MR. WHITE: Thank you.

Now, the other question I have is again a matter of perception. You spend a great deal of time going back and forth to New York and Toronto convincing people that it's a good place to invest, and I applaud you for taking time away from your family to do that. But when you're down there, surely you must hear that Alberta is a have province, because we have, you have -- and I continually mush it in your face once more -- this thing called your piggy bank that you took from us, speaking from an easterner point of view, in the time of oil crises and one thing and another, and you put that away even though the NEP tried to straighten out those things. How do you deal with that when it comes to borrowing money as a small investor in western Canada from an eastern bank? They keep saying collectively: "You have all the money; you have had a good go of it. How can you say now that things are not so good out there in the west, other than the weather they keep throwing at us?" How do you deal with that perception?

3:20

MR. DINNING: Well, rather effectively, I would suggest, Mr. Chairman, given that those who lend you money or those who assist those who want to lend you money all speak favourably about the Alberta government's financial management, its fiscal responsibility, its four-year plan to balance the budget by 1996-97.

They comment on the wisdom to do it on the revenue side rather than taking the approach of Liberal governments across this country in only raising their taxes and in not acting as we have in taking the expenditure reduction side, and more importantly than expenditure reduction, trying to change the way government does business so that it doesn't run like Liberal governments run but instead runs like a successful business does in that it spells out clear objectives and long-term goals, budgets and strategies to achieve those goals and, more importantly, measurement and evaluation to determine how well and whether those objectives were met so as to go back to the start of the process to continue to improve the delivery of those services. They look upon the existence, the creation of the heritage savings trust fund as a responsible action. They look upon the continued proper management of the heritage fund as something that gives them confidence in this province and in this government's ability to manage the financial affairs of the province, and therefore it gives them confidence to maintain our credit rating so that we borrow money as a government, while we have to borrow it, at a rate that is better than any Liberal government in the dominion of Canada. Again, to be short and brief, Mr. Chairman. How do we do it? We do it rather effectively.

MR. CHAIRMAN: Well, thank you for that. I thought at one time we might be out of here by 3:30, but it doesn't look like that's going to happen now.

MR. CHADI: What gets me is . . .

MR. CHAIRMAN: Okay. Order please.
Bonnie Laing.

MRS. LAING: Mr. Treasurer, my question is about capital projects that have been funded by the heritage savings trust fund, things such as seniors' lodges or self-contained apartment buildings. If after the review of the heritage savings trust fund is done, suppose the recommendation is to liquify it or terminate it. What would happen to those projects? Would they be sold to the private sector, or would the government retain ownership of them? What would happen with those?

MR. DINNING: Mr. Chairman, the answer as it relates to the heritage fund is no. In the capital projects division itself -- you'll see a list of their projects on pages 57 and 58 -- there are no housing related investments. The housing related investments would be found on the books of the Alberta Mortgage and Housing Corporation, which is a borrower from the heritage fund. Their borrowings are spelled out on page 28 of the piece. So those assets of the corporation and therefore of the government and the people of Alberta are found in those financial statements.

Now, in the case of the AMHC, I believe Dr. West is doing a review of how that corporation does business. Maybe there is a role for others to own and operate and manage those facilities, but clearly as they relate as assets of the heritage fund, they're not directly assets of the heritage fund; the investments in the Mortgage and Housing Corporation are.

MRS. LAING: Okay. Thank you. The next question I had would not apply then. Thank you.

MR. CHAIRMAN: Mike Percy.

DR. PERCY: Yes. I'd like to take you back to the footnotes of the heritage savings trust fund, pages 49 to 55, yet one more time because I'd like a little more clarification regarding the securities lending operations. I don't think this is something many people are aware the fund does, and certainly it isn't open to that much scrutiny other than footnote material. My first question, then, relates to page 49, note (a). We're dealing here with marketable securities with a value of \$127 million and in '92 it was \$348 million, so we're dealing with large sums. Now, it's clear from reading the note that there's collateral there on the other side. My first question is: who has access to this? I mean, how is the market generated? Do they solicit you? Do you solicit them? How widely is it known? Is it publicly advertised? Are there tenders offered? Just what is the structure of the market such that these security firms will have access to that? How open and fair is the process?

