[Deputy Chairman: Mr. R. Moore] [10 a.m.]

MR. DEPUTY CHAIRMAN: We'll call the meeting of the Standing Committee on Public Accounts to order.

First of all, you've all received copies of the minutes for June 15, 1988. Are they in order?

HON. MEMBERS: Agreed.

MR. DEPUTY CHAIRMAN: Well, this morning we have appearing before us the Hon. Dick Johnston, Provincial Treasurer. He has with him one of his officials. Mr. Johnston, as usual with ministers appearing before the committee, they have the opportunity to give a brief overview of their department's spending for the year 1986-87 and any of the matters arising out of the Auditor General's report for that year and out of the public accounts of that year. So, Mr. Minister, if you would like to introduce the official you have with you and give an overview, we'll then open the meeting for questions from the members.

MR. JOHNSTON: Well, thank you very much, Mr. Chairman. I think most people know Al O'Brien, who's been involved in the budgetary side and the fiscal side of the province of Alberta for some time, first as a controller and now Deputy Provincial Treasurer, along with Allister McPherson. They are the two pillars of the administration within Treasury. Al is here to prop me up, provide me crib notes, and to answer all the difficult questions. But he's been a long-time civil servant, a good friend of all of you here, I'm sure, and someone who has the technical knowledge to handle the difficult situations which Alberta has faced over the past year.

Now, the period under consideration takes us to March 31, 1987. No other period in the time that I know of Alberta's financial history has seen such sharp and dramatic changes in the way in which the fiscal operations of the government have been affected. Needless to say, the downturn in the world economic situation, particularly the oil and gas changes in terms of our revenues, exposed Alberta to a significant deficit, a deficit on a consolidated basis which was over $4 billion for the March 31 year-end, an awful lot of difficulty for us in terms of reacting. Through that period you saw the change in which the operations of the government, on the financial plan side at least, were reflected in '87-88 and subsequent years. But that deficit, of course, shocked all Albertans. It was difficult to manage, and in the fall of 1986, of course, we put a freeze on expenditures, which is the traditional type of response which governments do when they find themselves facing sharp downturns in revenues or significant increase in expenditures.

So that's the scenario you're facing. As I said, I hope it doesn't happen too often in Alberta regardless of who may be responsible for the government, because of course it does take you through a very difficult period and one which causes all kinds of downstream adjustments.

Today we'll be talking about a variety of funds, a fairly interesting discussion in public accounts. I know that if one thing happens in the government, you can understand the operations of this system fairly thoroughly from the public accounts, the Treasury side if you like, wherein we have an opportunity to examine the way in which the system operates on a budget reporting side. Of course, that's a very exciting part of government. I know that when I was here in my first year of government, the first thing I did was spend time in public accounts, even though I was not a member of it, if my memory is accurate. In doing that, I had an opportunity to learn much about the way in which the system operates. It is complex.

Statements reporting is done as openly as possible, and the attempt of the government since 1971 certainly has been to reveal whatever possible detail and data can be given. Obviously, it is always the contention of those people in the opposition that it's not enough, and from the government's side we're saying, "Well, the cost of providing additional information must be reflected in considerations as to what is disclosed." But generally speaking, I think Alberta's disclosure – and I'm sure Mr. Salmon has been asked this question before – probably is as good as any government's. We go to a great deal of detail in providing fund information. Obviously, the funds which operate in this province are significant, and we try to provide additional information on those as well. But as well, of course, the consolidation takes place, and I'll come to that in a minute.

So there are a variety of funds which are reflected in the financial statements of the province for the year ended March 31, '87. Some of them are unique, some of them are general funds that are set up for special purposes, and still others are common to government operations across Canada. Generally speaking, the major fund, as you well know here, is the General Revenue Fund. But during the consolidation process you will see that other funds are brought into the consolidated statements, including the heritage fund, for example, the Capital Fund more specifically, and to some extent the other funds which you may want to talk about are consolidated. So some of the problems that you talk about in terms of disclosure with respect to the specific funds tend to fall off, if you like, once consolidation takes place. The reason we show in certain funds more full disclosure or disclosure which does cause the Auditor's department and the opposition to raise their eyebrows, in fact, is so that the people of Alberta have an understanding as to where the dollars are used, the kinds of focus and priority given to the dollars spent, for example, in the heritage fund. But on consolidation, of course, those numbers fall off and the traditional approach is used.

