Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:04 a.m.
[Chairman: Mr. Dunford]

MR. CHAIRMAN: All right. I'd like to call the meeting to order at 10:04 a.m. Is there any member that would like to read a recommendation into the record?

Not seeing any, then I'd like to welcome our guests. The procedure that we will work with, sir, is that we would ask you to make an opening statement, but we would hope you would confine it to 10 or 15 minutes. At that time, then, we will begin the questioning. We will begin with opposition members, and then we'll just rotate opposition to government members and back. Each member, when it's their turn, has the opportunity for a main question and two supplementaries, but your chairman is quite lax, as a matter of fact.

MR. WHITE: Lenient, not lax.

MR. CHAIRMAN: Oh, lenient. Okay. The chairman is not lax; the chairman is lenient in the sense that if the supplementaries do not bear any resemblance to the original, we'd still ask you to proceed with your answer.

The only thing, though, that I might indicate is that, again, I try to provide as much latitude as I can, but if a question by any member has clearly strayed beyond the report that we're here to discuss, I may call them to order. If somehow I have not seen the nonconnection to the report and you wish to have me make a ruling, I'll be glad to of course do that.

Now, just quickly for the folks in the gallery, clearly members are not sitting in their designated spots. This is not a requirement during committee meetings. You are observing, if you don't know already, a meeting of the standing committee of the heritage savings trust fund, and we have with us today the Acting Auditor General.

So, sir, if you would begin by introducing the people that are with you and begin your statement, we would appreciate it.

MR. WINGATE: Thank you, Mr. Chairman. Today I've got with me Jim Hug, Assistant Auditor General, and Suzanne Nickerson, director of audits, both responsible for investments and the Alberta heritage savings trust fund audit.

I'd first like to say that the audit of the Alberta heritage savings trust fund went very well. We had full co-operation and were able to express a clean opinion. My audit opinion on the financial statements says that they

> present fairly, in all material respects, the financial position of the Fund as at March 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The audit paid particular attention to the valuation of investments, particularly those that are not publicly traded. For example, the valuation of Al-Pac, Millar Western, Ridley Grain, Lloydminster biprovincial upgrader, Vencap, and the debentures held in the Canada division were given close attention.

Cash and marketable investments make up most of the remaining investments in the fund. As these are publicly traded, the valuation is not a problem unless extensive testing in this area is acceptable. Further, significant efficiencies are realized in auditing these areas by testing and placing reliance on the systems of internal control that exist.

As you'll see from the financial statements, the net investment income in 1994 was $319 million more than in 1993. The main reason for this increase was the $273 million gain on the sale of Alberta Energy Company shares. Another reason is that write-downs of investments were $164 million less in 1994 than in the preceding year. The difference between the total of those two factors, amounting to $437 million, and the $319 million, that I mentioned first, is largely due to lower interest rates for the year ended March 31, '94. The net assets of the fund were reduced by $71 million due to expenditures of the capital projects division, the major portion of which was for agriculture and economic development.

As in the prior year, the entire net income for the year was transferred to the general revenue fund. Net income is of course the total investment income net of any write-downs and administration expenses of the fund. The '93-94 Alberta heritage savings trust fund annual report provides on page 26 information relating to investment performance. On page 28 there is a comparison of actual income with budget. The presentation of this sort of information in the annual report goes a long way to supporting public accountability.

The Auditor General's annual report that I released last month discusses the question of public accountability at length. One of the things we suggested was that if a performance measure in an annual report is useful on a continuing basis and is auditable, it would be worth while to consider moving the information into the financial statements. The advantage of moving performance information into the financial statements is that it would then be covered by the audit opinion; in other words, the performance information would be audited.

We're working with Treasury at the moment to see whether the performance information provided can be improved. For example, in this year's Auditor General's report we suggested that it would be useful to know the dollar affect of the variances between average market rates of return, or profit, and actual. We also suggested that investment objectives be established in relation to the market. The investment objective for the $6 billion of cash and marketable securities is to yield a commercial return, or profit. We are suggesting that the return be defined in terms of the market average. For example, the objective could be to outperform average market rates by a return of, say, 5 percent. In this example, if the one-year average market rate of return for short-term securities was, say, 4.5 percent, then the performance objective could be 5 percent higher, at 4.725 percent. In other words, the objective would be to earn a rate of return of 4.725 percent.

Obviously the intention behind managing an investment portfolio is to outperform the average market performance. To outperform the average might sound easy, but it's obviously not. I read recently that 74 percent of some 2,700 U.S. equity managers scanned by Chicago-based performance analytics were unable to beat Standard and Poor's 500 index over the last 10-year period, which is a very interesting fact.

With those opening remarks, Mr. Chairman, I would be pleased to answer the specific questions of committee members.

MR. CHAIRMAN: Thank you.
We'll begin with Lance White.

MR. WHITE: Sir, the administration of these funds. It's always difficult to gather an accurate picture of the cost input of managing, particularly when there are, at my count the last time, seven different departments that in a major way have some management input into these funds. How does one ensure and how have you ensured that the accounting of the cost inputs have been accurately recorded?

MR. WINGATE: Yes. You raise an interesting question. I mean, the administrative expenses on page 48 of the annual report are shown to be $835,000, and that's a significant reduction from last year, which was at $944,000. It's cross-referred to note 3, but when you go to note 3, you discover that there's a significant reduction from $172,000 to $86,000 in the current year of expenses paid directly from the fund pursuant to section 11(1). Now, I understand that that's due to a reduction in the number of consultant's reports which were prepared in the current year as opposed to the preceding year.

The main body of the expenditure is the other block at $749,000, and that represents staff salary allocations from Treasury and, as you say, from a number of departments. That is the best estimate of the salaries and wages that were consumed in managing the fund. Now, I think your question probably is more concerned with getting a handle on the effectiveness of that expenditure, and at the moment all we're doing, I think, is reporting our best estimate of the resources consumed in providing that management expertise.

10:14

MR. WHITE: Further to that same point, do you have differences of opinion with these departments? When you do audit those sections, recognizing that this past year you've spent a great deal of time on some other areas, this area has had some significant change from years gone by, and these changes obviously not inflated but moved up the performance by moving down the expenses. Do you question these departments? Do you actually find that there in fact have been reductions in staff costs? You have gone right through and looked and said, "Yes, there are reductions in fact in the consultancies." I mean, you say consultancies, but is it?

MR. WINGATE: Right. This really is an allocation of the salary expense of various departments within Treasury, and what we'd do is we'd make sure that those allocations seemed reasonable. In other words, the total salaries and wages paid within an area, we would establish that what's been allocated was a reasonable allocation to this fund, but our audit procedures would go little beyond, I think, that the allocation was reasonable.

Suzanne, do you want to supplement that at all?

MS NICKERSON: Sure. In reference to the heritage savings trust fund the administration expenses are really quite small and wouldn't warrant a lot of work. As Andrew has indicated, we do look at these amounts for reasonableness. We check that the amounts are coming from the sources that they say they're coming from. In addition, we also put an audit opinion on the Treasury revolving fund, which is the source of these expenses. So we audit those in more detail in that fund.

MR. WINGATE: Right. In other words, the base from which these expenses are being drawn is audited extensively. That's what Suzanne's saying.

Our primary audit approach is to assess that the allocation to the heritage savings trust fund is appropriate, reasonable. That's our basic philosophy.

MR. WHITE: I have no further questions, Mr. Chairman. Move on.

MR. CHAIRMAN: Okay.

Before I move to the next question, I would just want to acknowledge that we have some new and youthful visitors in the members' gallery. I would just point out to them that you're witnessing today a standing committee of the Alberta heritage savings trust fund. We're obviously more informal than what we ordinarily would be in the fact that we have jackets off. You will also notice that people are not sitting necessarily in their prescribed seating arrangement here in the House. So if you wish to identify any of these cast of characters, you'll have to do so from their picture. We're certainly glad to welcome you today and hope that you find this interesting.