MR. DINNING: Mr. Chairman, I'll ask Stan to comment, but let's be clear that the transactions and the systems and the security of the heritage fund investments are the subject of some considerable scrutiny by the Auditor General. If there is any doubt about that, I know the Auditor General has and would certainly welcome the opportunity to come back and comment further on that. I'll leave it at that but ask Stan to give a brief response.

MR. SUSINSKI: These are not unusual market transactions amongst large institutions. We would be dealing with investment dealers that we have approved, and they would be phoning in and checking with the people we have involved in security lending. There wouldn't be competition because it is driven from the other side. We are an available lending institution, one of many in the country.

DR. PERCY: A supplementary. I don't think many Albertans have viewed the heritage savings trust fund as the equivalent of a Treasury Branch, a lending institution in that sense. I take your reply to mean that there is competition in this market among large financial institutions and the rate that is determined is market driven. I would like to know then: exactly what are the fees on both sides of the market? It says in the note that "during the term of the loans, the Fund retains the right to receive income on the securities loaned," but you would have had that in any case. What is the fee structure, then, that is in place for the use of these securities by these investment brokers? How is that fee structure determined?

MR. SUSINSKI: It depends upon the size of the transaction and the availability of those particular securities on any given day at other institutions. So there's no set fee. It is negotiated at the time at market rates.

DR. PERCY: Would it be possible for the members of this committee to have a listing, then, of the types of transactions made and the fees associated with them as part of its mandate for assessing the operation of the heritage savings trust fund?

MR. DINNING: Mr. Chairman, I would consider that. However, I have to again advise the member -- in the Christmas spirit, the hon. member -- that there is a proper separation between the political side of the provincial government and the policy-making side and the implementation of that policy. That is the task, the responsibility of the two gentlemen on each side of me: to implement the policy that flows from the legislation and principles spelled down by this Chamber when it is in session. For the hon. member perhaps to

attempt to retrospectively Monday morning quarterback, do a micromanagement review of those decisions is, in my view, not a responsibility of the Legislature. In fact, that is one of the reasons why we have an officer of this Legislature, the Auditor General, to ensure that the systems, the standards, the processes, the procedures that are followed in the investment of these dollars or any other action of the provincial government have been followed. If there's any doubt about the security or the appropriateness of those, then I think the Auditor General should be asked about that. He has not accepted or put an opinion forward that he wouldn't stand up to. I would have to take the question under consideration.

3:30

MR. CHAIRMAN: Okay. Thank you.

Before we proceed, do you have a point of order?

DR. PERCY: Yes. I think it is the right of a duly constituted committee of this Legislature to have access to information. It is not a question of disparaging the performance of the managers of the fund, not at all. It is an issue of information flow and assessing this particular aspect of the securities lendings operations. We are not dealing with small amounts of funds; \$127 million is not a small amount of money. The Provincial Treasurer can well argue that it is secured with collateral and it is normal, but surely this committee has right of access to assess and look at the operations without in a sense having to trust the Auditor General, who is an outstanding individual. Nobody's ever denied that. I thought that this committee had a mandate. The mandate was to assess the operations of the heritage savings trust fund for the Legislature, and it's our responsibility to do that. So I would question the hon. Provincial Treasurer's perception that it's something that he may or may not do. I think it's a reasonable request by the committee to get a listing of the nature of these transactions, and if required, it can be in camera. Again, that would require a vote of the committee. Surely this committee, as constituted by the Legislature, does have the right of access to this type of information given the magnitude of the funds.

MR. CHAIRMAN: Okay. We have that recorded and will take it under advisement. Thank you.

Grant Mitchell.

MR. MITCHELL: Thank you, Mr. Chairman. I'm interested in pursuing the value of the investments in the Crown corporations. The Treasurer I think has outlined that the four Crown corporations which hold \$3.2 billion worth of heritage trust fund assets in debentures had total losses of \$280 million last year. They made payments to the heritage savings trust fund of \$309 million. Could the Treasurer just confirm that really they are therefore making no money whatsoever? Because the only way they can make their payments is if they're subsidized by the general revenue fund in order to be able to do that.