From time to time, of course, we bump up against the so-called postulates, the principles of accounting. Now, while governments are not locked into or committed to reflect in the financial disclosure postulates or laws or fundamental principles laid down by accounting groups, we do insofar as possible attempt to reflect those in our disclosure. But, of course, government disclosure to some extent is unique and different from the financial disclosure of private-sector operations. Nonetheless, that continuing problem has essentially been resolved in terms of formality or disclosure, but there are still some problems because of the uniqueness of the operations in Alberta and the kinds of funds that we operate that do draw into debate and some concern the disclosure practices followed here. But generally speaking, we follow the general guidelines laid down. There is an ongoing debate, a contemporary debate with respect to some of that disclosure, but nonetheless that's open for consideration. As a matter of fact, Al O'Brien just returned from dealing with these romantic and fascinating areas of accounting principles which the institute is now working on. I'm sure there may be some questions, Mr. Chairman, in that area.

With respect to the Auditor's report and our relationship with the Auditor, obviously from time to time we have good exchanges and good debates, and even exchange terse letters from time to time with respect to how the process operates. We have, I think, though, had a good relationship with Mr. Salmon and with his predecessor. We have set up in the province of Alberta something called the Audit Committee, which is chaired by a distinguished member of the accounting profession, Mr. Hauhton Thomson, and is made up of several other people from Alberta, and not all in the accounting profession. We have a provincial court judge, and we have others from the private sector who bring a balance to the committee. The committee is used to deal with those contentious issues which exist between governments and the auditors and to have an opportunity to vet some of the concerns which either the Auditor may have or the government may have with respect to disclosure.

Obviously, this past two years we have had some problems in the heritage fund with respect to the so-called deemed assets. That was not resolved to the satisfaction of the government and obviously was not resolved to the satisfaction of the Auditor because, of course, the heritage fund reflects a so-called disclaimer, or a qualified report. But generally speaking, I think it's safe to say from our side that we feel we have received very good service from the Auditor General. He has a very distinguished group of professionals working for him, and I think, generally speaking, the relationship is good.

Mr. Chairman, given the range of options and issues before us, I'll probably just adjourn there and listen to the comments or questions and wherever possible, given the vast amount of information which is before us and the time before us as well to deal with the questions, I think it might be a greater opportunity for all of us, as opposed to listen to me talk about the romance of accounting or those sorts of questions.

So, Mr. Chairman, I appreciate the opportunity of being here this morning. I'll look forward to the discussion over the period we have before us and wherever possible provide the comments and answers to the best of our ability.

MR. DEPUTY CHAIRMAN: Thanks, Mr. Minister.

We have a full house of members here wanting to ask questions of you, so I think we'll have a very informative morning.

The Member for Stettler.

MR. DOWNEY: Thank you, Mr. Chairman. I'm looking at the Auditor General's report, page 5, recommendation 1 – a favourite subject of the Member for Edmonton-Meadowlark – with regard to the unrecorded liability in the pension funds. I'm just wondering if the Auditor General could give us his views on why that recommendation is there, how critical it is for accurate accounting, that sort of thing.

MR. SALMON: Mr. Chairman, you've heard before my comments on this particular recommendation in this committee with respect to the unrecorded liability. I believe the report outlines my concerns. This has been brought before the government for a number of years now, and we do recognize that there is some development in the accounting profession for developing some of the standards that they would like to see with respect to pensions. I know it's an ongoing discussion at this stage. We have not dropped this subject over the years it's been reported because of that concern and feel that in time it needs to be resolved in one way or the other and probably looking for those standards to come that will definitely reveal how the public sector should record pensions. We certainly are concerned with the amount of the liability, and it's been included in the report because of the size of that liability.

I believe that I don't need to really elaborate any further. I'm sure the Provincial Treasurer would like to comment from their point of view.

