

Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:05 a.m.

[Chairman: Mr. Dunford]

MR. CHAIRMAN: All right, ladies and gentlemen. I'd like to call the meeting to order at 10:05. A couple of housekeeping items before we get started. Diane has circulated the 1993-94 recommendations to date. Are there any recommendations to be read into the record at this point?

All right. Hearing none, then, I would like to welcome Premier Klein to this session of the Alberta heritage savings trust fund hearings. The manner in which we have normally proceeded and which I would propose to continue with today, sir, is that you would be provided with an opportunity to make some introductory comments. You can take whatever time you wish so long as it's less than 15 minutes, and then after that we will start the questioning. The Liberals have provided me with a list, and we'll be working from that list first. There will be a question and then two supplementaries from a Liberal member. Then we'll move to a Conservative and then back and forth until all questions have been forwarded or until we reach the time of 5 minutes after 12, when we will adjourn. So without further ado, if you'd like to proceed, sir.

MR. KLEIN: Thank you very much, Mr. Chairman. My remarks will be much less than 15 minutes, because there's really not much I can say in a general sense about the fund and perhaps more can be brought out through questioning. As President of Executive Council I'm also chairman of the investment committee for the fund, but as Premier I don't get as involved in the details relative to the individual projects and the individual investments as the ministers specifically assigned to those particular duties. I understand either those ministers have already been here or will be appearing, as indeed I used to appear on a regular basis as minister of the environment to talk about a very significant portfolio, that being the irrigation upgrading and headworks program along with the reclamation program, which was a very significant amount, in excess of half a billion dollars total within the fund.

My duties as chairman of the investment committee are simply to convene the meetings, to participate in the discussion relative to investments or new investments or the disposal of assets and to guide those discussions and reach a decision, which of course is recorded.

So with those few opening remarks, Mr. Chairman, I would be more than happy to answer any questions the committee members might have.

MR. CHAIRMAN: Would you like to introduce your staff to the committee?

MR. KLEIN: Oh, I'm sorry. We have Allister McPherson to my right here and Vance MacNichol to my left. Allister, of course, is deputy minister in Treasury, and Vance is chief deputy.

MR. CHAIRMAN: Good. Thank you very much.
Okay. We'll begin with Mike Percy.

DR. PERCY: Mr. Premier, my questions relate to the public review of the heritage savings trust fund, the long-promised public review. When the Provincial Treasurer was here on December 17, he indicated that between \$100,000 and \$300,000 had been set aside to conduct this review in 1993-94. The Auditor General in his latest

report repeated the recommendations that he'd set out in '91-92 that there should be a review, yet this review's been promised for over eight months and nothing has happened. Is that review going to take place this fiscal year, and will the report be ready this fiscal year or when?

MR. KLEIN: Yes, I'm fully committed to a review. I guess it's just the form and the nature and really the time to get the review committee established, and certainly we would seek the input of members of the Official Opposition relative to the form and structure of this particular committee. Treasury is currently, as I understand it, drafting options for the heritage fund to be presented to a review committee, but as I say, I don't know the form and nature of that committee at this particular time. It is, I believe, the Provincial Treasurer's intention to announce the review committee as part of the budget presentation in February. I'm given to understand that his time line would see the actual review taking place immediately after that and concluding sometime in June, perhaps putting in place a program for implementation by the fall of 1994. That's basically what the Treasurer has in mind.

DR. PERCY: My supplementary, Mr. Premier. Certainly the fund was set up for a rainy day, and in light of your fireside chat and then the announcements by the various ministers yesterday, it's pretty clear that it's not raining, that there's a flood. Doesn't it make sense at this time just to do as Roger Douglas, for example, advocates throughout his book: liquidate some of these assets; apply it to the debt. In a sense it seems pretty obvious that something ought to be done and ought to be done quickly, yet nothing's happened. Why not just liquidate some of the lower paying assets and apply it to the debt?

MR. KLEIN: Well, perhaps that could be done. I would like to have an independent adjudication on whether this is the right thing to do at this particular time. I think that would be one of the fundamental questions to be asked by the review committee and have that committee make recommendations.

Certainly one has to respect the remarks of Sir Roger Douglas, but I think one has to respect also what the Financial Review Commission had to say about dissolving the fund or portions of the fund to pay down the debt. They clearly point out that the debt far exceeds the value of the fund, and of course we'd lose the investment which now goes into general revenues and helps to ease, I guess, the debt and deficit situation. But I'm willing to give serious attention to any recommendation of the review committee that might suggest doing exactly this.

Maybe you can tell us what investments you would liquidate. There's about 5 and a half billion dollars' worth of what we'll call immediate liquidity in the fund. The remaining \$7 billion -- I meant billion -- is pretty well in long-term instruments.

MR. MITCHELL: You're loaning it to yourself.

MR. KLEIN: No, we aren't in all cases, Grant. That's not a fair . . .

DR. PERCY: My final supplemental in that regard, then, would be to say that that's the ideal question that this committee should be asked to address. So my question would be: in light of this review, rather than setting up another costly committee to assess this now, what role do you envisage, then, for the heritage fund committee to play in overseeing this review? Because it's in place, it's cheap, we're here, and it's our job.

MR. KLEIN: Well, good thought. That's a good thought. I feel somewhat, however, that there ought to be some outside people involved in this review, but I have no problems with having the opposition and the government work co-operatively and peacefully together.

MR. CHAIRMAN: As the chairman I might make note that I did particularly enjoy the remarks about how cheap we were.

Okay. Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. Mr. Premier, I have a great deal of difficulty as a new MLA in trying to rationalize the usefulness of this committee. In light of your last response -- perhaps that's due in part to inexperience and being the first time on this committee. It seems to me that we're dealing with the past, and we would probably do a lot better if we were to debate the heritage savings trust fund in the House as part of, you know, budgetary debates. So I don't agree with Dr. Percy as to whether or not this committee should be doing the review. Would you be in favour of including the role of this committee in any review of the heritage savings trust fund?

10:15

MR. KLEIN: I'm sorry?

MR. HERARD: In other words, the role of this committee, in my mind, is not very useful right now because we deal with the past, and I think we could deal with the heritage savings trust fund in the present as part of the budget debates. Would you be in favour of including the role of this committee itself in any review of the heritage savings trust fund?

MR. KLEIN: Dr. Percy asked pretty much the same question, and I have no problems. I think it would be a good idea, and certainly I'll make that recommendation. You're certainly familiar with the portfolios and with the general administration and operation of the fund, so I see no reason why members of this committee, both government and opposition alike, shouldn't be involved in that review. I think I pointed out to Dr. Percy that I would like to see some people from the outside involved as well, some people with financial expertise.

MR. HERARD: Thank you.

MR. CHAIRMAN: Grant.

MR. MITCHELL: Thank you, Mr. Chairman. I'd like to pursue the idea of selling off the assets of the heritage trust fund. One of the really startling observations that we can make about the fund is that about \$3.2 billion of it is loaned to four Crown corporations. The four Crown corporations pay about \$300 million in earnings to the trust fund, but in fact they are subsidized by the general revenue fund to the tune of about \$300 million. This is circular accounting. It's very difficult to understand why we continue with these loans by government to itself when it seems not to reflect properly the real earnings of the heritage trust fund and when the process bogs down, government creates more red tape and ultimately doesn't send the proper message to Albertans and to managers in this government. I wonder whether the Premier could tell us why it is that he continues to support \$3.2 billion worth of loans to four Crown corporations when they make no money and they are subsidized by general revenue in order to return the earnings that the heritage trust fund wants to claim that they pay.

MR. KLEIN: Well, it's not a matter of support. I don't think I've ever made a statement saying that this is a wonderful thing to do. I think that this could be examined through the review, but I would point out that at least to my knowledge the Auditor General has never commented on this particular practice as being something that is wrong. In other words, other than perhaps yourself I don't know of anyone who has really brought it to our attention as being a practice that is out of the ordinary.

MR. MITCHELL: What you'll find, Ralph, if you talk to the Auditor General is that in fact generally accepted accounting principles don't apply particularly well to government accounting. What is required and what they're working on are proper government accounting principles. The fact is that he has been pursued in this committee from time to time, and he will tell you that these are not real earnings, that they are fabricated earnings, that they work within generally accepted accounting principles but that they sustain a myth that somehow these are real earnings and that they contribute to the level of earnings, the level of return that the Premier and his government want to say the heritage trust fund makes when it doesn't make it. If you exclude that quote, unquote investment -- I use the term loosely -- and others, you would have I think you said \$5.5 billion of liquidable assets. In fact, there are more than that. There are about \$7 billion. Could the Premier please tell us what would be the highest rate of interest that his government is currently paying on \$7 billion worth of loans comprising a part of his government's debt? What's the highest rate of return that he is paying on loans that he could now pay off?

MR. KLEIN: I don't have all the portfolio's consolidated in front of me and their rate of return, but perhaps Allister could respond.

MR. McPHERSON: The highest debt, I believe from memory, is the 11 percent Alberta capital bonds.

MR. MITCHELL: So if the government took this money and paid off debt, we would save in interest the difference between what we're paying on that debt and what we're earning on the real assets of the heritage trust fund. The fact is that even if we didn't pay off capital bonds, we could pay off other debentures to Europe and to the U.S. and so on. Probably the rate is 9 or 10 percent. The real earnings on the fund, if you add them up properly, are about 4 percent. So the difference on \$7 billion worth of assets is the difference between 4 percent and 9 percent or 10 percent: 5 percent. That's \$350 million a year that we're paying in interest that we don't have to pay. I wonder whether the Premier could tell us why he would sustain that loss ratio over and over and over again when the \$380 million would be a very, very legitimate, proper way to reduce the expenditure of this government without hurting Albertans.

