

[Chairman: Mr. Martin]

[10:05 a.m.]

MR. CHAIRMAN: Maybe we could get started. If I could have everybody's attention, we'll just do some business before we move to the Treasurer. It has to do with the minutes. It was brought to my attention by Peggy that I made a mistake; it's hard to believe. We've already approved the minutes for April 11. I thought they'd been circulated, but they hadn't. So we have to rescind the approval and go back, because we didn't have the minutes. We have to get approval for the last three minutes: April 11, April 18, and May 2. I know they've been circulated now.

MR. GOGO: Mr. Chairman, could we take that as a public admission of your very short shortcoming?

MR. CHAIRMAN: Yes you can. But remember, you people approved them.

MR. GOGO: That only confirms what I always thought. I move that we alter the minutes.

MR. CHAIRMAN: Can we look back and get approval for the minutes of April 11 as circulated? All those in agreement?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Any errors or omissions in April 18? All those in favour of approval?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Any errors or omissions for the latest ones, May 2? All those for approving the minutes?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Thank you. The only other item I have is that Mr. Stiles has asked a favour of the Public Accounts, and I throw it out to you people. They have their meeting next Wednesday, and they have a problem. They know it's going to be a long meeting, because it's a very contentious issue dealing with Grand Centre and the expropriation case. He asked if we as Public Accounts would agree to start a half hour later. We'll have to check with Mr. Bogle — and we will do that — but I told him I'd first of all have to get approval. That means that just for next week, we'd start at 10:30 and go to noon.

He doesn't want to have people from Grand Centre come in twice on it, so they're starting half an hour earlier. I guess I'm asking if we would approve that.

MR. PAHL: Mr. Chairman, just for myself, I certainly could agree to the half hour earlier. But I couldn't commit to the extension, for my personal calendar. I think we should take the risk on the length of the meeting rather than alter the other end.

MR. CHAIRMAN: Could I put it this way? We'll start at 10:30, and I'll see if Mr. Bogle can stay till noon. But if certain people have other business they have go to at 11:30, we understand that. Is it agreed that next week we'll be starting at 10:30?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: We'll get into the main item of business. We have our Provincial Treasurer, Mr. Hyndman. First of all, I'd like to thank Mr. Hyndman for taking time out from a busy schedule to appear before our committee. I ask if he has any opening remarks before questions come. Would you introduce your guest too, Mr. Hyndman?

MR. HYNDMAN: Thanks, Mr. Chairman. I would like to introduce the Assistant Controller, Mr. Arnie Heisler, on my left. I always find it useful for me and for the Treasury Department to appear before the committee.

I mention that this year we'll be having two meetings, and this is the first. I make it clear that I'm not in a position now to respond to the 34 recommendations in the Auditor General's report. They were prepared with some care over many months, and I think they deserve the same degree of review prior to responding. The report came down six weeks ago. Accordingly, it would be the fall before I'll be in a position to indicate what the government's response is to each of the 34 recommendations.

At the same time, I believe there was some interest in further exploring the concept of revolving funds, their history, where they've come from, and what their purpose is. Certainly Mr. Heisler has forgotten more about revolving funds than I'll ever know, so hopefully we can assist the committee in that way. If I can usefully provide the committee any general information about overall policy, again subject to the fact that I'm not in the position to give the government position regarding the 34 recommendations, I'd be happy to do that. I'm glad to be here.

MR. CHAIRMAN: Just before we get started, I wonder if Mr. Rogers has any general comments before we open up the questions.

MR. ROGERS: No, sir. I'll leave comments till when it could be helpful to the committee.

MR. CHAIRMAN: Any questions of the Treasurer?

MR. HARLE: It's my understanding that the concept of having revolving funds — and we're seeing more of them appear in legislation — primarily results from the concept of program budgeting and all that that implies. I wonder if the Provincial Treasurer could indicate the government's position with regard to program budgeting and whether program budgeting is now fully implemented throughout all government departments. Am I correct in believing that it is as a result of that process that really demands some mechanism? And I believe the best mechanism is the use of revolving funds.

MR. HYNDMAN: That's essentially correct, Mr. Chairman. I'd ask Mr. Heisler to expand on the degree of implementation of program budgeting throughout government. There are certain gradations of program budgeting, of course, which can be made more and more sophisticated as the years go by.

Certainly it has been the policy of the government for some years now, and it's reflected in the way in

which the estimates and public accounts of the province are displayed, that program budgeting — that is, an attempt to more clearly ascertain the actual and realistic costs of each delivered program — is a philosophy and approach to public accounting we believe is sound and appropriate.

Perhaps Mr. Heisler would care to elaborate on the actual implementation of the program as it's now in government.