MR. DOWNEY: Supplementary question, Mr. Chairman, again to the Auditor General. With regard to this recommendation has the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants made any recommendations yet on how governments can include pension costs and obligations in their annual accounting process?

MR. SALMON: Mr. Chairman, the recommendation of the committee is at the exposure draft stage. It is not at the final stage at this time.

MR. DOWNEY: Thank you. Mr. Chairman, a final supplementary to the Provincial Treasurer then. Would the government accept the Auditor General's recommendation and record the unfunded pension liability if the Public Sector Accounting and Auditing Committee of the institute recommends a similar pension accounting treatment for all governments in the country?

MR. JOHNSTON: Well, Mr. Chairman, there's no doubt that if some codification or agreement on disclosure took place across Canada, and assuming that governments agreed to accept the recommendation of this group of accountants who study the evolution and the process of disclosure of financial information, then of course the province would have to consider seriously its options.

Now, as I've indicated before, the government is not bound legally to adopt any particular direction from a group, because that group has no legislative authority to bind the Crown, obviously. But we would take the view that if in fact the disclosure was in the best interests of Albertans, was able to provide comparable information across Canada on a government-to-government basis, provided more specifically for the recognition of the losses or the costs of this pension operation, then I think we'd be hard pressed to avoid the decision to include it.

But at this point, of course, as Mr. Salmon pointed out, the accounting postulates themselves are not clear. In fact, we are following clearly the guidelines set down by the institute with respect to government disclosure. Therefore, the liability, which could be between $6 billion and $7 billion – I just forget what your footnote says, Mr. Salmon, but it's a large amount of money, no doubt, and one which obviously sometime in '88 or '89 will, if it were to be included, probably balance the assets and liabilities of the province. So it isn't an insignificant amount. It's a concern which we in Treasury certainly have held for some time. Obviously, what has happened in the general policy question is that you and I as taxpayers have redistributed money – well, I guess we have to be careful, because we're caught by the pension plan. But taxpayers in Alberta, as a general sense, have redistributed dollars to a group of beneficiaries, probably without them knowing it, and it's been a major subsidy of those people, in some cases marginally very high and in other cases, I think, quite reasonable. But what has happened, and I will speak fairly candidly here, is that politicians generally have said, "Look, we can't afford to increase the costs of the pension contributions." And we tend to be fairly generous with the payoff side, the benefit side. Obviously, governments over time face that consequence, and the consequences in terms of reporting are coming home to us. The numbers are clearly defined in the report as well. So, yes, we would be hard pressed to avoid the disclosure.

Secondly, the dollars are large, and of course it does have implications for the financial position of the province. Everybody who reviews the debt of the province understands that the pension liability is there. We are consistent with other provinces in terms of reporting.

I think those, Mr. Chairman, answer the questions outlined.

MR. DEPUTY CHAIRMAN: Just before I call the next member, I notice we have a group of visitors in the gallery who have just arrived. To explain to them what's going on down here so they may understand the proceedings, this meeting today is a meeting of the Public Accounts Committee of the Legislature. The purpose of the Public Accounts Committee is to review the spending of various ministers, how they spend it on behalf of you taxpayers. This is an opportunity to bring various ministers before us and question them in depth on how they spent various amounts of money in the past year. This morning we have before us the Provincial Treasurer. He's appearing for the first time in this session, and the committee is in the process now of questioning his expenditures for the past year.

The hon. Member for Stony Plain.

MR. HERON: Well, thank you, Mr. Chairman. I'd like to focus in on the debentures that the heritage fund holds; that is, the debentures of several Crown corporations which carry the provincial guarantee. I want to ask: how can the value which these debentures have in the heritage fund statements affect the heritage fund? That is, given that several of the corporations have lost millions of dollars, are these debentures as shown on the statements fairly well valued?

MR. JOHNSTON: Mr. Chairman, I'm assuming here -- and I'm looking at the Heritage Savings Trust Fund annual statement for March 31, '87 -- that the debentures referred to by the member deal with the advances to Crown corporations. Is that accurate?

MR. HERON: That's accurate, sir.