MR. KLEIN: Well, if it's deemed not to make sense, then it won't be sustained. I think this is something for the review committee to look at.

MR. MITCHELL: Do you think it makes sense? You're the leader, Ralph.

MR. KLEIN: I want to have good information, Grant; not just the information you provide but real, solid information. [interjections]

MR. CHAIRMAN: Order please.

Heather Forsyth. [interjections] Grant, please.

MRS. FORSYTH: Yes. Thank you, Mr. Chairman. I just have one question to you, Premier. At the present time most of the fund is invested in Alberta. Diversifying beyond Alberta might provide greater stability to the heritage fund and increase its immediate income. Do you feel the fund should be diversified beyond Alberta?

MR. KLEIN: Well, the fund is diversified beyond Alberta. We have substantial investments in other provinces and at very, very high rates, as a matter of fact. I think if you refer to the annual report, we see New Brunswick at almost a quarter of a billion dollars; Newfoundland budgeting a third of a billion dollars; Nova Scotia, close to \$350 billion; P.E.I. at some \$50 million; and Quebec at -- what? -- just a little over \$300 million. They're all out there at about an average rate of -- well, if you take P.E.I. at 13.7 at the highest and Newfoundland at 11.9, that's not a bad rate. By the way, they are servicing these loans. Now, with respect to Newfoundland, it's a pretty high rate for a province experiencing some of the economic problems that they have. I don't know what we're going to do about it, but it's a tough one.

MR. CHAIRMAN: Supplemental, Heather?
Okay. Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Mr. Premier, firstly, I want to express my concern over some of my colleagues on this committee inasmuch as they feel that perhaps this committee itself is not a worthwhile cause. I have to disagree with that. I want to make it perfectly clear that I think we ought to know where we've been if we want to know where we're going. The financial statements of any corporation, whether it's to do with the government, a Crown corporation, or in private enterprise, is the most valuable tool to set the path for the future.

I also want to touch now on something that my colleague Heather Forsyth has mentioned, inasmuch as the amounts of money, the debentures to other provinces, et cetera -- they obviously bring us a fair return. I appreciate the fact that these debentures are being serviced and there are no defaults. Would you not think that we could perhaps get a premium, given today's interest rates, on the sale of these assets, these debentures?

10:25

MR. KLEIN: We probably could get a premium. I don't know how liquid they are or how easy they would be to dispose of. Allister, could you maybe comment on that?

MR. MCPHERSON: I think they certainly could be sold over a reasonable period of time, and yes, with current interest rates there ought to be premiums. I believe that some of them, from memory, would have kind of a first right of refusal to the province which we would have to deal with, but that could be dealt with.

MR. CHADI: Given the fact that this committee has made recommendations as to liquidation of certain assets -- i.e., the Vencap Equities asset; we've written it down to \$127 million from \$200 million, and we will take a discount on that. Of course, it hasn't been agreed upon as to what that number would be if in fact we are to accept a discounted figure. It would be just the other way around when we have something that is a performing loan and pays up to 16.375 percent, which is a debenture that one of these provinces has been paying us. We could get the premium, and it would be advantageous for us to do so. I'm wondering if it isn't within your thoughts, Mr. Premier, that indeed we ought to be pursuing that actively now and trying to get some revenues in from the sale of these assets.

MR. KLEIN: Well, that's a good question. As you know, there was some reluctance on the part of Vencap in the past to return to the province any of the rewards, but we feel that they might be inclined to discuss in a more co-operative fashion a return to the government. [interjection] Right. Mr. McPherson will be approaching Vencap to initiate those discussions.

MR. CHADI: My second supplementary. Mr. Premier, I appreciate that. I'm wondering. I understand that in your opening remarks you said that you would like to see the opposition, of course, play a role in the review of the fund, et cetera. In discussions with Vencap, in negotiating I'm wondering if you wouldn't consider including perhaps members of the Heritage Savings Trust Fund Act Committee and perhaps members of the opposition as part of that team that would negotiate with Vencap.

MR. KLEIN: Well, let's find out if they're willing to negotiate first.

MR. CHADI: We know they are. Would you commit today to saying that we should be a part of it?

MR. KLEIN: How specific do you want? I think when we get into really the establishment of the committee, then we've got to determine what the mandate of that committee is going to be. Do you want me to get in today to the form and the structure of that committee and what it should look at? Well, my God, we could be, you know . . .

MR. CHAIRMAN: No, we won't require that, Mr. Premier. I think, in fairness on that particular question, we certainly have had a statement from the Vencap people. I know most of the folks around this building read *Hansard* in terms of our committee meetings. I'm teasing, of course; I know they don't. So I think it's unfair to suggest, then, that everyone would be aware of that particular so-called commitment.

MR. KLEIN: As I understand it, Mr. Slator has given some indication that he would be amenable to some discussion. Now, we don't know at this point how . . .

MR. CHADI: That's all I ask: could we be part of that discussion? Could a member of this committee? Since you've been open and fair all along here with saying that, suggesting that opposition would be part and parcel of a committee to review, isn't this part of a review, Mr. Premier? Should we not be part of the team to negotiate on behalf of the province and the people of this province?

MR. CHAIRMAN: With all due respect, I'd like to carry on. I think we've had the suggestion that the role of this committee is to be looked at, and maybe that will be part of it.

MR. CHADI: Well, again, Mr. Chairman, the Premier asked me a question.

MR. CHAIRMAN: Okay; but you know it's not . . .

MR. CHADI: You asked me: do you want me to consider this or that about the role of the committee? I just responded.

MR. KLEIN: Oh, yes. Well, fine then. I'm not about to say -- you know, are we going to separate this one out for a special review and that one for a special review?

MR. CHAIRMAN: That's right. And we're not going to start conducting ourselves in this session by members starting to answer questions either.

Okay. Jon Havelock.

MR. HAVELOCK: Yes. Thank you, Mr. Chairman, for your ironfisted conduct in dealing with the opposition.

Mr. Premier, the capital projects division consumes a considerable amount of money on an annual basis, and in light of the financial difficulties we're faced with, I was wondering if you've given any thought to curtailing such spending in the future and in particular in light of the fact that we're now utilizing consolidated budgeting.

MR. KLEIN: Well, first of all, I would suggest that the capital spending out of the heritage savings trust fund would be part of the three-year spending plans. I know that there is considerable pressure for additional capital spending in some areas. I know that, for instance, the irrigating farmers in southern Alberta would like to have more money spent on upgrading and completion of the main canals and some very serious headworks projects, particularly at St. Mary's dam, to be completed. I know also that the northern farmers relative to flood control would like to see a significant amount set aside out of the fund over the next 10 or 15 or 20 years to achieve much the same thing as was achieved in the south but through a different kind of water management; that is, to contain the water rather than get more water. So I think we have to be very careful in light of our existing financial situation.

To the hon. member: I think this is something that the review committee will really have to take a good, hard look at. Do we make further investments at this particular time in capital projects understanding that these projects will become deemed assets and will be there for the future of Albertans for all time to come? In other words, do we just bring everything to a sudden halt, or do we really assess on a priority basis those things that will serve Albertans for years and years to come, such as the completion of the main canal in the headworks program and significant flood control in northern Alberta? This really contributes tremendously to the economy overall.

MR. HAVELOCK: That's fine. Thank you.

MR. CHAIRMAN: Okay. Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you, Mr. Chairman. The government wrote down its heritage fund investment in the upgrader by approximately \$75 million in '92-93 when it adopted its policy on concessionary loans. In addition to that, it wrote down another \$231 million which is charged against investment income as a result of income transferred to the general revenue fund as a result of capital overruns of \$217 million and operating shortfalls of an additional \$14 million. My question is to the Premier. As he's aware, 540540 Alberta Limited was set up to fund these shortfalls which were incurred by the upgrader. Given that Albertans are required to pay interest charges on these advances, can the Premier indicate whether the government expects the upgrader to earn income down the road which will allow to pay for these operating shortfalls and reduce the interest charges paid on a yearly basis?

MR. KLEIN: Well, naturally the upgrader has been set up to at some point in time achieve some profits. We are hoping that there will be a reasonable rate of return, perhaps in the 11 to 20 percent range, but there is no guarantee of that happening. I think what we really have to do is pay attention to the Auditor General's comments

relative to the Husky upgrader, and again perhaps that can be part of the review. Certainly he recommends in no uncertain terms that Executive Council identify Alberta's current expectations from its investment in the Lloydminster bi-provincial upgrader.

So we have a commitment. We have accepted that recommendation. I guess, to Mr. Dalla-Longa, the answer that he is seeking will be the answer that we provide to the Auditor General, and we have committed to provide that answer. I just don't know what it is today, but we're going to have to do some pretty detailed analysis of the situation and come up with a realistic figure as to what our rate of return, if any, will be.

10:35

MR. DALLA-LONGA: Taking off on the Auditor General's recommendations and in light of the potential taxpayer exposure of nearly \$20 million over the term of the joint venture agreement, will the Premier undertake to provide this committee with an indication of his government's expectation of continued investment in the upgrader for operating shortfalls?