MR. HEISLER: Mr. Chairman, program budgeting does certainly affect the need for revolving funds, but they were with us before program budgeting came. Revolving funds were used because the rigidity of the traditional concepts of one General Revenue Fund and duality of authority were too rigid for modern government, because they didn't accommodate things like achievement of economy of scale and efficient utilization of expertise in one central area to provide services throughout the government. For that reason as well, they were used to stockpile inventories that would be used over a considerable time period, and particularly with program budgeting, better costed to the program over that time period. Thus revolving funds have been established where criteria suggested they would be beneficial to distribute costs to obtain economy of scale by centralization of activity and expertise.

MR. HARLE: Perhaps a second question, Mr. Chairman. As I understand it the use of revolving funds, for example to handle inventory, is one thing. But I take it that in addition to inventory, they're also being used for other purposes that are perhaps not fully covered by the expression "handling of inventory". I'm thinking of provision of services as well. Am I right in that understanding?

MR. HYNDMAN: That's certainly correct. I guess the subject of computer services being provided on a centralized basis, which was discussed by the committee on April 18, is a prime example. Once it was decided to centralize the computer operations of government basically within one department, and then have other departments and users purchase that expertise and time rather than having each department build up its own separate computer operation, the revolving fund concept with respect to that service had to be brought into effect and expanded. So that computer area is probably one which is currently the most visible. Others which have been discussed by the committee, I note, have related to the provision of space for government services.

MR. NELSON: Mr. Chairman, a question to the Provincial Treasurer. I had a nice number here, all set up for the current Auditor General's report.

I'd like to pursue a couple of questions I asked the Auditor General last week with reference to recommendations of previous years; in particular, the one with regard to the Alberta Heritage Savings Trust Fund, recommending that the government retain the services of an independent investment analyst to provide the government with regular comparisons of the performance of the heritage fund as against other investments of a similar nature. He suggested that the cost of doing this would be very, very small; in fact, possibly less than one man-year

of cost.

I'm just wondering if the Treasurer has given any further thought to having an independent person make a comparable analysis of the investments of the fund.

MR. HYNDMAN: Again, this is something we responded on last year. It's one of the recommendations in the report of March 23. I'm reviewing all of them, but I'm not in a position today to respond to the 34 recommendations. I haven't yet assessed them in the depth I think they deserve, so that is an item which we will discuss in the fall.

I should make it clear, Mr. Chairman, that I hope this is not to be considered an advance meeting to the ones in the fall. I'm simply not in a position to have that kind of discussion at this time but would be happy to do so at that time.

MR. NELSON: I have no further questions at this time, Mr. Chairman, until we can deal with the issues here, I guess.

MR. HYNDMAN: It's a fair question to raise then.

MR. CHAIRMAN: What the Treasurer is basically saying is that they're studying the recommendations from this report and will be better able to go through the recommendations in the fall, when they've had a chance to study it.

MR. HYNDMAN: That's been the traditional way it has been done for the last four years, and I think it's useful for the committee. But maybe there are other areas the committee would like to explore.

MR. NELSON: Could I possibly just ask a question? That being the case, would it be possible that the Auditor General's report could be tabled in the fall rather than the spring session? What evaluation have you made as to the feasibility of having this done, so we can pursue some of these avenues in a quicker time?

MR. HYNDMAN: Mr. Chairman, I think that's a useful suggestion. It was mentioned by the Auditor General in his most recent report, and I believe the suggestion was made that this committee could usefully address that topic.

What I would perhaps like to do — and I'm assessing that recommendation now — would be give the committee some indication of our assessment of the option, the various pros and cons and problems and opportunities it would present. There are at least two or maybe even three sides to the issue, and I think the committee should be aware of all of them. Then I'd like to have the committee's opinion and see a debate on that, as to whether or not a move to have all or part — and there are advantages and disadvantages to that — of the public accounts available to the committee earlier on, in the fall prior to the following spring. I think the Auditor General has outlined in his report some of the major policy issues there.

After having very carefully assessed all the elements of such a move in terms of costs and availability of information, I would very much appreciate having that debate and hearing the recommendation from this committee. I'll get

information back to the committee on that, with some of my thoughts, maybe to help generate the debate.

MR. CHAIRMAN: I'll take as notice that we should discuss the timing at some point in this spring session, and get back to the Treasurer on that.

MR. HARLE: Mr. Chairman, I'd be interested in some verbal description of the mechanism used to run the revolving funds. To put it in the perspective I'm thinking about, I guess I have two concerns. I think one of the objectives should be to try to reduce the cost of inventories and services to various departments of government. In other words, it shouldn't be an objective of the revolving fund to operate necessarily on an economic basis, where it can be seen to be selling services to government departments.