MR. JOHNSTON: Well, at the end of March 31, 1987, the Alberta investment division included approximately $7.8 billion in investments in Alberta-based corporations, including five agencies: agricultural corporation, AGT, Alberta mortgage, Municipal Financing Corporation, and AOC. These dollars, of course, were advanced to the various agencies as contracts between the Crown agencies and the heritage fund. The debentures were fully documented in a formalized way, and it's a fully recorded liability of the Crown corporations.

What is also unique, though, in terms of the way in which the financing was done is that these debentures, or these Crown corporation advances, are guaranteed by the government as well. So, in fact, these debentures are obviously worth what they show in the financial position. So in terms of the debentures themselves the valuation is as good as any valuation. I suppose if I wanted to, if I could get caucus agreement, I could securitize these debentures. I mean, I could take them off the heritage fund financial position, package them up, and sell them into the market as collateralized mortgage offerings, for example. Because, of course, that guarantee by the province itself ensures that the repayment will take place, that in fact the coupon's going to be covered -- that is, the interest is going to be paid -- and in fact, it can be a marketable security. So in our view, and I think it's probably held by the Auditor, the disclosure here in terms of value is appropriate. They are recorded at book value or cost and which approximates market value today. I think that because of the guarantee of the province they are a very good investment for the heritage fund.

I should say that in the case of Alberta Government Telephones and AMFC we have now taken those to the market. In the case of AMFC they are borrowing from the Canada pension fund. In the case of AGT, for example, we went to the market last week for AGT, and we're using the public capital markets to finance the capital requirements of AGT.

MR. DEPUTY CHAIRMAN: Supplementary.

MR. HERON: Thank you, Mr. Chairman. To the Auditor General then. Were there any write-downs on these debentures held by the Heritage Savings Trust Fund over the past year?

MR. SALMON: Mr. Chairman, no, there are no write-downs because of the nature of the investment and on the basis that these particular provincial corporations are able to meet their payments through their drawing on the General Revenue Fund if necessary. So there's no reason to change these values, looking at heritage as an independent organization by legislation.

MR. HERON: Thank you, sir. That gives us a pretty clear picture that the debentures rely very heavily on the provincial guarantee and the strength of the province irrespective of the ups and downs of the bottom line of the Crown corporations.

To the Provincial Treasurer. The recent media reports have speculated on AGT as a possible candidate for privatization. What effect would the privatization of AGT have on those securities held by the heritage fund?

MR. JOHNSTON: Well, Mr. Chairman, because AGT owes the heritage fund about $1.3 billion, depending on how you structured a privatization of AGT ... I should just drop down and put in here a little footnote that the AGT privatization is something that I have talked about personally for two or three years back. It's been on the agenda as part of the fiscal plan for some time under the umbrella of privatization. I think the Minister of Technology, Research and Telecommunications answered the question in the House about the forecast, the future of it. So what we're talking about here is the so-called normative approach. That is to say, what would happen if the privatization took place?

Now, in a review of the privatization processes in other jurisdictions, in particular Britain, it is clearly found that there are several ways to make privatization effective. One of those, of course, is to ensure that the equity of the corporation is firmly in place. One of the problems with AGT is that it has a very high debt to equity ratio. That is, it's funded too greatly by debt and, therefore, in terms of private-sector comparisons probably would require more equity. How do you go about doing that? Well, there are several options. You could, for example, take the $1.3 billion in debentures which exists in the heritage fund, roll those into some form of equity, if you like -- because it's one government agency having debt as opposed to equity -- and then sell the equity into the market. That's one way of doing it. Or you could do some proportion thereof, obviously. Or, finally, I guess that at some point you could simply have AGT, if it was a privatized entity, do two things with respect to the debt. It could refinance it as maturities took place, which is essentially what's happening now in the heritage fund, or it could float a new issue to take out the existing debt. Or it could do any combination thereof.

In any event, if AGT was privatized, I think there was one sort of fundamental bottom line that could be concluded. That is that there'd be probably more cash given to the heritage fund as a result of privatization. Because, of course, you would have to switch some of these into equity, or there'd be some process of equity switching in the heritage fund. That doesn't deal with the ownership of the corporation, which is held by the government elsewhere. Obviously, there'd be implications there with respect to the equity that the government has in AGT. But with respect to these debentures, I would think it would probably increase the liquidity of the heritage fund.