MR. KLEIN: Well, that's, as I understand it, what the Auditor General has asked for. When we do the detailed analysis, then we'll provide that information certainly to this committee and all members of the Legislature.

MR. DALLA-LONGA: Mr. Chairman, if I could clarify my question. The government therefore is committed to continue funding operating shortfalls in the interim?

MR. KLEIN: In the interim, yes, but I'm sure this analysis won't take that long to complete; will it, Allister?

MR. McPHERSON: No. I believe the Department of Energy is working on it right now.

MR. KLEIN: Right. If I can't answer your question to your satisfaction, the minister will be here January 25, next week, and perhaps she can answer in more detail.

MR. DALLA-LONGA: She would give us an indication of the date when this report would be finished?

MR. KLEIN: Her department, as I understand it, has already started work on meeting the requirements of the Auditor General's recommendations.

MR. CHAIRMAN: Now, I want to be fair. This exchange is still on the first sup, so if you want to take a second sup, go ahead.

MR. DALLA-LONGA: Okay. The audited financial statements of 540540 Alberta Ltd. indicate that subsequent to fiscal '93 an additional 7 and a quarter million dollars were advanced to the operator to cover some of these operating shortfalls. Can the Premier advise the committee whether this \$7.4 million advance is reflected in the \$14 million that I had previously talked about, or will there be an additional \$7.25 million charged against investment income in '93-94, this upcoming fiscal year-end? In other words, if I can clarify, we've already got \$14 million which appeared in the financial statements as operating shortfall advances. Is there going to be another 7 and a quarter million dollars in the '93-94 fiscal year?

MR. KLEIN: I just don't have that number, Danny. Perhaps the minister could answer it.

Mr. McPherson.

MR. DALLA-LONGA: Mr. Chairman, I'll maybe put this question in written form, if the Premier undertakes to reply in written form.

MR. CHAIRMAN: Well, you can do that, Danny, but also, you know, Pat is going to be here next week, if you want to ask the minister. Like, why wouldn't you ask the minister?

MR. CHADI: She'll say that the Premier should answer.

MR. CHAIRMAN: Now, that hasn't happened here.

MR. KLEIN: The ministers get far more involved in the detail relative to the investment portfolios than I do. I convene the meetings -- right? -- participate in the discussions, but I don't get involved in that kind of detail.

MR. CHAIRMAN: Okay. Thank you.
Ed Stelmach.

MR. STELMACH: Thank you, Mr. Chairman. Mr. Premier, in response to the earlier question asked by Heather with respect to using the fund and investing in parts of Canada other than Alberta, you had brought the information forward that these investments were very good and brought us a high rate of return, yet there seems to be a gross misunderstanding among Albertans of the value and just more information about the heritage fund. How would you look at improving the communications and the understanding of Albertans of the heritage savings trust fund?

MR. KLEIN: First of all, I agree with you. I think there is a woeful lack of knowledge out there about the fund. I get the question all the time: what happened to the heritage savings trust fund? In other words, there's a notion out there that it no longer exists, that it has been used up.

MR. DALLA-LONGA: That's right.

MR. KLEIN: Not exactly true. Basically, the debt -- right? -- now outstrips the asset. There's no doubt about it, but there are some other things that could be done too. I mean, there are a lot of assets that we don't calculate in this government.

MR. DALLA-LONGA: Golf courses, parks.

MR. KLEIN: Yes, right; things like that. The oil in the ground, trees.

AN HON. MEMBER: Water.

MR. KLEIN: No, no, don't mention water.

I'm sure if we added up the assets of this province, again we would have a pretty good-looking balance sheet. It depends on how we want to look at it. The simple fact is that the debt outweighs the asset relative to the heritage savings trust fund.

The question -- what was it? Oh, information, communications; that's right. I agree with you. I just don't know how we can get the message out there. Perhaps we should be talking more about the fund. I guess the annual report is one vehicle to get the information out. Certainly during the election campaign there was a lot of talk by all three parties relative to the fund and what should be done with it and really how much it was worth. I think it was generally agreed upon at that time that the asset value was something in the neighbourhood of \$12 billion, with deemed assets of an additional \$3 billion. People wanted to know what those assets included. We

then talked about the parks and the medical research trust fund and the amount that has been spent on irrigation upgrading, main canals and headworks. We talked also about the average earnings that were brought in and how that was almost equal to the amount that we're now paying to service our debt and why it wouldn't make sense, at that time at least, to dissolve the fund. Basically, we had a saw-off situation.

Ed, you're absolutely right. We need to get more information out there on the fund. This is something I haven't given much thought to, but as we get this review panel in place, perhaps this could generate a lot of interest in the fund and perhaps the public could be involved through some form of public hearing or public participation process with respect to the fund. So maybe this is a way to get more information out relative to the fund and get more people involved in perhaps how the fund should be managed in the future.

MR. CHAIRMAN: Okay.
Don Massey.

DR. MASSEY: Thank you, Mr. Chairman. Mr. Premier, the fund was created when the conditions in the province were really quite different than they are today. As a politician I always appreciated your comment that that was then and this is now. I wonder -- and this is getting away from the details of the fund -- whether you're satisfied that the goals are still appropriate. I ask that in light of the difficulty that we're having in providing human services and the fact that there's 11 percent unemployment in this city and close to 10 percent unemployment in Calgary. Are you happy with the goals of the fund? Is there any thought of using it as a tool to at least get at those two problems that seem to be very pervasive?

10:45

MR. KLEIN: Well, to some degree it has been a tool to alleviate unemployment and provide employment opportunities, and we've mentioned some of these areas, particularly in the capital works division.

The goals of the fund are as valid today as they were in 1976. Again I refer you to the annual report.

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

The statement is motherhood -- there's no doubt about it -- and apple pie. Nonetheless they are commendable objectives and I think are as relative today as they were back in 1976. The problem is what has changed. We have a much larger debt now than we had in 1976, and to worsen the problem, of course, we have the deficits adding year by year to that accumulated debt. So that's what has changed.

DR. MASSEY: I'm not arguing with the goals as they had been stated, but given that the fund has been in place and we still have 11 percent unemployment . . .

MR. KLEIN: I'm sorry. I don't know if that -- as of when?

DR. MASSEY: The latest figure out, the cities' three-month seasonally adjusted average, is 11 percent for Edmonton, and it's close to 10 percent for Calgary.

MR. KLEIN: Well, I think the overall provincial average is about 9.6 percent.

DR. MASSEY: Yes. I agree with that, but there are pockets of 6.4 percent west of the city.

MR. CHAIRMAN: Do you want to rephrase your question?

DR. MASSEY: All I'm asking: is there something that the fund could be doing? I know diversifying the economy should create more jobs, but obviously it's not enough so far.

MR. KLEIN: You're absolutely right. Yes, there is something the fund could do, but I think we have to be very careful at this particular time in terms of whether we're going to commit to further public works projects, which of course create employment. I say there are good opportunities to invest further in projects in this province that will serve Albertans for many, many years to come. I think that is a question for the review committee to establish: should we at this particular time be making further investments in the kinds of things that we invested in in the past? Again I go back to the one that I know better than any other project, and that is the completion of the main canals and the headworks. I mean, that is a very labour-intensive project.

The other area, you know, where there might be some consideration is that the government has committed to participating in the federal infrastructure program. Again, do we use existing funds under the GRF capital projects, or do we perhaps take some funds out of the heritage savings trust fund to fulfill our role under that particular program? There will be ample opportunity under that program to identify capital works projects that will create jobs. That's why the program was set up, really, as a job creation program. So we could perhaps look at that as well.

DR. MASSEY: Thanks.

MR. CHAIRMAN: All right.
Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman. Mr. Premier, the heritage fund has sold several assets over the past several years such as AGT, Telus, Syncrude, Alberta Municipal Financing Corporation debentures, part of Alberta Energy. What is done with those proceeds from the sales when they come back to the fund?

MR. KLEIN: Well, the principal portion is returned to the fund -- in other words, the amount of the original investment, as it was with AEC -- and the profits are put into the general revenue fund to help pay down the debt and eliminate the deficit. In the case of AEC I don't know the exact figure, but roughly \$250 million was returned to the GRF and about another 180 some odd million dollars, the original investment, was returned to the fund.

MRS. LAING: As a result of the asset sales the heritage fund has over \$5 billion of short- and mid-term marketable securities. Do you have a plan now to invest these funds in other investments?

MR. KLEIN: You know, investment opportunities come to the investment committee from time to time, and the Provincial Treasurer makes recommendations. I can't say specifically at this particular time where we might be looking at investment opportunities.

Allister?

MR. McPHERSON: We would leave it there pending a review.

MR. KLEIN: Right. I think and I'm advised that it probably would be best at this time just to leave everything alone pending the review; in other words, not get ourselves further committed at this particular time.

MRS. LAING: Thank you.

MR. CHADI: God, that's an easy way out. It's 10 months already.

MR. KLEIN: You know, the review is there. We're going to move and we're going to move fast, so watch it. [interjections]

MR. CHAIRMAN: Order please. The cameras are gone.
Lance White.