Therefore my concern is: what does the manager of a department or program do in order to try to keep a handle on those costs he is being charged, in effect by another department of government operating the revolving fund involved, whether it be services or inventory or whatever, to make sure that the actual cost is the best cost that can be obtained? I'd therefore be interested in understanding the process, the mechanism involved in using a revolving fund, and how the manager of another program ensures that he's getting a service or something from the inventory at a reasonable cost.

MR. HYNDMAN: Perhaps Mr. Heisler could elaborate. But first I could indicate that each year the Treasury Board secures a report from the Department of Public Works, Supply and Services and the people who run the computer operations, with details as to what their costs are, what departments are being charged, and what comparable costs are out in the private sector. The managers and the departments keep a very close watch on what they're being charged by Public Works, Supply and Services, to the extent — as was mentioned in the April 18 hearings of this committee, I think — that there was recently a reduction in the charges by Public Works, Supply and Services for computer services provided to departments. That was as a result of actual experience proving that the costs were somewhat less than had been estimated.

It certainly is the objective of that fund and others to come out on a net basis with no profit, but this will go up and down every two to three years, depending on the actual experience.

Arnie, maybe you have some . . .

MR. HEISLER: Mr. Minister, I think you've covered it very well. It is up to the program manager to review his costs, charged by the revolving fund, and to be aware of where he can generate savings by doing things in different ways, such as buying packages rather than developing systems. So you have two areas of cost control: the program manager who is using the services, plus management of the revolving fund, whose objective is to provide a cost-efficient service at cost.

MR. R. MOORE: Thank you, Mr. Chairman. To the Provincial Treasurer. In 1981-82 the Auditor General expressed concern about the growth of the pension

liabilities we have. At that time you expressed a similar concern, and you were making an effort to bring that under control. I notice it's continued to increase in the following year, March 31, 1983, by about \$770 million. What are we looking at in the way of controls, increased controls, or changes to bring this area into control?

MR. HYNDMAN: Firstly, there will be information coming forward to the government and the Auditor General with regard to the most recent actuarial reviews of those plans. That will give an update as to the status they're at. As well, members of the committee know that we have recently recommended — and there's a Bill in the House at first reading — to increase the contributions of those who are members of the two plans which display the largest possible liability at this time and, in addition, to increase the contributions of the employers as well in the case of the local authorities plan and the public service plan. That will move those plans toward what might be called a pay-as-you-go basis, where the current contributions meet the current costs. So that will hopefully reduce the rate of increase of the liability.

As was mentioned during discussion with this committee in recent meetings, it's not necessarily a goal to bring into effect policies which will cover the entire liability, because there are differences of opinion. In reading in the public accounts of last year, members can appreciate that there are a number of judgments made by the actuaries in terms of the demographic makeup of the population of those who are in the public service and assumptions with respect to interest rates and inflation rates. Therefore there will still be a difficulty there.

What we're doing here, though, is saying that the continuing erosion of the pension liability situation should probably be halted by this move which we've made, involving a quarter of 1 percent a year for five years. It will be watched closely in the months ahead.

MR. MUSGROVE: Mr. Chairman, speaking of revolving funds, would the Agricultural Development Corporation be more easily administered if it were under a revolving fund rather than the way it is presently administered, through the heritage trust fund account?

MR. HYNDMAN: Maybe I could ask Mr. Heisler to comment. I'm not sure whether that corporation has revolving fund characteristics, in the sense that the payment back of moneys loaned to farmers by farmers means there's a constant replenishment of the moneys that are paid out. A subsidy in significant tens of millions of dollars is provided through the General Revenue Fund each year in the Department of Agriculture account to those who borrow from that corporation, in order to ensure that the heritage fund moneys are loaned at market rates but that the beneficiaries — farmers and those in agricultural development — receive a better than commercial interest rate.

Arnie, I guess there are some characteristics of a revolving fund there, but it's not a true or pure revolving fund.

MR. HEISLER: A provincial corporation and a revolving fund operate on a somewhat similar basis —

that is, independent of the General Revenue Fund — but it is not really administered through the heritage fund. The heritage fund just provides a source of the borrowing of the Ag. Development Corporation, which is consistent with the objectives of the Alberta investment division of the heritage fund. The corporation repays the heritage fund at market rates of interest.

MR. MUSGROVE: A supplementary question. Does the Alberta Opportunity Fund operate under the same formula?

MR. HEISLER: Precisely. Yes.

MR. HYNDMAN: It's basically the same legislation format.