MR. HERON: Thank you. Mr. Chairman, I'm not asking the Treasurer to speculate, but in looking at the public accounts for last year, is it fair to say that given that you use accounting principles to reflect the value . . .

MR. McEACHERN: Mr. Chairman, point of order. He's had three questions.

MR. DEPUTY CHAIRMAN: A point of order has been called.

MR. McEACHERN: I said he's had his three questions.

MR. DEPUTY CHAIRMAN: No. That's his third question.

MR. HERON: I'm sorry; I ran the one into the Auditor General there. I can go to the bottom . . .

MR. DEPUTY CHAIRMAN: I'm sorry, hon. member. That's your third question. I just checked with the secretary here too.
Hon. Member for Stony Plain.

MR. HERON: I'll start over with the Treasurer then. The debentures held are shown at lower of cost, and I'm wondering, looking at the possible privatization of AGT, if there shouldn't be more emphasis in the statements – not in the accounting statements; in the descriptive statements – of market value, given that in the financial community there's a rule of thumb: on a 20-year bond, each .5 percent fluctuation of interest means a change of about 5 percent in capital. My question is to the Treasurer. Many of these debentures held by, say, the heritage fund of AGT's securities are held at much higher rates. If there was a restructuring, is the value shown for those debentures representative of the true market value? I mean, couldn't we be looking at something much higher?

MR. JOHNSTON: Yes, I would say that on average, Mr. Chairman, if this was a private-sector operation and this was part of a portfolio, given the interest rates which are being charged by the various agencies of the government, you would have an increase in market value because of the inverse relationship between market value and interest rates. However, it wouldn't be all that significant, I don't think, because there's both an upward bias and a downward bias, obviously because these agencies have been in the market at a variety of rates. I haven't got this morning's long-term treasury rate, but it's going to be on U.S. treasuries about 9.3. I think Canadian treasuries are bumping up against 10, so if long-term treasuries are running around 9.75, for example, you can obviously make the calculations yourself that if these debentures are carrying an interest rate above, say, 9.75, there has been a capital appreciation. If it's below it, there's been a relative decrease in the value. But because they are guaranteed as to principal and interest, we opt for the book value, the cost of the bond, and I guess that's as appropriate a disclosure as anything.

Now, with respect to other investments in the Alberta investment division, Alberta Energy Company, for example, is under the same section of the Alberta investment division. It's shown as a cost of $87,346,000. You don't have to do too many calculations, given the value of AEC shares today, to realize that that is understated dramatically. So in the case of the assets of the heritage fund, I would have to guess that there are significant depreciations in value. In some cases they're noted by footnote. I know that in the case of some of the managed funds, the medical research fund in particular, the student finance fund more specifically, and certainly the investment in provincial debentures, where there is a very marginally high interest rate, it would have to be capital appreciations to market value over book value.

On the other hand, I have to admit that in some cases there are some problems with some of the investments. Bralorne Resources, for example, a debenture in the Alberta investment division showing 12.875, is now in some kind of financial problem. The Ridley Grain terminal, 11 percent participating first mortgage bond, probably is difficult. I think we provided for that, if I'm not mistaken now. So because we're running a portfolio approach here, on balance I say that the investments are ahead of their book, in my view, but there have been, obviously, some losses. In fact, you see it in the financial statements of the heritage fund for March 31, '87, an actual writedown of, I think, $6 million or $7 million as a result of losses. But in the case of these securities, because they could be securitized with the guarantee of the province, it'd be my judgment, based on capital market responses that I have seen recently, that the disclosure at book would be approximately their value in the marketplace right now.

MR. HERON: Thank you.

MR. CHAIRMAN: Hon. Member for Ponoka-Rimbey.

MR. JONSON: Yes, Mr. Chairman. I understand it was during this budget year that the Alberta stock savings plan was introduced. I would refer to – I guess the reference point that one would use would be volume 2, page 26.7, where we're just talking about Treasury revenue. I don't see any direct reference to the Alberta stock savings plan, but I refer there anyway. Is any calculation made on the effect that the introduction of such a plan has on the revenue to the province, the personal income tax revenue?