MR. WHITE: Mr. Premier, along the same vein. Last year after the announcement of the review Alberta Energy Company was sold. You're right; pretty near half a billion dollars was sold there. A 5 percent stake in Syncrude was also sold and for obvious reasons. It was opportune in the view of the investment committee. On one hand, you're just telling a questioner from your side of the House that, oh, that has to wait until the review committee is established. On the other hand, you've already made two very, very big decisions. Well, the question from my colleague across the floor -- when are you going to have some kind of orderly method of doing this? -- is really quite logical. You can't have it both ways, here and now.

MR. KLEIN: Okay. Thanks, Lance. First of all relative to AGT, that sale was made and that privatization was made well before any commitment to a review.

With respect to AEC, there was a window really. The board brought this proposal to us, there was a window of opportunity, and we decided on the basis of good business policy that it would be best to accept the deal at that time because we were in a position to reap a profit of some \$250 million. I think now that we're fully committed to the review that we've talked about, a time line very fundamentally about a structure for the review, that we should perhaps not do too much in a drastic way relative to the fund. It's only a few months away. I think it would be absolutely ludicrous at this time to do something as dramatic as taking \$5 billion out of the fund and applying it to the debt. It might totally be the wrong thing to do. Again, it might be the right thing to do, but let's have that review. I think it would be totally wrong at this time to commit ourselves to significant new investments or to become involved in the sale of assets or to commit ourselves to major public works programs pending the review. Basically, I am saying: look, I've given you this commitment today that we will get this review under way as quickly as possible and that we should, until that review is complete, leave the fund pretty much as it is today.

10:55

MR. WHITE: So what you're telling this committee and through this committee Albertans is that all the assets are on hold or are frozen until such time as you have this review committee, which appears to me by what you've said earlier to be bringing in some outside expertise to review this. You're saying that that's all sitting in place, yet there could well be more windows of opportunity. It's a pretty big fund. You can't just do it in eight months.

MR. CHAIRMAN: Order please. You just accused him of wanting to have it both ways. Now you can't have it both ways.

MR. WHITE: Tell me how so. Mr. Chairman, three times you've interrupted. The Premier is quite willing to take care of himself.

MR. CHAIRMAN: That's right, and I'm going to continue. The Christmas season is over.

MR. WHITE: Christmas and Easter, I don't care. He can take care of himself.

MR. KLEIN: The fund is managed on a day-to-day basis. That is the part of the fund that is in liquid form, the \$5 billion that has been alluded to. That's managed very well on a day-to-day basis. I don't think we would just take that money out and put it in the stock market, for instance.

To answer your question would something like that happen, I guess if a deal came along -- for instance, we still own 11 point some odd percent of Syncrude.

MR. WHITE: Nova Corp.

MR. KLEIN: What's that?

MR. WHITE: Nova Corp. There are lots of them.

MR. KLEIN: Yeah. Right. But I'll use Syncrude, because there was a recent case: Murphy Oil. If someone came along tomorrow and said, "Look, we really want to buy your asset, and we're willing to pay you an amount to generate a handsome profit," I guess we would have to consider it, but I don't anticipate that happening tomorrow.

MR. WHITE: So the fundamental question of the utility of the fund to Albertans -- i.e., this little savings bank for a rainy day supposedly -- is a question that has to be put off until such time as this review committee reports, yet asset decisions can be made in the interim. Is that it?

MR. KLEIN: Again, let's have common sense prevail. If the asset question is one that is going to generate significant profits for the province, then I think we ought to consider it, but I doubt that's going to happen over the next few months. I think we can manage the fund as it now is. We can take advantage, of course, of investment opportunities that would be in the normal course of business, but relative to the fundamental nature of the fund, it would be my recommendation that we just leave it alone until this review, unless there are some real golden opportunities that might present themselves. I don't see any. Do you?

MR. CHAIRMAN: Thank you very much.
Carol Haley.

MS HALEY: Thank you. Mr. Premier, I'm a little concerned here about sort of a negative tone that's being taken with regard to the heritage savings trust fund. I think there are a lot of things that it does very well. I don't like the idea of getting rid of Vencap at a discounted loan rate just because it's convenient to do so. We have an agreement in place. There are over 10,000 people in Alberta that have jobs because of Vencap, and I'm not totally sure that we would benefit by discounting the loan to have them pay it out early. There are other things that the heritage savings trust fund is doing very well. Some of them are the Alexander Rutherford scholarship awards, the medical research that's being done, the headworks program, the land reclamation project that was going on. I guess my concern is that when we're talking about a review, that we not totally focus on a negative side to it but that we look as well at what is working very well and not devastate it just to try and pay off more rapidly a debt that we have taken 10 years to build up.

MR. KLEIN: I think that is an excellent point. While on the operating side we're trying to come to grips with budgets for Health and so on, very seldom do we point out that the Alberta heritage savings trust fund medical research trust, which was established with a \$300 million initial investment, is now worth over \$600 million. That additional \$300 million has not come about through additional investments out of the fund. It's been earnings. Really this has spurred on the private sector to become involved in developing that fund.

So we have something very unique in this province. We have over half a billion dollars now going into medical research, and that is a very significant part of health, of health programs. People very, very seldom mention that. It's there. It's working so very, very well. It is such good news that it doesn't warrant two inches in the newspaper. It's good and it's positive and it's significant dollars going into significant research, some of the finest research being done in health today. Again, that's part of the selling program that Mr. Stelmach referred to. I think we've got to get that message out. You're absolutely right that those funds are in place, part of the deemed asset package, and they're doing just a marvelous job for Albertans.

MR. CHAIRMAN: A sup.

MS HALEY: No, thank you.

MR. CHAIRMAN: Okay.
Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Premier, I want to pursue one line that you had raised in response to my question on the Financial Review Commission. They were very clear when they said that the heritage savings trust fund provided a false sense of security to Albertans. They had signaled very clearly, as clearly as they could, that something ought to be done, as they went through the books. I would just like to, following on that point, return to an issue that was raised by my colleague Grant Mitchell, just to tie that in, this notion of a false sense of security and why something has to be done about the fund. If you look at the annual report of the heritage fund, page 25, it puts the market value of the debentures held by the fund at about \$1.9 billion, which is some \$274 million above the recorded book value of \$1.661 billion.

When you read the analysis by outside observers -- when Glen Mumey, who I think is a very fine researcher, financial analyst, and a darn good economist, looks at the AMHC, he says that he'd put a market value on them of about \$670 million. That's not in the heritage savings trust fund report, but as an outsider who looks at the

value of the AMHC, he says: well, from my perspective the real market value of AMHC is \$670 million. That's in his '92 report on the heritage fund. He sort of acts as just an arm's-length dispassionate watchdog on the operation of the fund.

So here we have an outsider who says \$670 million. We see it recorded by the fund at about \$1.9 billion. There are significant discrepancies that give Albertans the sense that there are real assets there. I think that does lull people into a false sense of security. Again, in terms of the review I would urge that we take some write-downs and take the hits.

MR. HERARD: Is there a question here?

DR. PERCY: There is a question. Actually, I was following the standard set by Carol in terms of preamble.

This first question. Surely the investment committee uses outsiders, investment counsellors who have a very clear idea of what the book value and the market value are of these assets. Why doesn't the investment committee then just use those values? I think it's extraordinary that they would carry the value of the debentures at that value.

MR. KLEIN: Allister, can you maybe answer the hon. member's question -- I'm looking at it, but I'm not . . . [interjection] No, no, I see it right here -- relative to the expertise that goes into the preparation of the recommendations for the investment committee?

MR. McPHERSON: Mr. Chairman, the issue here is: which part of the province's financial statements and basket do you look at? If you look at the consolidated financial statements, which the government has placed the overall emphasis on, the losses in those corporations are in fact recognized and consolidated in those statements. The deficits there show up in terms of the province's bottom line and in terms of net debt. So looking at it from a consolidated point of view, all of those interfund and intercompany transactions obviously disappear.

If you look at it from the heritage fund point of view and the heritage fund financial statements, which are audited by the Auditor General, the heritage fund as a separate legal entity has debentures issued to the corporations which in effect are guaranteed by the government, if you like, so that the fund itself could take the Alberta Agricultural Development Corporation and sell it on the market and raise cash on this market value basis. Now, clearly the new holder of that debenture is going to be looking to the general revenue fund and the government to provide the funds to make sure that the debt is retired.

I think the answer to the question is: how do you want to look at this? If you look at it on a consolidated basis, you look at the consolidated financial statements. This reflects the heritage fund presentation of what the heritage fund has done.

11:05

DR. PERCY: But it is inaccurate in the sense of the value of that asset to Albertans were it to be sold on the market. It's tremendously inaccurate, and it does generate this false sense of security that there's something really tangible there.

The question that I'd like to pursue, then, is also the role of the private sector in the fund. Year after year there have been recommendations that in order to diversify the economy, to broaden the operation of capital markets in the province, the fund managers should rely far more on outside managers and set up competitions in a sense as to who gets the best return were the fund to continue to exist, but year after year those recommendations haven't been acted on. My question is: why does the private sector play such a limited

role in the management of such a large fund? Why do we go to New York? Why do we go to Toronto?

MR. KLEIN: I think Dr. Percy has a good question here. I hate to go back to the review committee, but I would suggest that in establishing the terms of reference for this committee, that fundamental question should be answered. Should this fund be managed solely by government or an arm's-length board or a combination of both? Should we be seeking the advice and the participation of the private sector in helping us to identify the best investment opportunities? I think that is a valid question, and it's one that should be answered. I would have no fear of anyone from the private sector participating with the government, providing we're going to get the best return on our investment.