MR. STROMBERG: To the Provincial Treasurer: a year or two ago, I believe, a directive went out to all departments that if accounts owing went for a certain period of time, interest would be added. Was that directive ever issued?

MR. HYNDMAN: Yes. I believe about two years ago a decision was made that, for the first time, where circumstances indicated that the person did the work for the government and there were no legitimate reasons for delaying the payment, on the approval of the Treasury Board there could be a payment of interest on an outstanding government account. That has been carrying forward since that time.

What it has done as well, which was part of the reason for the exercise, is introduce a greater degree of discipline with respect to departments, boards, agencies, commissions, and Crown corporations in terms of the turnaround of payment for a bill submitted by the private sector. I think those days, in terms of the average outstanding accounts — and they're monitored regularly with respect to every department in government. That has been coming down regularly every month for the last year and a half or so. So if those people who have a long outstanding account can demonstrate an unusual situation and that there's no legitimate reason for the account being delayed so long, they can receive, and have received, interest payments.

MR. STROMBERG: Supplementary. Would you or Mr. Rogers have a ballpark figure of how much interest was paid in the last current year on these types of accounts?

MR. HYNDMAN: I don't know. We could ascertain that for, say, the last fiscal year.

MR. PAPROSKI: Mr. Chairman, to the minister. I have a couple of questions dealing with the treasury branches in Alberta. First of all, I just wonder if you could enunciate for the committee a few of the biggest differences between the treasury branches and other lending institutions in this province, such as the Bank of Montreal, Bank of Nova Scotia, et cetera?

MR. HYNDMAN: The treasury branches are a homegrown Alberta institution, and they are not banks. As we know, constitutionally the federal government has jurisdiction with regard to banking.

The treasury branches therefore operate, and must fundamentally operate, within the boundaries of the province of Alberta.

I think their mandate has been successfully achieved. They fill in gaps which were perceived when they were formed in the late 1930s and which may have occurred in succeeding decades. They fill in gaps in terms of financial services available to Albertans, particularly individual Albertans and small businesses. That's been one of their main areas of special expertise. They are therefore different in the sense that they're not nationwide. They are far more plentiful in areas outside the two metropolitan centres than in Edmonton and Calgary, where they have a minority of branches. Essentially they have been available as local, regional, outside-the-metropolitan-area financial institutions. Many of them are in a centre where there is no other bank or lending institution of any kind available for people to go to.

MR. PAPROSKI: My supplementary, Mr. Chairman, would deal with the financial counselling that occurs in treasury branches. I'm wondering if the minister could comment. Is there any type of unique financial counselling that occurs when individuals come in and request loans or financial assistance?

MR. HYNDMAN: Being on-site, living in the communities, and having experience in rural Alberta and in living and dealing with folks with problems and opportunities in smaller centres, the managers of the various treasury branches provide a good deal of counselling, as does anyone who is a manager of a financial institution. As well, they have access to other information at head office. For example, special resource people with a background in agriculture are available in the treasury branch head office to provide specialized information to the various branches around the province.

MR. STROMBERG: To the Provincial Treasurer. Other provinces in Canada, an announcement yesterday, I believe, by the city of Edmonton that they will be borrowing their necessary funding in the European market, and ads being placed in Alberta papers of Swiss banks borrowing money at 5.5 percent — has Treasury ever considered looking at European dollars instead of the New York bond market?

MR. HYNDMAN: Yes, with respect to government borrowings, of which there have been considerably more over the last two years than in previous years, the objective is to secure those funds at the lowest possible cost but bearing in mind the risks in borrowing outside the country. To date the government Crown corporations, the Alberta Municipal Financing Corporation, and Alberta Government Telephones, have been borrowing largely in Canada. But that would not exclude borrowing in the United States, Europe, or Japan, depending on the best bargain that could be achieved, also balancing out the question of risk in terms of payment back in dollars that may go up and down vis-a-vis the two currencies over succeeding years as the moneys are being repaid.

MR. ALGER: Mr. Chairman, rather a supplement to the Member for Edmonton Kingsway. With respect to

the treasury branches of Alberta, I'd like to ask the minister if there is no way we can protect the people who are dealing with regular banks, to a degree, in a better manner than they're being treated now? For instance, can we not slow down some of the foreclosures and some of the bankruptcies that are taking place with helicopter companies, good farms, dairy farms, and stuff like that? Is there some way to extend those loans a little longer and reduce their interest rate to a degree? It seems to me that in our system of finance in this province — the magnificent system that it is — there should be a way to protect those people. For whatever reason, and I can't get my finger on it, I've watched a lot of companies go broke right in my own constituency and have read a lot about them all over the province. What can we do about that, Mr. Minister?