MR. DINNING: Well, Mr. Chairman, I was reflecting on the member's question before, and by my numbers here the amount that was paid by those Crown corporations to the fund was in the order of \$330 million-odd, \$332 million. So those funds were paid by those corporations into the heritage fund.

Now, the heritage fund is an entity that is separate from the social policy of government to provide and support social housing in the province, the Mortgage and Housing Corporation, separate from the decision of the government to provide economic development and economic financing from ADC and AOC. To ask or suggest that the heritage fund, which has a different purpose, bear the cost of those operations (a) would be inappropriate and (b) would not provide an

actual, a real cost of delivering those social/economic programs to the people of Alberta. In order to keep the heritage fund properly whole and achieve its objectives, the real cost is shown perhaps by way of subsidy, if that's what you want to call it, to the real cost of delivering those programs that are in fact separate from a policy point of view from the heritage fund.

MR. MITCHELL: Well, I guess if they're social programs . . .

MR. DINNING: Social/economic.

MR. MITCHELL: Well, to the extent that they're social programs, then why would the Treasurer want the heritage savings trust fund to invest in them to make money? I mean, it just makes no sense to me. The fact of the matter is that they are social programs. The Treasurer is trying to sustain this facade that somehow they are an investment. They account for almost 50 percent of the realized income of the heritage savings trust fund, but they are subsidized in order to account for that. If you took those, quote, unquote, earnings out of the \$785 million, the heritage savings trust fund would be earning in reality about 4 percent. So if the government wants to reflect proper costs of programs, which is the Treasurer's point, it seems to me that the government would want to reflect the proper status of the heritage savings trust fund.

The fact that it doesn't make anywhere near what this says it makes and the fact that its assets' evaluation is at best questionable means that management in your government think they have money that they don't have, means that you're not communicating the right message to Albertans, and when it comes to dealing with the federal government, that thinks we're a have province, it means you're misleading the federal government about that. This fund makes \$785 million minus \$330 million that was paid to it by Crown corporations. It made last year \$455 million on a purported \$12 billion in assets. That is not very good.

MR. DINNING: I take that as a question mark at the end, Mr. Chairman.

MR. MITCHELL: I'll raise my voice at the end. That is not very good.

MR. DINNING: That's a question. The answer is, Mr. Chairman, that clearly if the hon. member wanted the government to only go out and invest the heritage fund to maximize the financial return, it would be violating the purposes for which the fund was established 17 years ago. I can only quite simply refer the hon. member to page 3 of the annual report where it says:

1. to save for the future;
2. to strengthen and diversify Alberta's economy; and
3. to improve the quality of life in Alberta.

Now, he can play games with the finances and the financial disclosure in this document, but it stands the test of a rather respected member of the chartered accounting profession and says that what in here is accurate, has been displayed appropriately and fairly. There are no exceptions to the opinion.

As for how other Crown corporations manage their affairs and pay their obligations, whether it's to the heritage fund or anywhere else, they are doing that. If you want to know the real cost of social housing in this province, then look to the Mortgage and Housing Corporation. Don't look to the heritage fund to subsidize it. Look to AOC to understand the full costs of providing business financing, as it does, to small business in this province, or ADC for farmers. Are you suggesting that we should hide those costs somewhere? Because clearly we are not. Those dollars that flow to AOC, ADC,

AMHC are brought forward in this Legislature. They are part of those budgets. They are open for debate in this Chamber. The facts are on the table. The opportunity for questioning is there. I don't know how many days the opportunity is to debate that motion and to debate in Committee of Supply and to debate heritage fund estimates. The facts for Albertans are spelled out in the government's financial statements, and we're accountable for them in this Chamber.

3:40

MR. MITCHELL: Alberta Mortgage and Housing Corporation lost \$166 million last year. It is a social program. It should be accounted for like any other social program that is undertaken by this government. The government doesn't somehow apply debt to its Family and Social Services department to say that this is the true cost of that social program. It doesn't apply debt to its health care programs to say that this is the true cost of health care. But it applies debt to social housing not so that it therefore can say that that is the cost of social housing but so that it can therefore say that we're really making some money on the heritage trust fund which we're really not making.