Okay. Heather Forsyth.

MRS. FORSYTH: Thank you, Mr. Chairman. Sir, in the Auditor General's annual report for '93-94 you recommended that a review of the heritage fund assets be undertaken to determine whether they are being used in the most effective manner in relation to the province's overall financial objectives. By recommending this, are you suggesting that the management of the fund is no longer in line with the original objectives of the fund or that the original objectives of the fund are no longer applicable to the province?

MR. WINGATE: Well, I think the situation we face today is that we've got a savings fund, being the heritage savings trust fund, and we've also got substantial debt on the other side, whereas when the heritage fund was originally formed, that wasn't the case; there wasn't substantial debt on the other side. So we thought it would be appropriate if there was a review of the question of whether there were additional expenses incurred as a result of maintaining both a deposit and a loan. I mean, conceivably there would be extra costs in maintaining both those sides, and maybe it would be cheaper to net the thing off.

It's not the sort of thing that we wanted to recommend, that it just be netted off. I think there are many issues to be borne in mind here. Therefore, a thoroughgoing review, which would involve bodies such as yourself, seems to be a far more appropriate and elegant way of tackling that question. Now, my understanding is that that review is in process. At the moment we've got four Canadian investment dealers who are considering the question of the marketability of the investments and their liquidity and their market value, and that will be used as the basis for deliberations within this committee on the continuing existence of the heritage fund.

MRS. FORSYTH: Thank you.

MR. CHAIRMAN: Okay.

Now I have Don Massey next on my list.

DR. MASSEY: Thank you. Mr. Wingate, one of the problems with the fund is the public confidence in does the fund exist -- I have some constituents who don't believe that it exists -- and what the value of the fund is. I noticed yesterday, I believe it was, that Professor Mumey made his annual calculations and indicated a great discrepancy between what the Provincial Treasurer has indicated the fund is worth and what the department of Treasury thinks it's worth. I know that the Provincial Treasurer doesn't have much faith in professors and academics across the river. He's made that abundantly clear in this Legislature. So I guess my question is: why is there a discrepancy? First of all, do you have confidence in those outside assessments of the fund, the ones in particular made by Mumey?

MR. WINGATE: Right. I haven't seen his latest report. All I've seen is the press commentary, and I know from personal experience that a press commentary can be a long way from the actual facts. [interjections] Well, it's the truth.

Anyway, I think what he's suggesting is that because certain of the investments are investments in the province, then the full $11.9 billion is not justified as being classed as an investment and that therefore a more realistic figure would be $8.5 billion. The trouble is that I have great difficulty identifying his figures, because if I look at the financial statements, under cash and marketable securities some $2.3 billion has been invested in the province, and under the Alberta investment division a further $2.5 billion has been invested in the province. So if he was saying that all investments in the province should be taken out, then it would be a higher figure. It would be something like $4.8 billion. But he doesn't seem to be saying that. He's just selecting one portion of the investment in the province in the amount of $2.1 billion, and I can't reconcile that figure, so I'd have to wait for the report.

Your basic question was: do I agree with his assessment? The answer is, no, I don't agree with his assessment. I think the fact that some of the heritage fund's investments are in provincial debt is quite acceptable. It has got that value. When you put the two together, which is what happens, of course, when you consolidate, then you net the two sides out. That's why it's important to look at the consolidated financial statements rather than the heritage savings trust fund in isolation and the general revenue fund in isolation. It's much more important to look at the consolidated financial statements because at that level the investments and the loans are netted out and you get the net position reflected in the consolidated financial statements. But if you're looking at the investments of the heritage fund in isolation, I see nothing wrong with what's been portrayed here, and that's why we've got a clean audit opinion. I mean, obviously we see nothing wrong with it. If we did see something wrong, we'd have a qualified audit opinion.

10:24

DR. MASSEY: Each year we go through this exercise. If the fund were retained, would it be worth having an outside group make an assessment of what the fund is worth and report back?

MR. WINGATE: Well, I think that's what's happening at this very moment in that we've got four investment analysts appraising the value and the marketability of these investments. I believe you're going to have that report either today or very shortly which will be tackling the question of what the heritage fund is worth.

From my point of view, if you look at page 27 of the annual report -- I'd be very happy, Mr. Chairman, to go down each item on that page and discuss it briefly, if you consider that helpful.

MR. CHAIRMAN: That's up to the . . .

DR. MASSEY: No. I think it's the more general question, because it does get at public confidence in the fund when we have this sort of annual attack on the bookkeeping, and I think people would really like to have some kind of firm indication that says that this is really what it's worth.

MR. WINGATE: Right.

DR. MASSEY: As you say, we may get that, although my question was: if the fund is retained, should that be done on an annual basis rather than just a one-time review?

MR. WINGATE: Yes. Well, I would maintain it's done on an annual basis and it's done by us. I mean, we are independent, and we take great pains to ensure that the values disclosed in the financial statements are realistic. So as far as an independent review of the valuation of the heritage savings trust fund, that's embraced in the audit. I mean, if you want to go off to do that a second time, that's your judgment.

DR. MASSEY: Is that what this committee is doing? They're off doing it a second time. Is there no need for this?

MR. WINGATE: I think they're looking at other questions like the immediate marketability of these things, which is another important question.

DR. MASSEY: Thanks.

MR. STELMACH: Good morning. This morning you made comments about performance measures as they relate to the operation of the fund, and you also made comments in the Auditor General's annual report as to implementation of performance measures. When it comes to investing any part of the fund -- and for performance measures let's say the going market rate today is 5 percent, and that's the goal, and we attain that goal. Is that a reasonable performance, or should we be setting our goal higher than the average market return?

MR. WINGATE: You raise an interesting question. What we're suggesting is that if you use the average market rate of return as the base, then your decision is essentially how much do you want to outperform the average rate of return. In other words, use the average rate of return as the base and express expectations above that. In the example that I used in my opening remarks, I said that maybe 5 percent would be appropriate. Maybe less would be appropriate. Maybe even your expectation is that you do no worse than the average market rate of return.

One of the things I should point out is that your expectations would vary depending on the sort of investment that you're dealing with. Where you're dealing with high-risk investments, you would expect a high rate of return, because that high rate of return is needed to compensate for any losses that you might incur at some future event.

I think the base should be market performance. Now, what's happening at the moment is that there's a comparison with the performance of other investment brokers, but if collectively investment brokers have done something really rather foolish, like invest in foreign debt, which happened several years ago, then collectively you've got poor performance, and you're just a member of that poor performance. So it has disadvantages in just comparing with your peers. If you compare with the market, I think you're a little further ahead of the game.

MR. STELMACH: You just answered my second question, comparison to your peers.

Thank you.

MR. DALLA-LONGA: Good morning.

MR. WINGATE: Good morning.

MR. DALLA-LONGA: I'd like to just maybe continue on along the performance aspect of the fund and ask if you're familiar with the Alaska permanent fund annual report, which offers a useful model for improving on the performance and measurement results. In there . . .

MR. CHAIRMAN: Excuse me. So you're tying that to the performance of this fund?

MR. DALLA-LONGA: Yes. I'm getting there.

MR. CHAIRMAN: Well, is there a reasonable expectation that all of us will be aware of the Alaska fund?

MR. DALLA-LONGA: I was asking.

MR. WHITE: We all are.

MR. CHAIRMAN: The opposition is. Okay. Well, we'll learn from your experience here this morning.

MR. DALLA-LONGA: Anyway, in that report they lay out goals and objectives that the managers are responsible for achieving, and they provide assessment of performance of the fund's holdings against benchmarks, other funds, in comparison with the private sector. Then there's an outlook of what could maybe be expected in the upcoming year, whereas the heritage savings trust fund is sort of limited in its performance reporting. I guess my question is: do you feel that there are any improvements that could be made to the reporting? Because it's difficult for Albertans to take this report and digest it. They'll maybe absorb a newspaper article and say: "Yeah, we're still okay. We're up. We're down. We've achieved a 10.7 percent rate of return." Do you think there are any better ways of presenting the information on the Alberta heritage savings trust fund that would increase Albertans' awareness with regards to its performance?