MR. HYNDMAN: One of the best ways to try to ensure that there is fairness in terms of the cost of borrowing money is to have a lot of people out there in the financial area. We in Alberta are fortunate to have not only five large chartered banks but also a large number, close to two dozen, smaller banks called Schedule "B" banks with branches in Canada and Alberta and headquarters in other countries. As well, there are financial institutions like trust companies and credit unions, there are the treasury branches, the new Bank of Alberta, and the two other banks which are headquartered in the province. They are all competitive.

Secondly, we have to remember, though, that we live in a world where the cost of money is determined on a worldwide basis. There is no way you can put a wall around the province of Alberta or any other jurisdiction in the world with respect to the basic cost of money. It is an international commodity, it is bought and sold, and there is market competition.

However, I certainly recognize, as would others, that over the last 18 months there have been a number of Alberta entities and individuals in very serious financial difficulties. Frankly I believe there was too much debt in 1980 and '81. There was too great a reliance upon an interest by individuals and companies in borrowing further amounts of money. To a degree, there may have been an involvement of the financial institutions who were doing the lending as well at that time.

But today I think a large number of institutions are saying, if there's a problem that you have with regard to paying back your loan — first you have to go in and see and be very candid with that financial institution as to what your financial difficulty is, whether it's a treasury branch, a bank, a credit union, or whatever. I believe most financial institutions do not want to end up being owners of large amounts of real property in the province. So particularly because they are now seeing that Alberta has a good middle- and long-term future, they are therefore prepared to take steps to hang in there and have some patience.

What it boils down to, I think, is that if individuals have special, individual cases of people who have not had the degree of attention or receptiveness by a financial institution, given the details of names, dates, times, places, security, what the problem is, and what they've done to try to meet those financial institutions, I would be prepared to talk to the financial institutions and make sure the two of them have another chance to get together and work out a

situation that will hopefully enable them to work into the future of the province, which is good.

MR. ALGER: A supplementary, Mr. Chairman. I appreciate those remarks; they are very kind. But I have to indicate to the minister that it seems to me that our treasury branches, in opposition or in competition to regular branches, are just about as mean as any of them. I feel this is a kind of hardship. With reference to that, I am indicating that an awful lot of loans have been called in recent months, and it has been a severe penalty to a lot of people. As you indicate, they don't want to become big owners of land, drilling rigs, dairy farms, or anything like that. So why in the dickens can't we let them stretch that out a little?

When I indicate the treasury branches in particular, it's because I thought they were designed for the benefit for Albertans, but perhaps they weren't. I could be confused about that issue. But it seems to me that the banks are in a grasping position at this point in time, which is totally unnecessary, given the fact that they can't improve on the situation anyway. Obviously somebody else is going to get the dairy farm, the drilling rig, or whatever, for a hell of a lot less money than it's really worth. The only people who are out are the people who are lined up on the liability list.

MR. HYNDMAN: I disagree with your opinion. I think most Albertans feel the treasury branches have been and continue to be among the fairest, in terms of being receptive to the problems of Albertans, of any financial institution in the province. Remember that when a person or an entity loans money, there is an expectation that they will earn some small return. That would be the case with respect to any individual or corporation. The treasury branches have leaned over backwards in that regard, in the sense that they had a loss last year because of the fact that they in effect had a number of accounts they were trying to hold hands and be very careful with.

I think we have to remember that there are cases where individual management decisions by companies and individual Albertans were made and were not correct. If risks were taken and decisions were made that were not very wise, then Albertans have to accept the results of those decisions. There is no way that the government can or should rescue those who made bad business decisions. So again, if there is a problem with respect to a particular helicopter company, I'd like to have the dates, times, places — the full file — and I will talk to the financial institution. But I think we have to be specific; we can't simply talk about generalizations. I frankly disagree with you on the treasury branches.

MR. ALGER: Thank you, Mr. Minister. I am quite sure if I brought you every detailed account I've had in my own municipality, you'd be burdened beyond the means of endurance. Your job is too big now.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Musgrove.

MR. McPHERSON: Mr. Chairman, may I just ask a supplemental?

MR. CHAIRMAN: I'll put you down.

MR. McPHERSON: Mr. Chairman, may I just ask in terms of procedure? I recognize that we're being recognized by the Chair for supplemental questions. But has our procedure in the past been that we can come in on supplementals on a certain point, or would you prefer us to wait?

MR. CHAIRMAN: I'm easy on it. In the past it has been that you can have three questions when you're recognized, and they don't even have to follow along the same. You can have three different questions. That's what we've done in the past. I'm amenable if you want to go any other way. But I'll put your name down. You will get to it anyhow.

MR. McPHERSON: Thank you.