I'd like to refer the Treasurer to page 25. It says that the Alberta Mortgage and Housing Corporation, which lost \$166 million, has a book value of \$1.6 billion and a market value of \$1.9 billion. How could it be? What criteria of assessment are being utilized to say that the Alberta Mortgage and Housing Corporation has a market value of \$1.9 billion? If it does, why would the Treasurer not sell it?

MR. CHAIRMAN: I guess that was just one question.

MR. MITCHELL: That was just sort of a clarification of that same question.

MR. CHAIRMAN: All right. Okay.

MR. MITCHELL: We should sell that, Jim, and put the money in to pay off debt. I think we should sell it, Jim. Let Steve West privatize it.

MR. DINNING: You know, if that's what you want to advocate to the minister, then so be it. The fact is that if that were to go to market, that would be the value that the market places on it. You may doubt it, and we can have some political fun back and forth here, but the fact is that Alberta paper, backed up by the Treasurer, backed up by the province, you know very well has good value in national and international markets. That's exactly what this would be, just as if this debenture were payable to bondholders around the world. Are you saying that we would renege on those obligations and say, "Oh, I'm sorry; we can't pay"?

MR. MITCHELL: Can I answer that?

MR. DINNING: No, you can't. You can't answer the question. I get to ask rhetorical questions too. [interjection] It is a rhetorical question.

It is folly for the member to -- no, it's not folly. It's his job to try to undermine and obscure and perhaps even fertilize the truth.

MR. MITCHELL: Point of order. Mr. Chairman, I think he should retract those comments.

MR. DINNING: I will retract the comments.

MR. CHAIRMAN: Thank you very much.

MR. DINNING: Clearly the hon. member is inaccurate. It's quite appropriate that having the Mortgage and Housing Corporation, it has an obligation, and it should pay its obligations. If the hon. member wants to debate whether we should have a Mortgage and Housing Corporation, that's another issue for another forum, definitely with another minister.

MR. MITCHELL: That would be Steve West. Don't make me do that.

MR. CHAIRMAN: Thank you.
Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Mr. Treasurer, a clarification on a question that was asked by Bonnie Laing earlier, and that is with respect to funds that were derived from the sale of shares in AEC, et cetera, and other investments that we've had in the Alberta heritage savings trust fund. The question that was posed to you was answered by Robert Bhatia. In his response I believe I heard him say that the profit was going to go into the GRF, the general revenue fund. Is that correct?

MR. DINNING: Mr. Chairman, I would refer the hon. member to page 23 of Budget '93 Update, presented in the Assembly on September 8.

MR. CHADI: You're going to have to tell us what it says.

MR. DINNING: It says very clearly in the footnote reading "Sale of government-owned shares of Alberta Energy Company" that the gain on sale of assets is applied to the unmatured debt before the sale of assets, and that unmatured debt, of course, is held in the general revenue fund of the province. So it goes to reduce that unmatured debt before the sale of assets of \$23.24 billion, such that after the sale of assets that unmatured debt, the mortgage of Albertans, is reduced by \$22.97 billion.

MR. CHADI: Thank you. Mr. Chairman, the money that goes into the general revenue fund is certainly not sufficient to pay -- we're obviously in a deficit situation, and it's going to pay the interest on the debt. I mean, let's call a spade a spade. Saving for the future you've indicated was the original reason why we created this fund. If that is the reason that we created this fund, that we save for the future, the future came some time ago where we could have used these funds so that we wouldn't create debt. So if these funds are now going to pay the interest on the debt, I suspect that's not what we ought to be doing. I'm really wondering whether or not these funds that we get from the sale of these assets now -- either AEC, Syncrude, Vencap, if that deal comes to fruition, and I hope it would -- would go directly to pay down debt. In the budget document it says clearly: debt or deficit. I mean, it didn't cut and dry the situation that it was going to go towards debt. Somewhere in there it said debt or deficit, if I remember correctly. I don't have those documents in front of me. Now, would the Treasurer indicate to this committee that any funds that are generated from the sale of assets, investments would go directly towards the debt, the 23 point something billion dollars that you mentioned, not to pay the interest?