MR. WINGATE: It's a very important question. This whole question of performance indicators is something that's attracting a lot of attention, and in our office we're putting a lot of effort into encouraging the inclusion of performance indicators. I mean, what is provided on page 26 both in terms of comparison to Scotia-McLeod and on the next page where we've got a comparison of actual income to budget, I think both of those things are important and useful. But your question is: could we improve further on that? I think the answer is that over time I'm sure we can. As I said in my opening remarks, we're working with Treasury to see whether we can improve the performance measures that are included in both the annual report and in the financial statements. I think anything that brings the subject alive and gives the reader a point of reference to what's happening elsewhere is very important, because it's that sort of thing that gives you a realistic appraisal of how you're doing. You can't have a realistic appraisal of your own performance in isolation. There has to be comparison, I think, generally speaking. So, yes, we are working with Treasury to see whether we can improve the thing.

One suggestion we made, if I can just direct your attention to page 26. If you take the annualized returns based on market values of marketable securities -- I'm dealing here with the short-term marketable securities -- you'll notice that, say, under the heading 1 Year the market got a return of 4.7 percent, and we achieved a return of 4.5 percent. Now, one of the things we are saying is that it would be useful to have that expressed in dollar terms. What effect did that .2 percent have in dollar terms? More importantly, what did, say, under 10 Years the .1 percent have? How many dollars are involved there? That, I think, would help to bring the subject alive because there would be some pretty large dollars. If you drop down a line, the 12.4 and the 11.1, for instance, that's quite a significant difference where we've significantly outperformed the market right over a 10-year period. What was the dollar difference as a result of outperforming the market? I think that would be useful. Quite apart from that, I think we were working to look at comparisons with a number of other large investment companies and the way they manage their performance.

10:34

MR. DALLA-LONGA: Maybe this is more in the form of a delayed request, but could I get an undertaking, Mr. Wingate, to have your department look at the Alaska permanent fund -- it seems to have gotten fairly good reviews from Alaskans and from other people who have looked at it -- and maybe report back to this committee your views on it just in the form of a letter to myself or whatever. It's probably more appropriate that everyone get a copy of what your thoughts are on that.

MR. WINGATE: Yes. It seems a very logical thing to do. Yes, I think we've heard of the report. I haven't actually seen a copy of the report, but, yes, I think it would be sensible for us to have a look at it and give you our views.

MR. DALLA-LONGA: I think those are all the questions I had this go-around. Thank you.

MR. CHAIRMAN: Jon Havelock.

MR. HAVELOCK: Thank you, Mr. Chairman. On page 18 of the heritage savings trust fund report -- and I'm referring to the Ridley Grain Ltd. information -- we have interest of $34.3 million which is accrued and capitalized but not recorded on the books. Along those same lines we're also looking at some interest which has accrued and capitalized for Millar Western Pulp Ltd., but again that's not recorded. I guess the question I have is: why wouldn't that interest be recorded and accounted for under the balance sheet under, let's say, accrued interest and accounts receivable?

MR. WINGATE: The answer is somewhat technical. Under generally accepted accounting principles if there's no real prospect of recovering an amount, then there's no point in booking it in the first place. I mean, you could do the alternative, which is to book it and then provide for it, but generally accepted accounting principles say that's not terribly sensible. If there's no real prospect of you recovering it, then it's probably best if you don't book it. The interesting thing here is that the interest being paid does include interest on the amount that hasn't been booked. Sorry; let's try this again. We have interest that was accrued but not booked, right, but Ridley Grain is currently paying interest on that interest that wasn't booked. Are you with me?

MR. HAVELOCK: Yes. You're basically booking interest on an amount which you have no prospect of recovering.

MR. WINGATE: That's it exactly, and we're actually receiving that interest.

MR. HAVELOCK: That's a generally accepted accounting principle: to get interest on something that you don't expect to receive?

MR. WINGATE: I think we're just delighted to receive and book the money.

MR. HAVELOCK: I think that leads me to a follow-up question then. When you're examining various investments in the fund, who makes the determination that the prospect of recovering is minimal and therefore you aren't booking?

MR. WINGATE: That's the responsibility of management in the first instance. The responsibility of auditors, of course, is to come along with an attitude of professional skepticism -- I think is the way they put it -- and challenge management as to whether their assumptions are realistic. It's a debate that has a certain amount of to and fro to it, and coming out of that debate, management and auditors agree on an appropriate course of action. So managers in the first instance but influenced to some extent by the auditors' view of life.

MR. HAVELOCK: Are there other investments in here that you happened to have disagreed with management on and perhaps we should be treating interest or payments in a manner similar to what you've done with these two?

MR. WINGATE: I think what you're asking me is: have we got any outstanding debates with management?

MR. HAVELOCK: Yes.

MR. WINGATE: The answer is no. We're satisfied with the actions of management.

MR. HAVELOCK: Thank you.

MR. CHAIRMAN: Okay. Thank you.

Before we proceed, I notice that in the members' gallery we have some youthful visitors. I want to welcome you here this morning. What you're witnessing is a meeting of the standing committee on the Alberta heritage savings trust fund. We are more informal. You see that we are not required to wear jackets, nor are we required to sit in our designated seats. So I'm afraid you'll have to use your programs, if they've provided you with one, to look at pictures and determine who these various characters on the floor here are. Along the front bench you see this morning the opposition members from the Liberal Party and behind them the government members. We are currently asking questions of the Acting Auditor General. So welcome. We're glad that you could pop in and hope that you find this interesting.

Okay. Ken Nicol.

DR. NICOL: Thank you, Mr. Chairman. Just a couple of questions that deal mostly with the agricultural portfolio and the debentures held through the heritage fund. In the last year we've seen the Alberta Ag Development Corporation merged and now is part of the Ag Financial Services Corporation. There are a lot of rumours that run around that the ag lending component of Ag Financial Services may be on the block for privatization, yet when we look at the aspects of the Ag Financial Services Corporation, the value that's put on that company is much below the debentures held by the heritage fund. How do you kind of justify or balance the potential exposure that we as taxpayers in Alberta may have if Ag Financial Services is rolled off to a private corporation at a value less than our heritage fund debenture?

MR. WINGATE: The loans to the Agriculture Financial Services Corporation are backstopped by the province, by the general revenue fund. So interest and principal repayments are guaranteed by the province, and it's that that justifies the valuation of $949 million that we've got. I think the value of the debenture is largely a product of the interest rate that's being paid. You'll notice that on page 27 the market value is in fact ahead of the book value: $986 million as opposed to $949 million. That's a product of the average interest rate that's currently being paid which is ahead of market interest rates. The fact that that interest rate is supported by the province, by the general revenue fund, justifies that valuation. It would be the general revenue fund's responsibility to make good that loan if something dramatic happened in the way of restructuring the company that you refer to, Alberta Agriculture Financial Services Corporation.

DR. NICOL: As we look at the way the Ag Financial Services Corporation do their land base valuation -- this is moving a little bit from the heritage fund, but still it deals with the value that's there for the heritage fund as an asset -- do you feel that they revalue or appraise their property values in a timely manner and at an appropriate level when they deal with creating an asset to back the debentures that are held by the heritage fund?

MR. WINGATE: I'm not sure that I can answer that question right off the cuff. Let me just turn up the financial statements for the company. Well, your question fundamentally was: are we satisfied that they are reappraising or appraising the value of the land appropriately within the company? I think I'd need notice of that question. The only problem that we had from the audit was this question of interest revenue being booked when we felt that it shouldn't have been booked. So that's the only problem that I'm aware of at this juncture, though perhaps we could take notice of your question and get back to the chairman.