DR. PERCY: Thank you, Mr. Premier.

My final supplemental just concerns the asset position. I mean, it's clear that the fund is cash rich now. You've alluded to the fact that cash is there and we're not going to touch it, but why in a period with such low interest rates would we want to be so long in cash?

MR. MacNICHOL: The fund has a lot of liquidity right now.

MR. KLEIN: Right; liquidity at about 5 in short and long term. Allister, what's the average return we're getting on that?

MR. McPHERSON: I would think currently it would probably be around 5 percent. I think the rate for the year is in here.

MR. KLEIN: We're looking at . . .

DR. PERCY: Cash and marketable securities.

MR. KLEIN: Seven percent average overall on short- to medium-term marketable securities, which is not that bad in this day and age; is it? [interjections]

MR. CHAIRMAN: Okay. Just hang on here, folks.

MR. KLEIN: The interest rates have come down quite significantly. What are we at right now? What did we borrow at, our last borrowings?

MR. McPHERSON: The last borrowing was 6 and a quarter percent, I think, for five years or thereabouts.

MR. KLEIN: Six and a quarter percent; right.

MR. MITCHELL: You've still got 11 percent.

MR. CHAIRMAN: Are you into your questions, Grant, or are we just sort of having an exchange here? What are we doing?

All right. It's your turn, Grant, if you want to ask your questions.

MR. MITCHELL: Thank you. I'd just like to say that the Premier said earlier that it was ludicrous to do something as dramatic as selling the fund's assets without a review, which strikes me as quite remarkable when you consider that he doesn't consider it's ludicrous to do something as dramatic as cutting \$327 million from the social services budget without any review at all either. Obviously assets are more important than people.

My question follows up to the last statement that the Premier made. He said that if it were reasonable after a review to sell off assets to pay loans, then of course we'd do it. I wonder whether he

could tell us whether he thinks it's reasonable to pay more money on a given amount of loans, more interest, than we are earning on the same amount of assets which are held in the fund. Could he just tell us whether he thinks that is reasonable?

MR. KLEIN: That is arguable. I think it's almost a wash; is it not?

MR. MITCHELL: Well, could the Premier please confirm, as he said earlier, that on short-term money market securities of \$2.4 billion we are earning 5 percent compared with as much as 11 percent that we're paying on interest on money that we have borrowed?

MR. KLEIN: Now, just before you do that, I just find it so very, very surprising that the hon. member would make that remark about welfare, coming from a party that recommended brutal cuts in the neighbourhood of \$1.1 billion.

MR. MITCHELL: Ralph, we said take a billion out of capital. We didn't talk about taking it out of . . .

MR. KLEIN: Oh. If you take a billion out of capital, there's nothing left.

MR. MITCHELL: Exactly, Ralph. Wouldn't that be a start? But we wouldn't have built Westlock.

MR. KLEIN: You said brutal cuts, quote. Your leader said brutal cuts.

MR. MITCHELL: Let's build Westlock, Ralph.

Is it reasonable in your mind to pay more money and interest on loans than we're earning in the fund on an equivalent amount of assets? Back to my question.

MR. KLEIN: Overall it's a wash. Now, there are some specific areas where we're earning much, much more than what the rate is today, and there are some cases where we're earning a little bit less. Allister, maybe you can . . .

MR. McPHERSON: Yes. If you compare the heritage fund average returns against our average debt cost, it's pretty close to a wash. So then the question becomes which earning stream of assets out of the heritage fund do you want to match up with what debt cost. Clearly, if you take the lowest earning asset from the heritage fund and match it up against the highest debt cost, there will be a mismatch, but on the short-term side we would have outstanding in the marketplace debt that from memory I think exceeds the short-term assets of the heritage fund on which we would pay no more than we're earning on the heritage fund and possibly slightly less.

MR. MITCHELL: Even if it were a wash -- and while I appreciate Allister's answer, I don't accept that it is -- I think it could be managed differently and to do away with that differential. The fact is that the Conservative government wants less government. Well, let's add up the amount of government that goes into the heritage trust fund. We've got part of the deputy minister's time, probably a lot of the deputy minister's time. We've got the Premier's time. We've got a multitude of cabinet ministers' time. We have the administration of loans to Crown corporations, which are circular accounting which make no money and have to be subsidized. We have a million dollars that's noted here in the administration of these assets, and of course that probably doesn't include the amount of money that comes from your salary and Allister's salary. We have

a heritage trust fund committee that spends money to do this process. We have all kinds of extra government bureaucracy surrounding an asset which the Premier says at best makes as much money as he pays on the loans of an equivalent amount. Why would a Conservative government that wants less government, less red tape, less of all of that, less bureaucracy put up with this? Why don't you just sell the assets?

MR. KLEIN: Well, why don't we just put it to an independent review involving good-thinking people like yourselves to make sure that that is indeed the right decision?

MR. MITCHELL: We've been asking for that for five years.

MR. CHAIRMAN: Bonnie.

MRS. LAING: Thank you, Chairman. Mr. Premier, recommendations from this committee over the last years have asked that more emphasis be placed on investments that yield monetary return until the accumulated debt is erased and the budget balanced. Has consideration been given to this idea?

MR. KLEIN: I'm sorry. Again, Bonnie?

11:15

MRS. LAING: On investments that yield monetary return until the accumulated debt is erased: to put more emphasis on those.

MR. KLEIN: Oh, right. First of all, that has been done. You know, this whole investment policy could be subject to the review committee's recommendations, but certainly over the past few years the emphasis has been on getting as high a yield as we possibly can rather than spending the money on capital projects.

MRS. LAING: In your opinion, will the province consider channeling the nonrenewable resource revenues and investment income back into the heritage fund, and at what point?

MR. KLEIN: At what point? We've made clear statements as a government that if there are any windfall profits or any profits whatsoever from oil and gas revenues, royalties, stumpage fees, and so on, this will be applied directly to the debt and the deficit. So until we get that deficit under control, you won't be seeing a return from royalties to the heritage savings trust fund.

MRS. LAING: Thank you.

MR. CHAIRMAN: Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Mr. Premier, some of the comments that were made and certainly comments that were made by my constituents and perhaps Albertans all the time -- there is uncertainty as to the amount of money that this fund currently has. I think there is a great uncertainty amongst Albertans today as to what our total debt in the province of Alberta is, not to confuse the fact that we are looking at consolidation and not confusing the fact that we talk about net debt. You are the Premier, sir. What is our debt? Not net debt. What is our debt?

MR. KLEIN: Gross debt is \$26 billion as of March 31, 1993. That's about as close as I can possibly get. We're working very, very hard to establish a schedule to pay down that debt, but the first thing we've got to do is get the deficit under control and get overspending under control.

MR. CHADI: That's exactly correct, Mr. Premier, and I think that one of the . . .

MR. KLEIN: That is the gross debt; right?

MR. CHADI: Yeah, that's the gross debt. You're right: we have to reduce our deficit in order to be able to balance our budget and then eventually get at the debt. But when you look at part of that problem, \$1.5 billion goes toward paying interest on the gross debt. Am I correct or not? If I am -- and those are your words, sir. Now here we are getting \$785 million that was transferred over to the general revenue fund last year alone from the heritage savings trust fund. Why would we not consider balancing our budget by liquidation of this fund so that we can reduce our interest costs?

MR. KLEIN: Well, first of all, that does not solve the problem, and the Financial Review Commission clearly pointed that out. That takes care of the province for maybe one year; right? The fundamental problem is one of spending. What happens the next year if you go on spending the same way as you did the previous years, even with a clean budget, with a balanced budget? It does nothing to address the spending mode, absolutely nothing. It is a quick fix solution -- right? -- that will work for maybe one, perhaps two, years, and then you're right back into that same kind of spending. The simple fact is, and we all know it, that we spend about \$2.5 billion more than we earn.

MR. MITCHELL: Three point seven last year.

MR. KLEIN: Just stay tuned; even you might be pleased.

MR. CHADI: No one can dispute that. Just remember: you were part of this problem to begin with, so don't start on us here. Just remember something else. When we talk about 1 and a half billion dollars going each year, that's half of your deficit alone right there, or even more than half of the deficit. How can you sit there and say now that that's only part of the problem and only good for one year? If we could eliminate that and save, say, at least somewhere in the neighbourhood of perhaps a billion dollars of interest . . .

MR. KLEIN: But then we lose the income, which is almost equal to the amount we pay on debt servicing. That's why I'm saying it's a wash, and it still doesn't address the fundamental problem of overspending.

MR. CHADI: Thank you.

MR. KLEIN: As I say, there are quick fixes to this problem. One is the heritage savings trust fund, yes, but as I say, that is not the long-term solution. You can raise taxes and you can find new ways to tax, and that's unoriginal and not very imaginative, or you can borrow more money, and nobody wants to do that, or you can get your spending in line with revenues.

MR. MITCHELL: Or you can pay down your debt. Why wouldn't you just do it?

MR. KLEIN: Well, we would like to do it in an orderly fashion.

MR. CHAIRMAN: Speaking of orderly, Heather Forsyth.

MRS. FORSYTH: Mr. Premier, I just want to follow up on Carol Haley's remarks in regards to when we established the heritage trust fund 17 years ago the province was in a boom. We've done a lot of

good things with the heritage trust fund as far as medical research, scholarships for people. What would be the effect to Albertans if we liquidated the fund?