MR. DINNING: Mr. Chairman, I did make it clear in my first answer exactly where that \$273 million has gone.

MR. CHAIRMAN: Correct, and I heard that.
Second sup.

MR. CHADI: Okay. It's quite clear that the investment strategy of the stewards of this fund is such that they are to increase the cash and marketable securities. I mean, over the past five years we've seen a steady growth, and I think by your own admission, Mr. Treasurer, you felt that that should be increased to somewhere in the range of about \$7 billion within the next few years. I'm wondering whether or not you are not increasing this and setting it up so that the long-awaited liquidation of this fund can happen and it can go towards the payment of this debt that the province now owes.

MR. DINNING: Two things, Mr. Chairman. You know how I resist the opportunity to be partisan. So I will for my first point, and that is that this fund doesn't belong as such to the government of Alberta; it belongs to the people of Alberta. The people of Alberta will be asked in a public review. As I made it clear to Mike earlier on, there will be a public review. Albertans will have a chance and will say where this fund ought to go. So first of all, there will be a public review.

Secondly, the only party, as I recall, that has advocated the annihilation of the heritage savings trust fund, the abolition of the heritage savings trust fund is the Liberal Party. They made it clear in the election campaign and before the election campaign that that was their position. Well, Mr. Chairman, that's fine. We will listen to Albertans. Albertans rejected that position on June 15, but we will go back and listen and talk to Albertans and hear their views. We got an early indication of that on June 15, when they rejected the Liberal position and in fact rejected the Liberals. So I'm sorry I stepped into those partisan grounds, but I fail to resist the temptation even at Christmastime.

3:50

MR. CHADI: Mr. Chairman, that's a point of order. I can't believe that you would allow those comments and allow him to go on as he did. I would ask that those comments be retracted.

MR. CHAIRMAN: Well, you know, it's Friday afternoon. People were objecting to the scheduling of this meeting. I've tried to be accommodating as much as I can and allow interchange and exchange.

MR. CHADI: And I've come here, too, along with all my colleagues to be subjected to . . .

MR. CHAIRMAN: I understand that, and I think the best purposes of the committee would be just simply to move on.

Don Massey. [interjection] No. It's Don Massey on the rotation. [interjection] Oh, I'm sorry. I have to recognize Denis Herard.

MR. HERARD: Thank you. I appreciate that.

Mr. Treasurer, I'd like to know how many people it takes to manage all of the transactions and the investment portfolios and all of that with respect to the heritage savings trust fund and what sort of administrative costs we have in doing this ourselves.

MR. DINNING: Mr. Chairman, I refer Denis to page 46 where we address the notion of administrative expenses. For '92-93 they're estimated to be in the order of \$944,000. The fund itself is one of several funds, some of which I've explained and shared with this Assembly and the standing policy committee and elsewhere before, that are administered by Treasury officials. You have the heritage fund. You have the likes of the Heritage Foundation for Medical Research endowment fund. You've got the WCB. You've got the various pension funds. You've got general revenue investments. There is not an office or a vault that's got AHSTF written on it that

is specifically and solely dedicated to the operation of the heritage fund. Because of the large holdings of the province those investment activities are shared by a desk of people, but then they are properly allocated to the proper funds in the proper accounts. Our best calculated estimate of the administrative cost for the fund for '92-93 is as stated on page 46.

MR. HERARD: Thank you.

Now, with respect to the overall goals of this government to reduce expenditures, can we expect to see that 1993 figure drop by about 20 percent for next year?

MR. DINNING: I expect, Mr. Chairman, that over the four-year plan, the four-year piece, you would probably see that. More importantly, the cost associated with managing all of the funds will in fact be borne by those funds, because in many ways today the cost of administering those funds by the people in Treasury is far less than, say, if these funds were managed by a trust company or the WCB or the pension plans. If they were administered by another company, they'd pay in the order of a negotiated fee probably in the order of about 1 percent or more annually. This is less than 20 one-hundredths of the assets of that fund, and in fact I think the funds are getting a bargain. In fact, we're considering making it a profit centre, and if somebody else would like to send us their money, we can show that we have good return on our investment. Quite seriously, it makes better sense that if pension plans, say, want to continue to use the services of the investment management division of the department of Treasury, maybe we ought to consider charging more competitive rates and enjoying some of the income that might appropriately reflect the real cost of delivering those services. I've shown you before, Denis, I think in that same book that describes Treasury's activities, that we are above all four quartiles in our investment management performance over the last five years in the pension funds. Obviously not many did or could beat that.