10:44

DR. NICOL: I guess the question kind of derives from the fact that a lot of the mortgages held by what is now the Ag Financial Services Corporation were derived when land prices were much higher. In looking at some of the statements, they aren't writing the value of those mortgages to a reasonable land price. When they put them on their assets now, they're still maintaining them at the value of the land near to what they -- you know, when you look at individual parcels, I know the total package has been written down by AFS, but some of the individual ones haven't.

MR. WINGATE: If you're saying that the security value has diminished and that threatens the value of the mortgage that's been advanced, then as auditors we'd be right on top of that. We'd spot that very quickly and say: the security for those mortgages is being eroded, and we think it appropriate that the mortgage be written down to a value that can be supported by the security and also, presumably, by the lender.

DR. NICOL: Okay. Then I guess from that my question would be: are you satisfied that they have kept that value adequate?

MR. WINGATE: I'm going to answer that question obliquely. We've got a clean audit opinion, so I'm very confident that we have looked at and addressed that question.

MR. CHAIRMAN: All right. Again, just before going to the next questioner, we have some visitors in the members' gallery. Welcome to you today. You're witnessing a committee meeting of the heritage savings trust fund. I'm getting lots of waves. Thank you. You see the Liberal members along the front bench, and then the government members are behind. We are more informal today, as you can see, with our jackets off, and we're not obligated to sit in our own designated seats. Today we have in front of us and we are

questioning the Acting Auditor General. So welcome. We're glad that you dropped in to view our proceedings.
Now, Denis Herard.

MR. HERARD: Thank you.

MR. WINGATE: Mr. Chairman.

MR. CHAIRMAN: Oops. Just a second.

MR. WINGATE: I'm sorry, Mr. Chairman. If I could just go back to that preceding question and supplement it a bit.

MR. CHAIRMAN: Certainly.

MR. WINGATE: In note 8 of the financial statements of the Alberta Agricultural Development Corporation, as it was at March 31, 1994, they have a note headed Property Held for Sale: "Property, consisting mainly of land, has been acquired as a result of foreclosures, quit claims and other actions." The cost of the property was in at $7,584,000, less allowance for losses on realization of $4,416,000, giving an estimated net realizable value of $3,168,000. So some very significant provisions were made on that land. We would have looked at this whole question in assessing whether the mortgage portfolio and the land portfolio were appropriately valued.

MR. CHAIRMAN: Does that lead to a supplement?

DR. NICOL: I have been following a number of those sales across Alberta. When ADC did put up property for sale, most of the time their, quote, appraised value was significantly above what the end sale value was. So I was just questioning whether or not you felt comfortable that when they were listing a property for sale, this appraised value that they put on it I assume has some relationship to their book value that they carry that property as, yet when the auction is finished or the tender is finished, generally the sales value is less. You noticed here a write-down or a discrepancy, and I just wondered if you felt comfortable with their values.

MR. WINGATE: We would look closely at the appraised value. I mean, I'm speculating here, but obviously if you are in the business of selling a property, you don't want to underprice it. Therefore you're likely to end up with an appraised value which is leading the market, and you'd be surprised if you achieved it. So that would explain why there would be a difference between the appraised value and the realized value. That's not to say that that appraised value is the one that we take into account in valuing the property.

MR. CHAIRMAN: Okay. Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. In August of this year the province announced the sale of its interest in the Lloydminster biprovincial upgrader for $32 million. If I look at the '93-94 annual report, there are no comparisons available of the book value or the market value of the investment in the biprovincial upgrader. Why can't that be found in there?

MR. WINGATE: I don't think there is a market value, as such, for the biprovincial upgrader. What we've done is written the value of the property down, as far as the March '94 statements are concerned, to a value that we considered could be supported by the anticipated future cash flows of the project. Now, as you are probably aware, the value of the oil is depressed at the moment, or the differential is depressed at the moment, and in taking a medium-term view, we presumed that that price differential would improve. We anticipated the likely stream of cash flows emanating from that project and then discounted them back to a present value to arrive at what we considered the project was worth. So to that extent, I guess we've come up with a market value except that of course the project was subsequently sold for amounts significantly below that value.

MR. HERARD: Do you feel that the $32 million that the province received for its investment represents a fair market value?

MR. WINGATE: In answering your previous question, I said that in anticipating the future cash flows we presumed that prices for refined oil would improve, but of course at the point of sale that increase hadn't occurred. So if you want to sell now, your lever in saying that we expect prices to improve is not as powerful as if you were prepared to wait. I believe the province wanted to conclude this transaction because of the constant demands for operating capital, fresh injections of operating capital, and I think it was the requirement to conclude the deal rapidly that led to the difference in the price finally paid for our interest. I've done my best with that question.

MR. HERARD: I didn't receive an opinion as to whether or not you felt it was fair.

MR. WINGATE: I think at the time that we signed the statements, we felt that the disclosure provided was appropriate. I mean, the whole question of whether we could have got more perhaps is something that we could look at in the future as auditors, but as far as financial statement disclosure was concerned, the values reported were appropriate in our view.

MR. HERARD: Thank you.

MR. CHAIRMAN: Thank you.
Howard Sapers.

MR. SAPERS: Could we move to Danny for two questions?

MR. DALLA-LONGA: Yeah. I'd like to follow up on this.

MR. CHAIRMAN: Sure. Of course. I'm easy.
Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you, Mr. Chairman, for being so generous and understanding.
Mr. Wingate, I guess I was starting to zero in on this Husky upgrader transaction. I look at the financial statements, and it's still being carried at $75 million. In fact, the province only got $32 million. Back from the old auditing days -- I realize your report says June 6 -- however, you would have known that negotiations were going on for the upgrader. I would have thought that it should have been written down as of this date, particularly in view of the fact that the parties selling it could control the date, if you get what I'm getting at. Would you comment on that please?

10:54

MR. WINGATE: I think that at the time that we were concluding the financial statements, the first point to be made is that they weren't negotiating the sale at that juncture. I mean, we weren't aware that they were negotiating the sale, and I don't think they were close to concluding. I think the approach that we took was a very reasonable one. We did write down the investment significantly. For instance, we wrote off the equity loss, which was the operating losses, at $10.6 million, which I guess is an obvious thing we had to do. We also wrote down the $8.7 million and $8 million that were advanced for operating shortfalls from both heritage and 540540, which gave us a residual value of $74 million. That $74 million was represented in two companies: $18.2 million in 540540 and some $56.1 million in the heritage fund investment in the Lloydminster upgrader. Now, the $56.1 million, when the sale was completed, reduces to $14 million because the first call on the $32 million sale proceeds is repayment to 540540 of $18.2 million, which leaves a residual of $14 million which is then available for the heritage savings trust fund. So the true reduction of value after the year-end was from $56 million to $14 million.

MR. DALLA-LONGA: Well, I don't recall the dollars in the transaction. August 5 was the day that the transaction was announced. However, even the loyal opposition knew that there was something going on with the federal government and the Saskatchewan government sometime prior to August 5, and I'm kind of concerned that we're showing $75 million for the upgrader notwithstanding the year-end financial statements of March 31 when we know we only got $32 million.

MR. WINGATE: Okay. Well, I think you have to go back to the time. I mean, obviously discussions had been held between the Saskatchewan government, for instance, and Husky and ourselves over an extended period of time because every partner in the project knew that they had a substantial problem and something had to be done about it. I don't think that we had any clear indication prior to signing off on the statements that they were close to coming to a resolution of that problem. I mean, a number of things had been negotiated. For instance, this whole question of fresh equity injections and operating shortfalls was a question that was negotiated as a result of discussions between the various parties. So although we were aware that the participants were discussing how they could resolve this significant problem they were facing, I don't think that at the time we were concluding the financial statements we had indications they were close to resolution.

We could have held the financial statements open. I mean, we could have done that, but we decided not to. We decided to go with the best information that we had that was available at the time. It's pretty solid, you know. If you've got a reasonable estimate of the projected cash flows that are likely to be generated by the project and then you discount that back at an appropriate rate, that should be what that project is worth, particularly if you're prepared to hold it for that period of time. In coming up with that estimate of projected cash flows, we considered the optimistic and the pessimistic. We considered a range of possible scenarios and came to the conclusion that a median course of action was the most appropriate, and it was that which gave rise to this valuation of $74 million.