MR. JOHNSTON: Mr. Chairman, with respect to the Alberta stock savings plan . . . Just give me a second to catch up to you here. I have a schedule of the . . . As at March 31, 1987, with respect to the technical analysis of the stock savings plan itself, I can report that the number of certificates was 27, the equity capital sought was $61 million, the expenditures were about 70/30, 67/33 between Alberta and other parts of Canada, and the use varied from debt retirement to capital acquisition. Now, in terms of the cost to the government – just let me see if I have that number with me – we think the cost of that debt retirement to the province runs, if my memory is right, about $3.4 million. We think it will run about $3.4 million in 1987. So it's not a whole lot of money in terms of the tax costs to the province in that year.

Perhaps the take-up wasn't as rapid as we expected, but we indicated when we introduced the plan that we would like to see it grow gradually as opposed to ballooning into something similar to what Quebec did. I think that generally speaking it's been a positive move by the province. We've had a debate in the House about whether or not you could control the leakages, whether or not investments take place in other parts of the province. Needless to say, unless the investor is resident in Alberta, of course you don't get the tax credit, and I think generally speaking the total tax cost runs around $3.5 million in 1987.

MR. JONSON: If I could just ask a point of clarification on the figures that were used. You said, through the Chair, that it was $3.4 million estimated cost, not $23.4 million. Because that was mentioned. Okay.

MR. JOHNSTON: The total cost is $3.4 million, Mr. Chairman.

MR. JONSON: Right. Mr. Chairman, with respect to this plan, is there any profile available on how many people were involved in benefiting from this plan? Is it centred in very few people? You said 27 certificates. Do those represent individuals? They would represent companies, I assume.

MR. JOHNSTON: Mr. Chairman, I haven't got that detail as to the jobs generated. I think, first of all, the disclosure requirements under the plan do not call for job generation numbers. I guess there's an implicit multiplier to some extent, but that detail isn't given to us. I can say, however, that in terms of the breakdown of those 27 companies, 15 certificates were issued for resource-based industries, three for manufacturing, four for service and retail. Of the $61 million spent, approximately $16 million was used for debt buy-downs, so I guess you can conclude that $45 million was used for capital acquisitions or working capital purposes. That's about the limit of the details we have, Mr. Chairman. I'd like to volunteer I could work on the numbers, but I just don't think the numbers are available.

MR. JONSON: The final question, then, Mr. Chairman. The Treasurer has already referred to some concerns, at least in the initial stages of the plan, about – I don't know all my technical terms here, but I think it's leakage or the use of the money outside the province. As I recall, there were some changes made in the plan to address some of these difficulties. The question would be: did they have the desired result of tightening up the places where this money would be applied?

MR. JOHNSTON: Well, again, Mr. Chairman, with respect to the plan, I think during the stages of committee consideration of the Bill, there were some adjustments made to reinforce some of the concerns raised by the opposition that we had to be careful about where the dollars were going. Obviously, the government concurs with that view that you don't want to set up a plan which simply generates an investment for other parts of Canada. Nonetheless, I think the numbers themselves have split fairly reasonably in terms of the variety of tests we put in place to ensure the tax dollars are used effectively for Alberta and are used to pursue economic diversification, developing the strengths of the various sectors of our province and, wherever necessary, ensuring that a capital or equity profile in Alberta is available to smaller start-up companies. I should say that most of the companies who took advantage of the program were described as emerging, which is the group of companies more likely to have difficulty generating capital dollars in the private sector. I think there were maybe one or two expanding companies where in fact there was an organization in place and the dollars could have been raised off the marketplace but they opted to use the ASSP instead.

I think once the plan is in its final year, we would have to conduct a review of what it is we need to correct: whether or not it's important to (a) carry on with the program, (b) whether there are some things we can do the ensure that the investment is more focused in Alberta, or (c) whether or not we want to even focus more specifically as to industries within Alberta and, I guess, finally, whether or not the write-off, the tax credit to the investor is appropriate, whether that can be fine tuned. All of those will be brought together in a consultant's review or a government review of the program, and then we will just judge as to how to move with it. I think on balance, given the fact it was a start-up program, given the difficult period Alberta went through once the program was initiated, and given the market features in particular in Alberta, the plan has performed very well.