MR. CHAIRMAN: Mr. Musgrove.

MR. MUSGROVE: Thank you, Mr. Chairman. In mentioning borrowing from Canadian institutions versus borrowing out of the country, what impact does that have on our interest rates in Canada? If we were to borrow all our money out of Canada versus borrowing it all in Canada, does this have a significant impact on Canadian interest rates?

MR. HYNDMAN: It might have, but I think the difficulty is that governments around the world from whom the province might borrow are all experiencing serious deficit problems. Probably the most serious problem facing us in Canada and probably most of the world today is the fact that governments are taking up too large a part of the dollars that are available for lending and therefore are running the risk of pushing out the private sector and/or increasing interest rates, or both.

So I think the objective should be to borrow the least amount possible. We have a deficit situation in Canada that is very, very serious; it's something in the range of \$30 billion. In the United States there is an urgency with regard to their deficit; in Europe as well. So it's part of the overall problem of interest rates and inflation. Deficit borrowing and continued borrowing by governments, without addressing the problem of raising other revenues or reducing services, is something which we're going to have to all look at very carefully in the next number of years.

MR. STROMBERG: Going back to the question asked by the Member for Highwood, was the amount of red ink in the treasury branches \$80 million last year? Is that correct?

MR. HYNDMAN: I don't have the annual report with me. I wasn't sure we were going to have this large a discussion. Certainly for the first time in many, many years, the treasury branches had a loss.

MR. STROMBERG: A major loss, yes. It has been implemented in some of the business magazines that the five major chartered banks, with the bath they're taking with Dome Petroleum, are certainly going after a lot of Albertans and a lot of other Canadians in order to make up that deficit. Do you feel that within the treasury branches, they have really clamped down on some people in order to show at

least a profit this year?

MR. HYNDMAN: No, I don't think the treasury branches have done that; in fact, exactly the opposite. I think that, on balance, looking across the difficult or problem accounts the treasury branches had over the last two or three years, I think they have generally displayed a willingness to be patient, a willingness to say, let's try to work something out in postponing your interest or postponing half the principal or changing the security, because we as treasury branches believe this province has a future and we think you should hang in there. That's not to say there haven't been some cases where it was simply not feasible to continue a business, and perhaps the owners realized this in some cases. Let's remember that this economy is going through a structural adjustment, and we cannot get back to and have the same degree of construction activity, for example, that there was in 1980 and '81. So there is going to be a necessary adjustment and shrinking process, in which there'll be many survivors and some who don't survive.

MR. HARLE: Mr. Chairman, I'd like to get back into the revolving funds and their operation and how they fit into the system. I'm looking first of all at the Auditor General's report, page 49, section 2.4.6, where there is a discussion of some general principles about trying to avoid situations where expenditures are offset against revenue. Taking that principle, which I think also applies to accounting generally, from a point of view of operating funds, then taking a look at the revolving fund for Gas Alberta, for example, and seeing how we read those financial statements which are presented at 3.30, as they relate to the Gas Alberta revolving fund, where do we see that showing up in the budget of the Department of Utilities and Telecommunications?

MR. HYNDMAN: I have to look at that. I don't have the current estimates because the committee's review is of past years. Arnie, can you help us on that one?

MR. HARLE: Mr. Chairman, I'm referring to the public accounts, volume 1, for the revolving fund for Gas Alberta.

MR. HEISLER: Mr. Chairman, Gas Alberta operates on an advance. Its revenue and expenditure statement does include a contribution by the province, the Department of Utilities and Telecommunications, in 1982 but nothing in 1983. The amount of \$1.545 million in 1982 would appear in the Utilities and Telecommunications appropriations in Volume 2 of the public accounts for that year.

MR. HARLE: Mr. Chairman, as I understand it, when you set up a revolving fund, you set up so many dollars in the statute. Do I see that figure mentioned in here?

MR. HEISLER: That figure appears as an advance, not in the revenue and expenditure statement but in the balance sheet. This one does not have a statement of change in financial position, or it would appear there. You see, sir, the Provincial Treasurer's advances have been unchanged from 1982 to '83, but

in 1982 the revolving fund had a significant deficit. To cover that deficit, the department operating the fund must obtain funds from an appropriation rather than an additional advance from the Provincial Treasurer.

MR. HARLE: Mr. Chairman, as I understand it, when Gas Alberta did run at a deficit, which accounts for that 1.5-odd million dollars, it was contributed out of an appropriation in the Department of Utilities and Telecommunications.

MR. HEISLER: That's correct.

MR. MARTIN: Maybe you could think about it. We'll have time if you want to come back to it, Mr. Harle.