MR. KLEIN: Well, it's hard to say what the effect would be. Certainly we would lose some; I don't think that we could ever liquidate those assets that are deemed assets. I think it would be ludicrous, for instance, and there wouldn't be public support for the sale of Kananaskis park or to turn all the main canals and headworks and all the reclamation programs -- I mean, these are things that simply can't be done. Again it is somewhat, I guess, of a shield at this particular point with respect to having an asset to partially offset our debt situation. There's no doubt about it and I admit quite readily that things have changed quite significantly since 1976 when the fund was first established, and perhaps it should be managed differently. Perhaps it could be used to pay down some of the debt, and perhaps there could be a better way of managing the fund through private-sector involvement. I think these things are all questions for the review and quite properly should be included in the terms of reference. I just don't know what the province would look like without the fund.

MRS. FORSYTH: I think one of the things that we have to keep in mind -- I like the idea of the review committee, but I also think it's imperative that Albertans realize how we're spending this money and some of the good effects that are coming out of it.

MR. KLEIN: Yes. There's no doubt about it. I think there's a good story to tell as to what the fund has achieved thus far, but again we're in a period of change. I think that like everything else in government the heritage savings trust fund needs to be looked at in terms of its validity today as opposed to 1976. I also think, as you and Mr. Stelmach and Carol have said, that there's a good story -- I mean, this fund has achieved some remarkable results -- and we've got to get that story out. I think that as we go through the review process, that story can start to unfold. Fourteen point three billion dollars have been transferred from the heritage fund to the general revenues of the province since 1982. That's direct cash, direct money to the province, and that's not taking into account all the things that have been created through the fund, the capital projects.

11:25

MR. CHAIRMAN: Did you have another sup, Heather?

MRS. FORSYTH: No. Thank you. That's it.

MR. DALLA-LONGA: I guess I sort of have maybe a potpourri of questions here. With all these wonderful investments that we've made and all this terrific track record, we still look at the net asset base of the fund, and it has consistently declined. We talk about 11 percent rates of return on debt, and I'm sure we probably made one or two good investments in that time, but the value of it has been consistently dropping. That is one problem. The other problem we have is that there appears to be some funny accounting in there, because people are questioning it. So my question is: how do you explain this good track record in view of the fact that the net book value of this fund has consistently dropped? In fact, Professor Mumey says that in his opinion it's worth \$9 billion.

MR. KLEIN: Where does he get that?

MR. DALLA-LONGA: Through his analysis. I wasn't with him when he did it, but through his analysis of the information. Such as it may be, it's available.

MR. KLEIN: Well, maybe he's using his own special brand of accounting, because there are probably others who would differ with his.

MR. DALLA-LONGA: I don't think it's accounting involved. It's identifying the assets and identifying the liabilities and what the market value of those assets is.

MR. KLEIN: Isn't that how you achieve a balance sheet?

MR. DALLA-LONGA: Well, that's not accounting, sir. That's a valuation.

MR. KLEIN: Well, what is it? I used to teach it, and we called it accounting.

MR. DALLA-LONGA: Let's not get caught up in semantics. My point is: how do you explain the drop in the value? In fact, a professional has said the value is even less than what the Auditor says it is.

MR. KLEIN: Well, I think that again is subject to examination and to validation. When you talk about the drop in value, you have to look at the money that was spent to achieve certain things through capital works.

MR. DALLA-LONGA: Yeah, but we'd buy an outhouse, and we'd still put it in as an asset; we'd buy a picnic table, and it's still showing up as an asset.

I acknowledge the fact there are certain programs in which there is an expense which is . . .

MR. KLEIN: I would love to be able to do that. I mean, that would certainly give us a much brighter picture. But let's face it. These are public works that have been undertaken for the good of the public; right? They are not assets that you can simply sell. Certainly they have a value.

MR. DALLA-LONGA: The point is that we're showing such a great rate of return, yet the fund value keeps dropping. We're talking about how well we've invested our money, yet the fund value keeps dropping.

MR. McPHERSON: Mr. Chairman, there are two things happening. All of the income is transferred out of the fund, so there is no income left in the fund to add to the value of the fund. Secondly, the way the fund is accounted for, the spending on capital projects is a reduction in the value of the fund. The only reason that the balance sheet of the fund actually declines in accounting terms is because of the spending under the capital projects division.

MR. DALLA-LONGA: You're saying that some of the projects, such as some of these parks, do not show up as assets.

MR. McPHERSON: That's exactly right.

MR. DALLA-LONGA: Okay.

MR. KLEIN: It would be nice if they could. I mean, it would create a much brighter picture.

MR. CHAIRMAN: Second sup.

MR. DALLA-LONGA: Second sup? [interjection]

MR. CHAIRMAN: I know. I'm easy on this, but he's been away.

MR. DALLA-LONGA: I thought it was first sup.

MR. CHAIRMAN: No. You told me you had a potpourri of six things.

MR. DALLA-LONGA: I thought it was my first sup.

MR. CHAIRMAN: No, it's not. You're on your second sup.

MR. DALLA-LONGA: Moving over to Vencap now, I guess I would like to ask the Premier if he could tell us in his own words what he thinks the purpose of Vencap is today as it relates to Alberta. What is its purpose?

MR. KLEIN: Well, its purpose -- and I just don't have its mandate or its terms of reference in front of me -- is generally to seek out opportunities for venture capital investments. There are some very good examples of Vencap dollars at work. I had the opportunity of visiting a plant in Calgary not so long ago, Mike Cicaglione, his tortilla manufacturing plant, the corn chips. Excellent; just a very, very smart investment for that company. It's one of the most popular brands in Canada.

I just don't know how many investment portfolios they have there, but my understanding of the company is to spur on economic growth in this province through venture capital investments.

MR. CHAIRMAN: Thank you, sir.

MR. KLEIN: I'd be pleased to have your understanding of what Vencap is all about.

MR. CHAIRMAN: That'll be another time.
Don Massey.

DR. MASSEY: Thank you, Mr. Chairman. Mr. Premier, the costs for administering the fund are . . .

MR. KLEIN: El Molino. That's the name of the . . .

MR. CHAIRMAN: Order please.
Don Massey.

DR. MASSEY: Thank you, Mr. Chairman. The costs of administering the fund were about a million dollars. I wonder: what do those administration costs include? What is factored into those costs?

MR. McPHERSON: Mr. Chairman, I think the hon. member is referring to page 46 of the annual report. It shows the other administrative expenses estimated and charged to the fund. These are salaries that would be incurred in the Treasury Department, incurred in some other departments of government that have responsibilities related to the fund. All of those kinds of associated costs are actually attributed. There are no direct employees of the heritage fund, but salaries and other expenses that might be incurred are estimated and charged to the fund.

DR. MASSEY: So in fact departmental salaries are factored in and appear as part of these administration costs. Maybe, then, you've answered my next question. Are they being subjected to the same cutting that other departments are?

MR. McPHERSON: I think, Mr. Chairman, the point here is that there is not a separate, identifiable staff for the heritage fund that is going to be subject to the cuts, but wherever they are, they'll be subject to the three-year business plan outcome for the various organizations and Treasury that they are involved in.

DR. MASSEY: Thank you, Mr. Chairman.

MR. CHAIRMAN: Were you finished, Don?
Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Premier, my question is really through you to Allister McPherson, a consummate professional. I would run in to him in different incarnations when I was at the university.

The question really is for information purposes: mine. I'd like to understand how this works. If you look on page 49 of the annual report, footnote (a), and page 55 of the annual report, footnote (b) -- and this was an issue that was broached with the Provincial Treasurer. This I have to commend the government for actually. Because of the financial accounting changes that they've undertaken, we actually know that this exists, and I don't think the committee knew previously that, in fact, such operations were undertaken by the heritage savings trust fund and the investment committee. This is the securities lendings operations. It's footnote material, but it's clear when you look at the magnitude of those numbers that there are big dollars out there. We as a committee don't know how that works: who the dealers are, what their profits are, how they're chosen, what risk the province is exposed to. I was wondering if you could tell the committee the structure of those operations, the risk, and how the dealers are chosen. Is it competitive bidding? Is it tender? That's my question.

11:35

MR. McPHERSON: Mr. Chairman, I think the Provincial Treasurer has answered some of the questions or is about to answer some of the questions. The basics here are as follows. The heritage fund as an owner of a particular security or portfolio of securities has the opportunity from time to time to actually lend that security to an investment dealer who presumably may have sold the security to a buyer. In doing that, the investment dealer lodges the security with the fund, likely short-term treasury bills or short-term government of Canada bonds that in value would exceed the value of the actual security that has been loaned to the investment dealer. In the meantime, the fund would receive all of the income that would normally flow to the owner of the security that has been lent, plus a fee would be paid to the fund by the investment dealer for having borrowed, if you like, that security that they then want to or may have already sold to somebody else. Then at the end of the contract, which might be a day or a few days, they return the security borrowed to the fund. So it's a way of earning additional fees and revenue for the fund.

We judge the risk to be extremely low, because security is lodged back with the fund, which on a market value basis would exceed the value of the security that has been loaned. So we think the risk is extremely low. This is a practice that, I think, most institutional investors, if you like, would participate in. The fund responds to opportunities. You don't say at 8 o'clock in the morning, "We have this portfolio; give us tenders." You have to respond to the opportunities and the needs that come to you. Clearly, the fund doesn't know what opportunities go to other funds. So it's within general guidelines that are established. The fees for this, which represent income to the heritage fund, are essentially on a negotiated basis.