I mean, the fact of the matter is that after the year-end the government decided to sell it for less. But the question that was asked earlier -- was that an unusually depressed price? -- I think is perhaps a valid question. I don't know. It was the price after year-end.

How am I doing?

MR. CHAIRMAN: Well, you're doing fine. You've been asked a question twice, and you've answered it twice.

Do you want to go for a third?

MR. DALLA-LONGA: I'd like to respond to that editorial comment. I did not ask the question twice, and I'm going to ask a question on the same subject a third time.

Mr. Wingate, did you not ever have discussions, because clearly it was out in the papers and stuff that the upgrader may be for sale, with the Provincial Treasurer, and did he not ever allude to the fact that they possibly wouldn't be getting $75 million back?

MR. WINGATE: Yeah, we had discussions at the time with Treasury and Energy. When I say that we had no clear indication that we were close to concluding on this, I mean exactly that. We were aware that discussions were taking place, but we weren't aware that we were close to concluding.

If we'd held the statements open, I mean, for instance, if we'd held them open until today, there's no question that we would have put in the $14 million. I'm sorry; the $56 million. I'll get my figures right in a moment. Just a second. We'd have put in $32 million as opposed to $74 million. I mean, there's no question of that. At the time that we concluded on the financial statements, we weren't privy to that information, and I would submit that that number had not been established at that time. It's as simple as that. What we used as the value was justifiable. I mean, we took considerable pain to come up with a realistic estimate of what the project was worth.

MR. CHAIRMAN: Thank you.

Carol Haley.

MS HALEY: Thank you. Just for clarification purposes on this last question and answer. My understanding of a set of financial statements was that it was to reflect a specific date to another specific date and that something that happened five months later, that ending date, perhaps would be reflected in the following year's financial statements. Am I even close here? Or are we just . . .

MR. WINGATE: Yes, generally that's perfectly correct. If you are aware prior to signing off on the statements that a subsequent event has occurred, you normally reflect that subsequent event in notes to the financial statements if it's material. Yes, essentially you are correct; you're talking about performance in a specific period.

MS HALEY: As part of your functions as Auditor General, do you ever look at a project that the government may have invested in from the point of view of what it does on a beneficial basis for Albertans, or is it strictly on a dollar value that you look at it?

MR. WINGATE: Are we talking in reference to the heritage savings trust fund?

MS HALEY: Yes.

MR. WINGATE: As accountants our primary concern is to ensure that the values disclosed in the financial statements are appropriate. Value for money, you know, the cost and effect of the outputs produced: those are larger questions which I think should be addressed by management. If they're not, you could expect the Auditor General over time to have some comments in that area. Our primary concern is to make sure that the financial statements are fairly presented. A secondary concern is this whole question of value for money. That's our relationship with you as elected officials. Our job is to act as your eyes and ears and identify instances where things could be improved.

MR. CHAIRMAN: Okay.
Howard Sapers.

11:04

MR. SAPERS: Thank you. I appreciate that, Mr. Chairman. Mr. Wingate, perhaps you could explain for me the factors which led to an adjustment in the unamortized discount on the Vencap loan, from $72.9 million as of March 31 last year to $68.3 million as of March 31, 1994.

MR. WINGATE: Just a second. I need to turn that information up.

MR. SAPERS: All right. We could go back to Lloydminster, but I thought maybe you'd like a change.

MR. CHAIRMAN: We'll beat that horse to death.

MR. SAPERS: Yeah. Well, I do have a second set of questions.

MR. WINGATE: This isn't particularly easy to explain, but if you make a loan on concessionary terms, then you value the concession and reduce the loan by the value of that concession. But, of course, ultimately you're going to be paid back what you originally advanced; right? By deducting the concession value, you've reduced the par value of the loan to a lower figure. Over time, in the period as you approach maturity, you'll write that discount back up so that at the conclusion of the period you're dealing with the original value of the loan. That's providing nothing untoward has happened in the intervening period. So what you do is initially write the value of the loan down by the concession, and then over time you write the value of the loan up as the value of the concession evaporates, is consumed, because ultimately the borrower is going to repay exactly what you lent him in the first place. So what you're seeing here is a reduction in the discount, which reflects that a year has passed, and the discount at the end of '94 is not as large as it was at the end of '93.

MR. SAPERS: All right. With that in mind, then I take it that this way of dealing with loan values and concessions is consistent throughout the fund. Could you explain whether the terms and conditions applicable to the fund's investment in the Alberta- Pacific pulp mill project required or did not require a discounting of that loan based on the value of any concessions granted to that company?

MR. WINGATE: There were no concessionary elements there. I could just go back to an earlier comment you made, which is that presumably we're doing this consistently. You don't write a concession back up. You don't reverse a concession again if you feel that there's doubt as to ultimate collectibility. So having booked a concession, you only write it up if you think ultimately you're going to collect it. In other words, in this case the $200 million is ultimately going to be paid. If it was considered that only $150 million was going to be paid, then you'd only write it up to $150 million from its current $131 million.

MR. SAPERS: But your answer to my second question specifically was that there were no concessions for the Alberta-Pacific pulp mill?

MR. WINGATE: Right.

MR. SAPERS: All right.
Going back to Vencap then. Presuming that the government of Alberta and Vencap are to successfully conclude their negotiations relative to an early repayment of that loan at the current carrying rate -- and I believe the current carrying value is $131.6 million -- would there therefore, given your explanation, be a requirement to take a write-down of some $68 million to reflect the loss on the book value, the difference from the $200 million original loan?

MR. HUG: I think the answer to that question depends on the terms of settlement; for example, presently the par value of the loan that is outstanding. In other words, under the terms of the agreement Vencap owes approximately $200 million. Now the question would be: if this is renegotiated, would that par value in any way be renegotiated? Depending on what were to happen in most circumstances, then you would determine whether or not you would have an additional loss to record or some additional income to bring back into the fund at that point in time.

MR. SAPERS: So in this case you're not anticipating this $68 million loss or a further write-down, the difference between the current carrying value and the $200 million par value?

MR. HUG: Not at this point in time, no.

MR. WINGATE: I mean, the expectation is -- and this is reflected in the reduction in the concession -- that the full amount will be paid when it's due.
Another interesting thing we could say is that a payment of $131 million right now is effectively equivalent to the payment of $200 million in 2013. What we're saying is that the future value, because it is in the future, would have to be higher to compensate for the fact that we have to wait for it. So in looking at these sets of figures now, $131,647,000, which is the book value, is equivalent to $200 million in 2013.

MR. CHAIRMAN: Okay. Thank you.
Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman, and welcome to the Acting Auditor General and his staff. On May 11, 1993, the heritage fund shares in Alberta Energy Company were sold for $476.1 million. Are you satisfied that the province received a fair market value for these shares?

MR. WINGATE: Yes. I think the answer to that is, yes, we are.

MRS. LAING: Out of the $476 million, $183 million, which was the book value apparently, was returned to the heritage savings trust fund. Does this amount pay back the full amount owed the fund?

MR. WINGATE: The value of the investment was $183 million, yes. That canceled the book value of the investment.

MRS. LAING: It was all returned to the fund.

MR. WINGATE: Yes.

MRS. LAING: Okay. Thank you.

MR. WHITE: Sir, I direct your attention to page 26, and it's the annualized rates of return on short-term and medium-term investments. Earlier you mentioned that one of the objects of your staff was to display to the public as much as possible the easiest method, to perhaps put it this way, of viewing financial reporting in a manner that is most acceptable by the general public. For this particular table, if one would graph the performance year by year and recognize from the numbers and the spread of the performance versus ScotiaMcLeod or any other indicator, one would clearly notice that in both the short-terms and medium-terms there has been a definite trend. Would that not be wise to graphically report that trend in your reporting?