MR. McPHERSON: Mr. Chairman, I'm just going to perhaps elaborate on the point of the Member for Highwood: this whole area of debt and some of the perceived skittishness, perhaps, of some of the financial institutions throughout Alberta. I want to direct a question, but I almost have to embellish my question with a comment. I hope we all recognize that in the long term, the private market operates and will invariably operate to the betterment of society, one way or another. In the last while, I've sensed that those who were expanding at great rates during the boom times in this province were often leveraging their operations to a great degree, oftentimes in the way of demand loans. Perhaps some Albertans forgot that borrowing money is really nothing more than renting money, and perhaps we've lost sight of the fact that debt is nothing more than the rent of a commodity. When you rent a commodity, of course, you have to pay a premium for that rent.

I'm not particularly pleased to see some of the activities in the area of the financial sector, to see foreclosures on assets that we often hear have been secured and some of the financial institutions realizing their security at the first instance, without any consideration or very little apparent consideration to the second and third positions and cash flow. Nonetheless, we have to come back to the basic reality that we're dealing with the rent of a commodity, and that's how the marketplace operates.

As I said, Mr. Chairman, the question I want to ask is on a different subject, and it has to deal with pensions. You can call that one question. A couple of weeks ago I advanced to the Auditor General the question with respect to public service pension plans. We got into a bit of an area where he almost admonished me that I was getting into an area of policy, and he was quite right. However, I did get from the comment that in the absence of some positive action, the current unfunded liability with respect to public service pension plans was going to place a very difficult position on future taxpayers as the unfunded liability increases.

The question to the Provincial Treasurer, Mr. Chairman — and perhaps a couple of them — is on this whole area of unfunded liabilities. If the unfunded liability of the public service pension plan stands at some \$4.2 billion at the moment, can the Provincial Treasurer or Mr. Heisler advise if the recent announcement by the Provincial Treasurer will curb the increase in the unfunded liability?

MR. HYNDMAN: That's certainly the objective. Subject to various assumptions that have been made, I believe that that will make a significant improvement in the plan in that way. The problem still remains, though, as the Auditor General has pointed out, in terms of the nonpayment of interest over the years, had there been a pension fund prior to 1981, and the nonpayment of employer contributions during previous years when the money simply went into and came out of the General Revenue Fund.

However, the member makes an interesting comment in the sense that I don't think we know what the upcoming actuarial report will show. For example, if that report had similar inflation figures as were assumed in 1981, then it would be a very different result from the situation now. If previous actuarial reports were predicated on the basis that there would be increases in the salaries of the public service in the next 10 years in the same way as over the last 10 years, there might be a very wide difference there. So we all look forward to getting an update on what that \$4 billion figure was at March 31, 1983.

MR. McPHERSON: Mr. Chairman, it raises this question in my mind at least. If the government were to fully fund the public service pension plan, today certainly but even in the past, one would have to assume that there being a value to money there certainly would be a cost of funding that pension plan. Just for argument's sake, let's say that money is worth 10 percent, for easy figuring. The "cost" of funding that pension plan would certainly be at least 10 percent or whatever the interest rate on the open market is. Can the minister advise if the government pays interest on the unfunded portion of the pension plans? Given that answer, would it have to — of course, if it were to fund that pension plan one would assume in today's economy and circumstance that those funds would have to be borrowed. I guess what I'm driving at is that it strikes me that there's an exchange of debt there. One would almost offset the other.

I have another question, but I don't know if I'm going to be allowed to give it. I'll leave that comment and question and ask the minister to comment on it.

MR. HYNDMAN: The straight answer to the question is no. The hon. member is right that that situation could be ameliorated by borrowing further dollars and paying interest on that borrowed money. At the moment it is the public policy of the government that we're trying to reduce not increase borrowings. Other ways to do that would be to increase revenues through securing revenues from traditional sources such as taxes. Another way would be to cut services and find the moneys in that way. On balance it was felt that the approach we've taken now to try to at least slowdown and hopefully stop the growing liability, but still bearing in mind the fact that this problem is going to have to be addressed as the financial situation of the province improves in the years ahead, is probably the most prudent way to approach it at this time.

MR. McPHERSON: May I just get one more?

MR. CHAIRMAN: I'm going to allow it because I'm

so impressed with the member's ingenuity in being able to make a speech and ask double questions and get it all in. I'll allow him one more.

MR. MCPHERSON: Mr. Chairman, you're kind. The final comment is this. Would it be the minister's opinion that if we were to fully fund the pension plan liability — and if we can use the figure of a guess of \$4.2 billion which has been publicly enunciated in the past — would it not require a massive increase in taxes today to fund that liability? It would have to be paid for today.