DR. PERCY: Could you tell the committee what in fact the income was from those arrangements in the fiscal year under consideration?

MR. McPHERSON: I think we could provide that information. I don't have it at my fingertips, but I'm sure we could provide it.

DR. PERCY: A final question then. This certainly is an operation, and you would think it yields revenue. I mean, it's clear when you look at the footnote material that the assets in question exceed the potential losses for those securities. I would think, then, it just deserves more information, because it does illustrate the efficiency of the operation, that in fact it is responsive. To tuck it away in a footnote like that just doesn't convey the nature of the operation at all. As I say, on one hand the department deserves to be commended for actually starting to release such information. On the other hand, why stop with that little amount? Why not just tell us the total amount and provide a little more detail in the report of the heritage savings trust fund? We hope that in subsequent reports that would be provided in much greater detail.

Thank you.

MR. CHAIRMAN: Grant Mitchell.

MR. MITCHELL: The Premier said earlier that \$14.3 billion has been transferred from the heritage trust fund to the GRF since 1982. I'd just like to point out to him that probably in the order of \$7 billion of that was from Crown corporations, which can only pay their interest because the general revenue fund took \$7 billion and gave it to them so they could pay it to the heritage trust fund. So in fact the return hasn't been as big as he believes it is, and I would be concerned that he thinks he's actually earned \$14.3 billion from the fund.

My first question is concerning cash and marketable securities. The government emphasizes the strength of the fund by showing its liquidity, \$2.3 billion in short-term money market securities; \$1.7 billion of that is loaned to the province of Alberta itself. I wonder whether the Premier could tell us exactly what he used that \$1.7 billion for that he got from the heritage trust fund.

MR. KLEIN: Well, it's like all the investment revenue. It goes into the GRF.

MR. MITCHELL: It's not investment revenue. That would concern me, of course. It's a loan from the fund. So if he thinks it's revenue . . .

Anyway, could he tell us what exactly the interest rate is that he is paying the heritage trust fund on that \$1.7 billion, short term?

MR. KLEIN: I would assume that it's the going rate. I don't know. Is there anything to the contrary?

MR. MITCHELL: I wonder whether he could write to me and specify what that rate might be. Thanks.

My third question. When I look at this document, the annual report, nowhere does it say what the return is on the short-term money market securities, what the return is on bonds, coupons, mortgage-backed securities, mid-term money market. Nowhere does it say what the return is on many of these kinds of investments. I wonder whether the Premier could provide us with a schedule indicating the return on those kinds of investments and commit to ensuring that that return is specified in this report and in the various reports that we receive about the fund.

MR. KLEIN: I would suggest that you could do this two ways. You can write to me and I'll pass it on to the Treasurer, or you could do it as a motion for a return when the House goes in.

MR. MITCHELL: I thought everybody read *Hansard*. I'm asking, and if this is official . . .

MR. KLEIN: Okay, fine. We'll try and get you the information, but, God, I just don't know how many instruments we have out there. How many? Hundreds of thousands, and you want to know the amount that each and every individual, single instrument is earning?

MR. MITCHELL: No. I mean, I'd take some categorization. You must have a printout. I'd like to see it. I mean, you don't know? Are you saying that you don't have it listed somewhere?

MR. KLEIN: Do you want sort of an average of what we would get on bonds, an average of . . .

MR. MITCHELL: No. I'd actually like to see it instrument by instrument. That's what I'd like to see. I'm sure you've got a printout somewhere in the bowels of the bureaucracy, which you want to sustain.

MR. CHAIRMAN: Okay. We've had the question; we've had the answer.

MR. KLEIN: Well, he didn't get the answer, but the answer is going to take -- it all depends on how much paper he wants to generate.

MR. CHAIRMAN: I'd suggest you might want to have him put it in writing.

MR. MITCHELL: Well, if we didn't have it, we probably wouldn't have to worry about it -- see? -- and save all that trouble.

MR. CHAIRMAN: Okay.
Sine Chadi.

MR. CHADI: Thank you. Mr. Premier, I'm going to walk you through page 49 of the annual report and in particular the promissory note to the province of Alberta that my colleague Grant Mitchell alluded to. That amounts to \$1,727,000,000. My colleague asked: what rate of return does the province pay on this promissory note? It would then mean that if you couldn't supply us with that number, you were going to get us that number. Is that correct?

MR. KLEIN: No. I said that I assumed it was the going rate.

MR. McPHERSON: I could answer that.

MR. KLEIN: Right. Allister.

MR. McPHERSON: Mr. Chairman, the title is actually "promissory notes," which implies that there was more than one, obviously. I can confirm that there are many, and these are issued from time to time. The interest rate that is on each note is the market interest rate at that time for the particular maturity that might be involved.

MR. CHADI: So you're telling me, then, that the province of Alberta indeed pays a rate of return to the heritage savings trust fund and the heritage savings trust fund then takes some of that money and puts it back in the GRF. So this circular accounting is now on \$1.7 billion. It would appear to me that it would make far more

sense -- if you're going to start looking at giving us a true and accurate picture here, why don't you just use your creative accounting to write that off so that the province doesn't have to continue wasting money and paying the interest and then putting that money back into general revenue and creating a false sense of security here?

MR. McPHERSON: Mr. Chairman, the consolidated budget does exactly that. The impact of that transaction on the province's consolidated budget is obviously zero because the interest expense is on one side and the offsetting revenue is on the other. Also, the impact on the net debt of the province -- obviously those transactions are wiped out in terms of the consolidated financial statements. The issue here is whether you would rather have the province issue that note to a third party to raise the cash to fund the general revenue fund and buy, say, an Ontario Hydro treasury bill.

11:45

MR. MITCHELL: No. We'd rather fold it into the fund, do away with it.

MR. CHADI: It makes more sense.

MR. CHAIRMAN: Sine, you're on your second supplementary.

MR. CHADI: Okay. It would appear that you're creating a terrible bureaucracy here to do this sort of accounting. Does it not make any sense whatsoever to just do away with that and put those funds directly towards the debt, say, or towards the general revenue fund rather than go through this circular accounting nonsense?

MR. KLEIN: Just to answer your question, I think there is an assumption that this has created a huge bureaucracy. That indeed is not true. There's very little involved from an administrative point of view relative to this.

In answer to your second question, I guess I can simply answer this the way I did initially. It's to really have the review committee look at it rather than make those fundamental policy changes at this time.

MR. CHAIRMAN: Thank you.
Mike.

DR. PERCY: I have a question; it's a hand off.

MR. CHAIRMAN: Fair enough.

DR. PERCY: Thank you, Mr. Chairman. Mr. Premier, in one of your earlier responses you alluded to the business plans that are forthcoming and that will be coming out with the budget. My question relates to the structure of these business plans, because obviously they're an important tool for planning and for allocating resources.

MR. CHAIRMAN: Can you make the connection?

DR. PERCY: Yes. It's related to the heritage savings trust fund and the nature of the cuts that are being imposed on the civil service, and the civil service is connected to the management of the fund. My question now is: with those business plans are there performance indicators that will be set out, for example, for the managers of the fund, that this is the rate of return we expect, this is the asset value, so there will be quantifiable objectives set out, not just that we want to be efficient, we want more money, but benchmarks that we can measure performance by?

MR. KLEIN: Precisely.

DR. PERCY: That's reassuring, Mr. Premier.

MR. KLEIN: Well, it'd better be.

DR. PERCY: Along those lines, then, again from the perspective of the committee: will those business plans be part of the budget itself, or will they be issued separately?

MR. KLEIN: It's planned that they would come down about the same time as the budget because they are related documents, but certainly they deal with the operations of the departments in more of a global sense over the next three years. So they aren't part of the documents, because the budget of course refers to this fiscal year. They'll be tabled about the same time. That just happens to be coincidental with the timing of the budget. That's when the plans will all be ready.

DR. PERCY: The reason I ask is that, again in light of trying to assess performance, one would hope that if you have benchmark indicators, performance indicators, that gives you an explicit criteria to judge the efficiency and effectiveness by which funds are being allocated and what's expected of those funds. So one would hope then -- again, it's just in this narrow context of the heritage savings trust fund -- that they would be part and parcel of the budget process so that when the estimates are debated, one knows the bang for the buck.

MR. KLEIN: Well, I hope that we could achieve that.

MR. MacNICHOL: Mr. Chairman, we're certainly working towards that. That's been part of the business plan exercise. Before standing policy committees we've talked about this. As a public servant we are doing our best to provide that information, and over time we'll be there.

MR. CHAIRMAN: Thank you.
Grant.

MR. MITCHELL: Thank you, Mr. Chairman. I wonder whether the Premier, having told us that \$14.3 billion has been transferred from the fund to the general revenue fund over X number of years, could tell us how much the Crown corporations which the fund has invested in have lost over that same period of time so that the general revenue fund had to subsidize it.

MR. KLEIN: Well, first of all, let's make it quite clear. I'm quoting from the annual report, 14.3. It's on the record, so it's not my figure. I didn't just pick this out of the air.

The second part of your question was?

MR. MITCHELL: Well, could he please tell us, given that he knows that, how much the Crown corporations, the four or five, I think, that at one point they've invested in, have lost prior to general revenue fund grants to give them the money to pay the interest?