MR. WINGATE: Are you thinking in terms of the Auditor General's annual report?

MR. WHITE: Yes.

MR. WINGATE: I think that could be used but only as a backstop. We've done that in the past. When, for instance, we felt that the public really needed to get a better understanding of deficits and debt, we included quite a large section in our report dealing with that subject, but it's sort of a last resort thing. Our view is that it would be better if we encouraged management to include it in their own annual reports or in their own financial statements. Your suggestion that these statistics would be assisted if they were presented graphically I think is a valid one. Graphs are, generally speaking, more easily understood by members of the public than tables or figures.

MR. WHITE: The question I ask: in your reporting -- and you say that, yes, we have done that -- of the management, in this particular case would it not be your recommendation that, in further reportings of short-term and medium-term investments, rates of return versus any other standard, perhaps two other standards, would be wise to report graphically? Would you so suggest to them?

11:14

MR. WINGATE: Well, as I said in my opening remarks, we're working with Treasury to try and improve this performance information, and I think that charting graphically is just one of the ways that can be used to improve the ease with which these important facts can be communicated. Certainly, we could specifically undertake to consider the question of graphing and whether that would help. The watchwords, really, of performance reporting are clarity, understandability, relevance, reliability, those sorts of things. I mean, you don't want too many performance measures because then the general public gets swamped with too much detail, and it's very difficult for them to comprehend what's going on. I think it's a demanding process where you have to select the most meaningful measures and present them in the most meaningful fashion. It's not an easy task.

MR. WHITE: I understand that. But the most significant portion of the entire fund and almost all of the liquid part has never been in discussion as to the relative value. It's marginal. The amount of error in reporting it is simply a matter of time because they are marketable. Those particular numbers are so very, very important to the general public, and those are the ones that we hear so very little about. I ask again: will you be asking management to report such in a much more clear manner than is reported currently on pages 26 and 27?

MR. CHAIRMAN: Excuse me, sir. I wonder if we don't possibly have a recommendation here, Lance. Maybe it's the responsibility of this committee to encourage management to do that. I just toss it out.

MR. WHITE: It would be both actually. If you go through the last statements of accountability, clarity, and all that, that speaks exactly to it. I'm just trying to aid and abet here a little.

MR. WINGATE: Mr. Chairman, I can undertake that our office will explore this question with Treasury. It is an important question. Complete agreement.

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

MR. HERARD: Thank you, Mr. Chairman. As I understand it, the province borrows from the cash and marketable securities portfolio as part of its debt management program. Now, in March 1994 the portfolio contained $2.258 billion, which I believe is an increase of $127 million from the previous year. From the perspective of properly managing the fund, is this an appropriate practice for the Alberta government to engage in?

MR. WINGATE: I think it's a logical thing to do. They have cash and marketable securities. They have funds available. On the other hand, they have the demand for cash, so investing in your own demands seems to be quite logical. There's no question that the investments that have been made by heritage have been valued correctly.

You're basically asking a question which is more akin to policy. I think it's the sort of question that MLAs decide rather than Auditors General provide useful advice on. By providing you with assurance that the book value is appropriately defined and that we have no objection to investing in the securities of the province, I think the larger question which you asked is probably something best addressed by Members of the Legislative Assembly and I think is being addressed in the review that you're about to undertake.

MR. HERARD: The returns on investment from these borrowings: are they consistent with what could be earned if those funds were invested elsewhere?

MR. WINGATE: Yes, they are. If you take similar term and risk, then the rate of return is similar across Canada.

MR. HERARD: Thank you.

MR. CHAIRMAN: Okay.
Howard Sapers.

MR. SAPERS: No. I believe it's . . .

MR. CHAIRMAN: He's had his second-round draft pick already. If we have a third round, we'll get to him.

MR. SAPERS: Oh, all right. Thank you, Mr. Chairman.

MR. DALLA-LONGA: Are you not allowing me to ask another question?

MR. CHAIRMAN: Yeah, I'll get to you. I'm just getting you back in your rotation.

MR. SAPERS: All right. Well, I appreciate that, and I know that my colleague has saved me the best for last, so that's fine.

Mr. Wingate, given the government's stated commitment to strategic planning and performance reporting, can you comment as to whether or not you feel it's appropriate that the government prepare and release a three-year business plan on the heritage fund, much as it does with the other departments, if the decision is ultimately made to retain the fund or some portion of the fund?

MR. HUG: I assume, in terms of a plan, that it would be part of the Treasury Department's plan as managers of the fund. I think it appropriate, obviously, since the management of investments is a significant part of their responsibilities, that their three-year plan would cover the management of the investment function. So, yes, I would agree that it's appropriate that it be covered by a three-year plan.

MR. SAPERS: Well, given that, then will you make it one of your recommendations that if the fund or some portion of the fund is retained, such a business plan be a feature of the Treasurer's overall departmental plans and that there will be additional benchmarks and targets utilized, such as those used in private-sector funds, in terms of reporting on the performance of the fund so that business plan can actually be made into something that the real world can appreciate?

MR. HUG: I haven't got the three-year plan in front of me right now, but there is some commentary or reference in the three-year plan now as far as investment activity generally. Certainly to the extent that the heritage fund investments are a significant part of that activity, we would expect to see the three-year plan cover that activity.

MR. SAPERS: As for the benchmarks?

MR. WINGATE: Yeah. If I could supplement that answer, we've already undertaken to work with Treasury with a view to improving the clarity and usefulness of the performance information contained in this annual report and financial statements. Now, if we're successful in that, then it's quite logical that what is used as a performance measure in this be reflected back into the three-year business plan. We're committed, as I said in our opening remarks, to work with Treasury to try and improve the quality of the performance information provided.

MR. SAPERS: In response to an earlier question you mentioned that shortly, perhaps in a day or two, we would be seeing the independent report assessing the value of the fund. I'm curious. Have you in fact seen that report, and if so, when did you get a copy of it?

MR. WINGATE: No, I haven't seen a copy of the report. I don't think it exists at the moment. I think it's expected shortly. I'm not sure that I would necessarily be provided with a copy of that report, except as a courtesy and some time after it's been provided to you.

11:24

MR. CHAIRMAN: Perhaps some clarification for the interest of the members, particularly Howard, and for yourself. I think he may have been quoting me actually. I was asked when I thought the report might be due, and I thought it was due at the end of November and that it would be imminent. I said either today or the next little while.

MR. SAPERS: Clint, have you seen a copy of the report?

MR. CHAIRMAN: No, I have not.

MR. SAPERS: Thanks for that explanation.

MR. CHAIRMAN: Okay.

Okay; Danny Dalla-Longa.

MR. DALLA-LONGA: So they stopped asking questions, did they? Well, let's go back to Husky. Mr. Wingate, you indicated that you did sort of a valuation of the fund's investment in Husky by looking at projected cash flows. I presume you discounted them back to the present. Is that correct?

MR. WINGATE: Yes.

MR. DALLA-LONGA: Presumably the people that bought the project -- i.e., the Saskatchewan government and the federal government -- must have gone through the same sort of analysis, taking into account cash flows, future oil prices, that sort of thing, and discounted it back to the future. They would have done that calculation not very much longer after you would have done it. They wouldn't have looked at bricks and mortar. They would have done this effectively as the present net value calculation. So obviously there has got to be a difference in the way your department did it and the way the two purchasers did it and then got the province to agree to it. Would that mean that you might want to be looking at your calculations in terms of how you do them in the future?

MR. WINGATE: Actually, I don't think there was anything wrong with the way that we set about the task. The main difference is that in projecting the cash flows obviously we were presuming that the project would be held into the medium term and as a result could take advantage of beneficial price movements in oil. I understand that the province wanted out. It didn't want to wait to get out. It wanted out now, and that puts a different perspective on things. It wanted out now because if it didn't terminate its involvement with the Lloydminster upgrader, then it would had to have pumped in further operating cash, and it didn't want to do that. Now, that's my understanding, and I think it's the fact that the province wanted to bring an end to this experience that gave rise to the lower value attributed to the sale. I don't think there was necessarily anything wrong with our projected cash flows or our value associated with projecting those cash flows. I think it was the nature of the negotiations and the political decision that it was important to terminate our involvement with the project quickly.