MR. DEPUTY CHAIRMAN: Hon. Member for Highwood.

MR. ALGER: Thank you, Mr. Chairman. My question is on the information provided on page 6 of the Auditor General's report. I can't for the life of me understand why anybody would write terse letters to the Auditor General, particularly this one. However, there is no actual recommendation, but I was interested in this point nonetheless. It is: will the provincially-owned universities, colleges, and technical institutes and hospitals be included in the consolidated financial statements of the province, as recommended by the Auditor General?

MR. JOHNSTON: Are you asking me . . .

MR. ALGER: I'm asking the minister.

MR. JOHNSTON: Well, I don't want to be casual about this, but I think from time to time the Auditor has to find something to write and this would have to fall in that category somewhere. You notice that he doesn't include other assets which the government owns, including land, including government buildings, for example, or other assets which the government obviously has invested in. But it is also true that universities are emanations originally of the province of Alberta under our jurisdiction, were set up under our legislation, but as with the strict interpretation of the law, there's also a concomitant evolution of the way in which these institutions operate, the so-called precedent as to how they operate. We have stressed the urgency of autonomy, the need for autonomy amongst these institutions. We have indicated quite clearly, "We give you block, unconditional funding, and you operate on that basis." We have set up, obviously, a board of governors which we consider to be autonomous. Although they are appointed by us, I concur, they are set up to operate and to run these institutions.

That has been the policy framework we have followed. The precedent, as I've indicated clearly, is that we give to the colleges and universities this right of autonomy, and in fact I should say that really the government cannot direct a university to do a whole lot. The only thing we can do in terms of influencing policy is to allow the university or college to bring on stream a new program. Other than that, we have very little influence in the way in which they spend their money. They are, therefore, in all respects autonomous.

Now, with respect to the legal nature of this discussion, I think it would be safe to say that the law would show these are not now considered to be agencies of the government and therefore it would not be appropriate to consolidate the assets into the consolidated financial disclosure statement of the government. I, for one, would oppose it on the basis of these arguments I've given: the autonomy question, the fact the precedent shows they are clearly independent and, finally, legally speaking it would be our guess that the law would show they are, for most intents and purposes, autonomous groups. I guess we could confirm that by setting up a specific piece of legislation which would give legal authority to all the universities and colleges across Alberta. But we've done it under an umbrella piece of legislation, with the exception of private colleges, of course. Therefore, the umbrella piece of legislation probably provides the same arguments I've just outlined. So I'm saying no, I wouldn't do it. It doesn't satisfy the policy objectives of the government, and I do not think it satisfies the legal precedents now found to be reflected in law, particularly on the precedent side.

MR. ALGER: Mr. Chairman, it would sound like possibly another terse letter from the Auditor General would be required.

My supplementary is: the question refers to recommendation 45 on page 82 of that same report. Has Treasury accepted the Auditor General's recommendation that it "initiate a post implementation review of the payment and general ledger accounting system"?

MR. JOHNSTON: I think that has been implemented. I might just ask Al to give me a technical confirmation of that. Al?

MR. O'BRIEN: Yes, Mr. Chairman. We did accept the Auditor General's recommendation. We expect to complete that review in the course of this fiscal year where we're involved in some further enhancements to that system. We agree with the Auditor that we should review the operation. We have initiated some of the early steps in that and hope to have it completed by the end of this fiscal year.

MR. ALGER: Thank you. Mr. Chairman, to the Auditor General then. Having listened to the responses provided by the Treasurer and his associate, do you feel confident that your concerns will have been addressed in a satisfactory manner, or do you have further suggestions for the minister, or will the odd terse letter be required?

MR. SALMON: Mr. Chairman, we can accept recommendation 45. I'm aware that they are moving ahead on the post-implementation review, and we will be examining what they're doing with respect to that. So that's not a problem.