MR. HERARD: Well, perhaps you could consider taking investment portfolios of some of these hon. members.

Thank you.

MR. CHAIRMAN: Don Massey. Are you passing? Okay. Danny Dalla-Longa.

MR. DALLA-LONGA: I listened with almost a tear in my eye about how this fund earns all this money. In particular I noted the comment about handing out the scholarship funds. I can recall my last and first experience of handing out a scholarship cheque. My comments were: kid, I've got some good news and I've got some bad news; the good news is that I've got a thousand dollars here for you to go to school; the bad news is that I don't know if I've got a school for you to go to. Obviously I'm being facetious, but that highlights the thought process on this heritage savings trust fund versus our financial situation.

The officer of the Legislature that you referred to, the Auditor General, in recommendation 14 -- I'll read it. You probably don't have a copy of this.

It is recommended that the Treasury Department initiate a review of 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.

I wonder if the Treasurer could tell me what he thinks that means.

4:00

MR. DINNING: Well, Mr. Chairman, members are recycling their questions. Dr. Percy asked me that basically as the first question. The point is that we will do and we will undertake or launch a

review of the heritage fund, and hopefully our objective is to do it before the end of this fiscal year. I think it's consistent with what the Financial Review Commission and others have said: you've got some financial objectives in the province; does the existence of the heritage fund, its current method of management, and other questions fit with your financial objectives? The bottom line, I suppose, for Albertans is going to be: should the heritage fund continue to exist and how should it be managed, or should it be disposed of? If you want a paraphrase of the recommendation, I think that pretty well sums it up.

MR. CHAIRMAN: First sup.

MR. HAVELOCK: Mr. Chairman, in light of the hour I would suggest . . .

MR. CHAIRMAN: Well, this is the last question. I had started a practice of the procedure where there was a question and two sups and allowing that to complete, and then we'll have the questioning completed.

MR. HAVELOCK: I don't recall voting on that procedure, Mr. Chairman.

MR. CHAIRMAN: That was a procedure set by the chairman.
Danny, do you have a sup?

MR. DALLA-LONGA: Well, I guess just to follow on this line of questioning, how is it that we rationalize the process where we have all this income coming into the heritage savings trust fund and say "Look at all the good things that are being done here" and we seem to ignore the fact that we've got somewhere in the neighbourhood of 10 to 11 percent of our total government expenditures going towards paying all the expenses? In other words, I'm referring to our debt servicing costs on the other side. We can't seem to correlate the two of them. How do you rationalize that line of thinking? In other words, to put the question in a different way, how do you talk about the income that we're making on one side and the expenses that we have on the other side that relate to the debt?

MR. DINNING: Well, both income and debt servicing are in the public accounts of the province, so if you want to rationalize, they're there. But if you look at rates of return, say, in '91-92, the heritage fund's rate of return was 12.7 percent; debt servicing costs were 9.2 percent. Pretty good. The rate of return before the write-down -- and I accept that that is perhaps not an entirely accurate number -- for the heritage fund was probably in the order of 9.2, 9.3 percent in '92-93, and our debt servicing costs were 9.1 percent. So by and large we're still better than our debt servicing costs. The bottom line is that we're going to go back to Albertans and ask them: should we continue, and if we should, how should it be managed, or should we eliminate it?

MR. CHAIRMAN: Thank you.
Second sup.

MR. DALLA-LONGA: I have no more questions.

MR. CHAIRMAN: Okay. Thank you, Provincial Treasurer. I appreciate the time that you've provided us on a Friday afternoon.

AN HON. MEMBER: Motion to adjourn.

MR. CHAIRMAN: I have a motion to adjourn. All in favour? Agreed.

[The committee adjourned at 4:05 p.m.]