MR. DALLA-LONGA: So what you're saying then, if I might: the province was selling under duress and got less than they were entitled to.

MR. WINGATE: Well, I don't know that I'd characterize it that way. The point that I made earlier is that if they didn't do that, they were obligated to pump in more money, and they just did not want to do that.

MR. DALLA-LONGA: The costs that were required additional capital costs: why wouldn't you have taken them into account in your calculations?

MR. WINGATE: Well, we did, effectively, by looking at the net cash flows. We did look at the net cash flows.

MR. DALLA-LONGA: I guess . . .

MR. CHAIRMAN: Well, just a minute now. Are we entering into an exchange here about something that we're going to be discussing next year?

MR. DALLA-LONGA: If anyone wants to ask a question, I'll be happy to start on my next turn.

MR. CHAIRMAN: Well, Danny's used up his questions and his two supplementaries. Any further questioners?

MR. HAVELOCK: I just have a question. Is it within the mandate of this committee to actually examine what is going to happen next year?

MR. CHAIRMAN: Well, I mean it's getting to be a delicate point, and he's staying on it. So as the chairman I'm trying to provide him with as much opportunity as I can, but I'm willing to have one more question on this matter, and then we'll proceed.

MR. DALLA-LONGA: As it turns out, I only have one more question.

MR. CHAIRMAN: All right.

MR. DALLA-LONGA: Mr. Wingate, going back to the audit report. The date was June 3, and you said that you could have kept it open. Because you were aware of it, could you not have done a disclosure that said "except for note whatever," and put a note in there that had August 5, that showed the Husky upgrader being written down?

MR. WINGATE: Yes. One of things that you've got to bear in mind is the requirement to issue the consolidated financial statements of the province, and that was achieved before the end of June. That was considered to be very important, and I think it is very important. Frankly, I think it's an achievement for this province to have consolidated financial statements out that early. They were the earliest in Canada, and I think that's the way of the future. I think that sort of performance has got to be achieved.

MR. CHAIRMAN: Okay. Thank you very much.

MR. DALLA-LONGA: I have some more questions.

MR. CHAIRMAN: Pardon me?

MR. DALLA-LONGA: On some other things.

MR. CHAIRMAN: All right, but I saw Howard's hand there.

MR. DALLA-LONGA: We have until 2 o'clock, it's my understanding.

MR. CHAIRMAN: No, we don't. We have until . . .

MR. DALLA-LONGA: Until 12 o'clock. I'm sorry.

MR. CHAIRMAN: I certainly would think that you've been given ample opportunity to discuss the particular mandate, and just noticing the body language that's now being expressed towards the chair, I think you can expect that I'll probably be a little more judicious in the fact that we are working on the mandate.

Howard.

MR. SAPERS: Thank you, Mr. Chairman. [interjection] He wants you to stick to the point, which I thought you did by the way.

MR. CHAIRMAN: That would be nice.

MR. SAPERS: Mr. Wingate, I want to just go back to follow up on an earlier question on administrative expenses and the way that they're reflected in the report. Firstly, could you explain why the heritage annual report does not provide a specific breakdown for administrative expenses by expenditure category, as is now the practice within other government departments and agencies, as opposed to just one line item for the whole amount?

MR. WINGATE: I think the answer that we're likely to receive if we press the point is that the total administrative expenses are not that material, and providing a great deal of detail about something that isn't particularly material might be less than helpful. I think that's what management's view would be. I must be honest and say that I think disclosure in that area could be improved. I think that's something we'll discuss in the preparation of next year's financial statements.

MR. SAPERS: I'm encouraged to hear you say that, particularly in this political climate when the Premier makes a big deal about releasing the salaries of senior administrative people, because I think that it's material in the minds of certainly the taxpayers of the province.

MR. WINGATE: I should stress that there's nothing wrong with the disclosure that is provided. In my opinion it would be improved if there were a little more detail there.

MR. SAPERS: Are you now in a position to be able to provide a breakdown of those administrative expenses, particularly by category, for salaries, benefits, travel, communication, legal fees, audit fees, consulting fees?

MR. WINGATE: I think that if you wanted that analysis, it would most properly be directed as a request to Treasury rather than to the Auditor.

MR. SAPERS: All right.

Are you in a position, with the information that you have, to be able to inform us as to how much of the $1.6 million that's recorded as administrative expenses was incurred as a result of retaining and relying on advice of consultants and what specifically those dollars paid for in terms of consultation and advice?

11:34

MR. WINGATE: The only thing that I know at the moment is that last year there were more consulting reports than this year or the year to March '94, and that was the reason for the reduction in administrative expenses. But further than that, I haven't got that information to hand. Again, I would encourage you to raise that with Treasury.

MR. CHAIRMAN: Okay. Thank you.

Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman. I want to just ask Mr. Wingate, coming back -- some of the questions that we've been hearing this morning are value-based questions. In other words, did we get adequate value? Was this appropriate? I wonder if you could review with us the mandate of yourself as an Auditor, because when you read the Auditor's report, it's quite clear that you are providing assurance that financial statements are free of material misstatement. In other words, are they accurately reported, that the transactions have been accounted for properly? Where does the business of making sure that the facts are correct and value judgments begin?

MR. WINGATE: I think that's always an interesting question. Obviously, our primary concern as attest auditors is to do the work necessary to support the opinion that you've just referred to; in other words, the financial statements present fairly, et cetera. That's our primary responsibility as attest auditors. But as legislative auditors we have a mandate which is a little broader than that, and that entitles us to look at the quality of systems that the government has or government agencies have, whether they're getting the sorts of information that are necessary to influence decision-making, and there's a catchall section as well, which is any other matter which the Auditor General feels should be brought to the attention of the Legislative Assembly. So in addition to dealing with systems designed to improve economy, reduce waste, improve efficiency, and in some respects improve effectiveness, we've got this catchall, which is that if we spot something which we feel would be of interest to MLAs, then it's our obligation to bring it forward.

If we, in the course of our work, came across an instance where we felt significant waste had occurred, I think MLAs would think it our responsibility to bring it to their attention. As a result, we do bring it to your attention, because that's the mandate you provided us with. I think it's our responsibility to in some respects look for waste and inefficiency and, when we spot it, to report it to you.

One of the things we've done is we have concluded that, as a group, MLAs are interested in areas of improvement. I don't think you're necessarily interested in us telling you that we've spent a great deal of time and money looking in an area of systems and we found nothing wrong. I think your interests are best served if we direct our attention to those areas where we suspect that improvements can be made. Generally speaking, that's what we do when we move out of the attest audit mandate.

So there are, as you say, two discrete parts to our mandate. One is expressing attest audit opinions, and the other is what is generally regarded as the value-for-money part of our mandate.

MR. DOERKSEN: One of the reasons that I asked the question is that we've spent some time this morning talking about the sale of our interest in the upgrader. Some of the questions are saying: did we get proper value for the sale? Well, unless it's obviously a sham, how do you get involved in saying that the government should have got more or less? I mean, the marketplace changes from day to day, and you take the best value that you can get on that day and you make your decision. So as an Auditor, how do you judge those kinds of decisions, or do you not judge them?

MR. WINGATE: I was trying to make clear -- I'm not sure I was successful -- that as an Auditor we attest to the facts. The facts are that we had one value for the purposes of the financial statements -- and I've explained how we arrived at that value -- and that subsequently a different value was achieved for the Lloydminster upgrader. Those are the facts. The purpose of the financial statements is to present those facts, and they will.

A subsidiary question quite apart from that is: did we get value for money in this area? I was at pains to point out that that would be a separate question and something that we might choose to look into, but only if we felt there was a real possibility that we didn't get value for money.