MR. KLEIN: Right. It's in public accounts.

MR. MITCHELL: I wonder if you know that.

MR. KLEIN: I just don't know. No.

MR. MITCHELL: The Premier says that the administration cost of these various internal loans isn't very much, indicating he must

know. If he knows that, he must know what it is. Could he please tell us what it is: lawyers' fees, accountants' fees, bureaucracy, red tape?

MR. KLEIN: Could you maybe take the hon. member through what's involved in administering these?

MR. McPHERSON: Mr. Chairman, to my recollection there are no legal fees involved or any significant out-of-pocket costs in that sense. Whether there's one person-year of effort -- I don't think it would be even that much, frankly, in terms of the transactions, because it's all automated. If the notes weren't issued to the heritage fund, they were probably issued to the marketplace, which involves the same kind of effort.

MR. MITCHELL: The Premier made the commitment that in fact objectives are set for the managers of the fund. I wonder whether the Premier could make the commitment that the committee would see what these objectives are and whether the committee would be given comparisons between the objectives: the achievement by the fund managers and the level of achievement by similar funds in the private sector each year.

MR. KLEIN: Well, I don't think it's up to me to make that commitment right now, because I doubt very much whether I'm going to be part of the committee. Certainly if the committee feels it needs that information, there'd be nothing wrong with the committee asking for it.

MR. MITCHELL: I'm asking.

MR. KLEIN: Well, you don't even know if you're on the committee yet.

MR. MITCHELL: This committee. I'm asking as a member of this committee.

MR. KLEIN: Oh, you're asking this committee.

MR. MITCHELL: Yes.

MR. CHAIRMAN: And he's given his answer.
Sine.

MR. CHADI: Thank you, Mr. Chairman. Mr. Premier, I'm wondering if there were corporations that have borrowed from the heritage savings trust fund or have been given money from the heritage savings trust fund that owe the heritage savings trust fund, that have approached the government, your office perhaps or your staff, as to whether or not they would be interested in paying off the amount owing. The reason I mention that is because if Vencap has indeed made some noises and has come forward, have there been others, given the fact of course that there were write-downs within the fund itself pertaining to each one of those securities?

MR. KLEIN: No. I am not aware of any. Other than Vencap I am not aware of any companies that have made such overtures. Are you, Allister? No.

MR. CHADI: There has been over the time that I've been a member of the Legislature talk that when assets are sold, the funds will perhaps go and be applied towards the debt, and I agree with that strongly. In certain cases they haven't. In the case of Vencap, Mr.

Premier, if indeed a deal does transpire, will you commit that these funds will go towards paying off debt?

11:55

MR. KLEIN: Well, yes, the profit, any additional funds.

MR. CHADI: Yes?

MR. KLEIN: Yeah.

MR. CHADI: Good. Thank you, sir. That's it.

MR. CHAIRMAN: Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Premier, I want to pursue this line regarding the business plans and the role of the heritage savings trust fund committee. Certainly I think it's laudable to set up these quantifiable benchmarks, and I understand the need, on one hand, for public secrecy and, on the other hand, setting targets; that is, not setting out anything that is sensitive budget material. Would it not make sense, then, to bring forward those benchmarks that you would use to assess the performance of the managers of the heritage savings trust fund to this committee just for discussion and relevance, for their input into the budget process prior to the budget?

MR. CHAIRMAN: Mr. Premier, before you answer -- and you can answer -- I just wanted to make the point as the chairman of this committee that the understanding that I have of our mandate is to review the 1992-93 annual report and then talk about the uses of the particular fund as to how that might happen in the future. I'm not aware that this committee at this point has asked for or been given any sort of jurisdiction into three-year business plans.

MR. KLEIN: Thank you, Mr. Chairman. You've answered much the same way I would have answered. I just don't know what the authority for that is, but I guess this committee can really ask for anything it wants, and that could be communicated. You see, as I understand it, this is the Standing Committee on the Alberta Heritage Savings Trust Fund Act -- right? -- and it is the duty of this committee to examine various members of Executive Council relative to whether the investment decisions have been proper. There has never been a question nor do we ever get into discussions in the investment committee relative to the people in Mr. McPherson's department who administer the fund. We assume that they're doing their job, and they provide us with good and reasonable advice.

MR. McPHERSON: It's been delegated. That activity has been delegated.

MR. KLEIN: I guess the best thing I could do here is to discuss that with the Treasurer and then see if he would like to have this particular official appear before this committee. I just don't know where the authority is. I do know that we rejected out of hand a recommendation of the Auditor General -- it was the one recommendation that was rejected -- to have officials of various departments appear in the absence of ministers to answer questions from select special committees. We said no. We feel that that is the responsibility of the minister and that the resource people can be here.

MR. MacNICHOL: Mr. Chairman, in developing the budget, as Mr. Percy knows, we have to be very careful in how we go about that.

It's coming out loud and clear in all the business plans about targets and benchmarks and all these things, so that's on our agenda. As far as talking about next year's budget, it's very difficult.

DR. PERCY: My supplemental. The question I had posed is that you have a select committee that is in place to assess, as my colleague behind has said, past performance, and it would make sense, then, just to ask the committee if this is an appropriate benchmark. Is this a rate of return that's realistic? Just what are the benchmarks? It is in a sense the mandate of the committee to assess past performance, but it might be useful to draw upon that committee to assess reasonable benchmarks, because those benchmarks will determine the performance that the members of the committee will be looking at subsequently should the fund continue to exist or this committee continue to exist. So in a sense it's a nonpartisan issue, and it's not related to budget secrecy per se, because what you expect in terms of performance isn't this discussion of the allocation of funds. So I would with respect suggest that it perhaps is something the committee should look at. I would with respect put it forward and say why not just ask us if these are reasonable benchmarks to assess performance.

MR. CHAIRMAN: Do you want a second supplement?

DR. PERCY: Well, I'll wait for the answer.

MR. KLEIN: Well, is that a motion?

MR. CHAIRMAN: I don't know if you asked a question. You've made a recommendation, which we're noting.

DR. PERCY: Oh, right. Then I would just say: would you commit to doing that prior to the budget?

MR. KLEIN: Well, I would commit to discussing this with the Provincial Treasurer, but I would want to make sure that if this is going to be discussed or if the committee is going to question officials, the minister be here as well.

DR. PERCY: My final supplemental, then, is that it's not really a question of talking to the officials per se but just the minister or whoever would bring forward the numbers of the benchmarks. It would be a discussion by the committee as to whether they are realistic benchmarks in light of the mandate of the committee.

MR. KLEIN: As it relates to the administration of the heritage savings trust fund.

DR. PERCY: Yes.

MR. KLEIN: Right. Only.

DR. PERCY: The targets set towards that. I would agree, because the rest would be budget material.

MR. KLEIN: Okay. If I can get a note on that.

MR. CHAIRMAN: Okay. Thank you.
Jon Havelock.

MR. HAVELOCK: Mr. Chairman, just on that point. If Dr. Percy wishes to extend the authority of this committee, then I think the appropriate avenue is for us to vote on a recommendation of that nature, and if it so passes, then the Premier and the relevant people

will consider it. But at this time to be asking the Premier whether he would commit to doing this or that when this committee doesn't even have the authority to ask for it quite frankly is inappropriate.

[The committee adjourned at 12:05 p.m.]

MR. KLEIN: Thank you, Mr. Havelock, for that, because that was exactly what I was going to suggest: that it should be a recommendation of the committee.

MR. CHADI: I just want to ask this very simple question.

MR. CHAIRMAN: For the interest of everyone here in the House, we called order at 10:05, so we will adjourn at 12:05.

Proceed with your question.

MR. CHADI: This morning we were talking about different sales of assets within the heritage savings trust fund and the fact that the disposition of the remaining assets will be held until such time as a review committee has taken a look at what we ought to be doing with the assets and the fund. The words that you used, Mr. Premier, were: we had a window of opportunity; that window of opportunity was there and it was an opportunity for us to maximize on our profits and our potential. Speaking about Vencap, if we are in a position to make a deal or to begin negotiating, are we going to be able to do that because we have a window of opportunity here now? Or do we wait until the review committee has completed its . . .

MR. KLEIN: This is entirely different. Vencap was given \$200 million out of the fund -- right? -- as seed money. All we're saying is that there should be a return of some portion of that to the government; right? So that would be just something that should have been done and hopefully will be done in the normal course of business.

MR. CHADI: Don't get me wrong. I advocate . . .

MR. KLEIN: This is not selling off Vencap.

MR. CHADI: No, no. I'm not saying sell off Vencap. It's redeeming our investment or a portion of our investment in there.

MR. KLEIN: Right, a portion of our investment. That's right.

MR. CHADI: If we do have this window that is there, are we going to wait for the financial review committee?

MR. KLEIN: Oh, no.

MR. CHADI: Or shall we just proceed like I think we ought to? We ought to just get right in there and negotiate and get this over with, bring in some revenue, pay down some debt.

MR. KLEIN: I agree. That's what we should do.

MR. CHAIRMAN: Okay. I heard two questions in there and two answers. We're at . . .

MR. KLEIN: Well, no. The question is right. Yes, I agree that we should proceed as quickly as possible to negotiate with Vencap some money coming back to the government.

MR. CHAIRMAN: Motion to adjourn? Bonnie Laing. All in favour?

Thank you, Mr. Premier.