MR. HYNDMAN: It would and, as has been indicated, there are differences of opinion as to whether there should be an attempt to have full funding at any given point in time and, if not, how close to full funding it would be prudent to move to. What it boils down to is: yes, there would be a further need for expenditure by government if that were to be done totally right away, and it would have to come from the difficult choices between increasing revenues to government, through taxes or otherwise, or cutting back services or greater borrowing. It's the balance of all those each year, I guess, which we have to look at, bearing in mind that we're in a revenue situation now — and over the last two years — that's very different from the previous nine years.

MR. JONSON: I'll pass for now. I was way back on a topic about four topics ago, so I'll leave it for now.

MR. CHAIRMAN: If you want, it doesn't matter.

MR. JONSON: It was way back on the question of foreign borrowing, Mr. Chairman. I just want to ask if it's fair to say that if we bypass the relative debt loads of foreign countries for the moment, foreign borrowing from this country to another generally has the effect of decreasing the value of the dollar and increasing interest rates.

MR. HYNDMAN: Yes, I think that's one consideration that has to be borne in mind in terms of the national economy and the strength of the Canadian economy. It's one of a number of considerations that has to be borne in mind as to where one borrows, of course the overall one being to try to reduce those borrowings to the absolute minimum to have the money available to Alberta not for the payment of debt but rather for the provision of services. When it has to be done, that has to be one of the considerations and, if done to too large a degree, that would put an adverse pressure on the interest rate.

MR. CHAIRMAN: I don't have any, unless — Mr. Harle did you want to come back . . . Okay, I don't have any other people on my list. Are there any other people at this time?

MR. STROMBERG: To the Provincial Treasurer. Due to the reserves the Alberta Hail and Crop Insurance Corporation keeps for emergency and due to the rundown of the hail reserve due to a couple of bad years, we've had to go to London for reinsurance. That premium has cost Alberta farmers approximately \$350,000. Why could this Alberta corporation that's serving Alberta farmers not borrow

that money from Treasury — in a sense, borrow it — instead of having to send it over to London? That's the long and the short of it.

MR. HYNDMAN: I don't know the details of the issue. If there's an insurance principle involved here, then in the light of experience the premiums should reflect the risk. If the risk goes down, the premiums could be reduced. If the risk goes up, then I would think that those who are beneficiaries of the insurance should pay higher premiums. If we're talking about a subsidy by the general public revenues of the province, then that is another option as well. In the complexities of reinsurance, I don't know whether the option of borrowing from the province was explored or not.

MR. STROMBERG: Reinsurance is costing Alberta Hail and Crop Insurance \$350,000, but it's going outside the country. We have approached Treasury to keep this money here and were turned down. We would borrow the money from Treasury . . .

MR. HYNDMAN: [inaudible] the dollars available for it.

MR. STROMBERG: . . . if we had a disaster.

MR. HYNDMAN: Are you talking about market rates of borrowing? Firstly, there are of course limited dollars available for lending by the province compared to previous years. That's why Alberta Government Telephones and the Municipal Financing Corporation are in Toronto borrowing their own dollars.

Secondly, the question is whether or not the proposal would be to borrow from the government of Alberta at market rates or at lower than market rates, in which case there is a subsidy.

MR. STROMBERG: We would not think of a subsidy. If the one-in-fifty-year type of weather disaster hit, to cover ourselves we would borrow that money at the going rate from the province of Alberta and pay it back. But it just bothers me to have to send this kind of money — \$350,000 a year — to London, and we'll never see it again. Would the Treasurer take a look at that?

MR. HYNDMAN: I'd be happy to do that. I don't know whether the Minister of Agriculture, who I believe has overall responsibility for the corporation — but I'd be happy to follow that up and get back to the hon. member on that point.

MR. CHAIRMAN: Any other questions of the Provincial Treasurer? Seeing none, at this time I would again like to thank the Treasurer and Mr. Heisler for taking the time to come to Public Accounts. We will certainly follow up on your suggestion about the time and that and give the Treasurer some feedback at some point. Thank you very much.

MR. HYNDMAN: In advance of the fall meetings of the committee, I'll look forward to presenting the detailed response of the government on each of the recommendations and then having a full and thorough discussion on those at a subsequent meeting of the

committee, as we've had in previous years.

MR. CHAIRMAN: Okay. Thank you.

I just remind members of Public Accounts that the next session is on May 16. Many people were late. That will not start till 10:30, and we have Mr. Bogle, Minister of Utilities and Telecommunications.

Would somebody like to move adjournment at this point?

MR. GOGO: So moved.

MR. CHAIRMAN: All agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Thank you.

[The meeting adjourned at 11:06 a.m.]

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