I hope my answer is helpful, Mr. Chairman.

MR. DOERKSEN: That's very good. Thank you for taking the time.

MR. DALLA-LONGA: Well, I'm not going to ask you if you got value for money because I think that's a difficult thing to say, and I don't think that's your primary role here.

I'd like to go back to page 27 and talk about some of our value in midterm securities. We took a write-down of $53 million. I'm assuming we used March 31 market values. Do you recall -- or you may have the details there, Mr. Wingate -- what some of the larger losses were that we took on those securities? First of all, what type of securities were they, and what were our larger losses? I can't seem to find that in here.

MR. WINGATE: Okay. I think you'll probably find that page 53 is helpful. As you are aware, the accounting policy used is that the lower of cost or market value is used with this type of investment. The reason for that is that these investments are actively traded. They're not long-term or medium-term investments. What you're referring to is the fact that the market value was less than cost. What this schedule does is indicate those instances where market value was worth less and where it was more than cost.

If you remember, the accounting policy says that it's the lower cost or market in aggregate, not by sector or section. So in aggregate the market value at $6 billion and $28 million was lower than the $6 billion and $81 million.

MR. DALLA-LONGA: If I look at some of the losses on page 53 -- thank you for directing me there, by the way -- I'm assuming that the totals, if I were to add them up, would come out to our $3.275 billion. Is that right? That looks about right.

MR. WINGATE: Yes.

MR. CHAIRMAN: What page are you on?

MR. DALLA-LONGA: Well, you've got to go back between pages 27 and 53. I was referring to the $3.275 billion, and the detail for that is on page 53. But it's kind of difficult to tell that that's the detail because it doesn't have the total.

We have on there, for example, bonds, Alberta direct and guaranteed, where the cost was $299 million and the market value was $293 million. So the heritage savings trust fund -- and this would have contributed to the aggregate write-down. It's the second line from the top. How did we end up getting a write-down on government of Alberta bonds? Is that because of interest rate fluctuations?

MR. WINGATE: Yes.

MR. DALLA-LONGA: Then you're assuming that that's a permanent impairment?

MR. WINGATE: No. Because in this particular class of investment it is the lower of cost or market, whereas with a nontemporary investment -- let me put it that way -- you recognize nontemporary losses. This is an actively traded portfolio where you've got almost an inventory situation. You're maintaining an inventory of investments, and therefore you use the more conservative basis evaluation, which is the lower of cost or market. When you move off into the other longer term investments, you're then dealing with recognizing nontemporary losses.

11:44

MR. DALLA-LONGA: Do I get another shot?

MR. CHAIRMAN: Well, you have one more sup.

MR. DALLA-LONGA: I would just like to briefly ask a couple of questions, and I'll ask one of them when my turn comes around again. Page 60, Syncrude. We sold 5 percent to Murphy Oil. I don't recall at the time what the price of oil was, but I gather that it's gone down since then, and it went down since the year end. Mr. Wingate, did you feel or is it possible that our carrying value in Syncrude -- let me back up a little bit first. Is that the purchase price that's been backed out of, the price of $149 million? I can't remember.

MR. WINGATE: Mr. Chairman, could I have clarification of the question, please?

MR. CHAIRMAN: Do you want to restate the question?

MR. DALLA-LONGA: Yeah. Sale of 5 percent interest, $149 million. We didn't remove 5 percent of our 11.7 percent. Is that the selling price, $149 million?

MR. WINGATE: Yes, and it's also the book value of that investment. In other words, we sold it for book value. That's my understanding. It's at equity. So if you take a proportionate part of the equity prior to the sale, if you take the 5 percent portion of the investment, it comes out to this figure.

MR. CHAIRMAN: Okay. You may want to get back to that.
Right now it's Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman. On pages 32 and 33 is the Canada investment division, money that other provinces have borrowed or taken out debentures on. They look fairly even. I notice that the book value is 13.0 percent compared with 12.1 percent the previous year, but in all they still look fairly good. Are there any concerns -- I know Newfoundland was mentioned as one -- that you're aware of with repayment of these debentures?

MR. WINGATE: We went through and looked at the book value of all these investments and were satisfied that the book value was supportable. In a number of instances the market value is ahead of the book value, so we had no concerns in this area.

MRS. LAING: Very reassuring. On page 28 of the heritage fund report it shows that the actual income of the fund is $100 million less than the budgeted income of the fund. Do you have a concern with that return?

MR. HUG: The answer is no in the sense that, of that difference, part of it was the fluctuation in market value on the short-term investments, the money market, which was due to the fluctuating interest rates, of course. It's always difficult to foresee, obviously, what is going to happen with interest rates even from day to day, so to the extent that management was not able to make an accurate prediction in that area is understandable.

MRS. LAING: Have the changes that you've made to the accounting procedures this year had an impact on the kinds of figures that we're looking at in this year's report? They have, I know, in some of the budgets in that type of departmental figures.

MR. WINGATE: I'm not aware that any changes in accounting policy have produced any change in the financial results reported.

MRS. LAING: Thank you.

MR. DALLA-LONGA: Getting back to page 60, we had $149 million proceeds, but we turned around and lent part of the purchase price, the vendor take-back. I agreed with the transaction in terms of it being a market transaction, but I now look at how we've recorded this thing. The fund earns 10.7 percent on average, so if we would have had the cash, presumably we could have turned around and earned 10.7 percent. We really don't have that cash to earn 10.7 percent, so did we really get $149 million? Do you see what I'm getting at there, Mr. Wingate? I wonder if I could have your comments on that.

MR. WINGATE: That was a bit swift for me actually, Mr. Chairman. If I could have it again?

MR. DALLA-LONGA: Excuse me. The Member for Calgary-Shaw I guess is not used to seeing financial statements that make profits in a former life. He distracted me.

MR. HAVELOCK: Excuse me, Mr. Chairman. I don't know why that comment was made. I didn't say a word. What are you talking about?

MR. DALLA-LONGA: Well, I thought you had distracted me again.

MR. HAVELOCK: A typical Liberal move, making an accusation without having the facts available to you. However, I accept your apologies.

MR. DALLA-LONGA: The point I was trying to make, Mr. Wingate, is that we took the purchase price and applied it. As it turns out, it was the equitable pro rata to the book value, and I'd forgotten that that was the case. I thought we had made a bit of a profit on the Syncrude sale; nonetheless, we turned around and loaned back to Murphy part of the proceeds -- okay? -- in a vendor take-back at 6 and a quarter percent. This fund earns, on average, 10.7 percent. So we're getting, for rough figures, four percentage points less than we are on average. So what I'm saying is: did we in fact get $149 million, or did we get a discounted amount? Do you see what I'm saying? Almost like you'd do the calculation with bonds.

MR. WINGATE: Right. The 6.25 percent per annum rate was I think a market rate at the time. Now, the fact that the fund in general is earning a higher rate of return than that reflects that most of those investments were made in earlier times when interest rates were high. So to suggest that there was a concessionary element in this 6.25 percent I don't think is correct. If we had concluded that, then we would have discounted that loan and therefore presumably the proceeds on sale, because we would have got a sale value established through a concessionary loan. I don't believe this is a concessionary loan.

MR. DALLA-LONGA: The Murphy sale, the vendor take-back, was market for what was happening out there, transactions of a similar nature and that sort of thing. But in terms of how we record it within the heritage savings trust fund, in terms of the reality of what happened, did we really get $149 million?

MR. WINGATE: Yes, I think we did, based on today's market rate of interest.

MR. DALLA-LONGA: Okay. That's it. Jon can go for lunch now.

MR. CHAIRMAN: All right. I want to thank you very much for your candidness and your approach and your complete answers.

Now, just before we ask for an adjournment, are there any members who wish to read a recommendation into the record? All right. Hearing none, I'll entertain a motion for adjournment. All those in favour of adjournment? We're adjourned.

[The committee adjourned at 11:54 a.m.]