The other one, of course, is a little more ... We've got to have some debate. We've had discussions a number of times, and I was very much aware of the Treasurer's view. Interestingly enough, though, this committee that we're all concerned about or are not concerned about, depending on how you want to look at it, has released an exposure draft on the entity question. Of course, at a recent meeting we had with some Treasury officials, we definitely disagreed as to the interpretation of that exposure draft when it comes to the university consolidation. I believe the exposure draft indicates that if the university or college is controlled by the government -- which interpretation would mean that it would appoint the board members -- they could be consolidated. I believe, on the basis of my recommendation, a consolidation would be strictly from an accounting point of view and would have nothing to do with the autonomy of the universities.

MR. ALGER: Thank you.

MR. DEPUTY CHAIRMAN: Hon. Member for Edmonton-Kingsway.

MR. McEACHERN: Thank you, Mr. Speaker. I'd like to say I've been waiting about two months to ask this question on the record. I've been trying to point out to other ministers and to this committee that the supplementary volume of public accounts is a very useful volume the way it is and should be produced the way it is. But that same information given to us by department and by program would be so much more useful, because one cannot dig through 160 pages of grants in alphabetical order or 231 pages of Public Works, Supply and Services and figure out what's going on with any particular department.

Now, you said a few minutes ago that the government believes it puts forward a good set of documents, and to some extent that's true. There's a lot of information there, a lot of accurate information, and then there are some problems, of course, which we've also asked about. But it would not cost very much to redo that volume in the manner I suggest. In fact, it would be very simple. You must collect the information in that manner, and everybody tells me that it is your decision. So why is your decision not to publish it by department and by program so that it would be easy to check what's going on in each department?

MR. JOHNSTON: Well, Mr. Chairman, just so I understand the question, presumably the member is saying that where we list the payees by name under the supplementary information, in fact we should list the payees by department as well.

MR. McEACHERN: And by program.

MR. JOHNSTON: Well, Mr. Speaker, you can imagine the stack of information that'd be available for you. My goodness, we could press leaves forever with that, couldn't we? There would be a list or a heavy weight of voluminous material which probably wouldn't add much to the understanding of how the operation of government proceeds. We believe that where the disclosure is required, we give it. We believe that if other people who are competing in the private sector with the government in terms of procurement have an opportunity, therefore, to see who received payments, to see what the competition looks like, and in fact we go even further to show that in the case of MLAs, payments to MLAs are disclosed. So where the detail is necessary, we obviously provide that detail. But I can't believe that providing a program or department additional information would assist anybody to any great extent. It would certainly run the costs up dramatically, and I'd have to admit that even now when you look at the publications we've put out -- and I haven't got the supplementary book with me. You know, how many people take them home and put them in a library? I don't think many people keep the information. So I don't think it's necessary, and I don't think we intend to change the way in which we disclose the payees.

MR. McEACHERN: It would only be for the Public Accounts Committee. I wouldn't care if the rest of the world looked at it or not. But you have all the information. All you'd have to do is use the computer to put together all the ones from Treasury, all the ones from Agriculture, et cetera. You've already collected the information that way. It would be the simplest thing in the world to run off. You just told us a lot of nonsense, quite frankly.

MR. JOHNSTON: Well, we'd like to leave some questions for you to ask next year as well, Alex.

MR. McEACHERN: My supplementary question then. It's about the consolidated statements. It would seem that the consolidated statements have left out the unrecorded pension liability, the postsecondary educational institutions and hospitals, Treasury Branch balance sheet, North West Trust and Softco, the 354713 Alberta Ltd. I wonder if either the Auditor or the Treasurer could answer what happens to the half billion dollars debt carried on the Alberta Mortgage and Housing Corporation books. How does that affect the $12.6 billion financial assets of the heritage trust fund, or does it? Or is it just postponing accounting for that in the consolidated statements?

MR. JOHNSTON: Are you asking me or you? Who are you asking?

MR. McEACHERN: Both of you.

MR. JOHNSTON: You can't get two for one. There's no discount on the questions here, Alex.

MR. DEPUTY CHAIRMAN: It's in your area, whoever wants to answer.

MR. JOHNSTON: Mr. Chairman, when I mentioned that the deficit of the province was in fact $4 billion, I think there was a detail on a footnote somewhere in those massive disclosure statements showing that the General Revenue Fund had a net deficit of $3.4 billion, and to arrive at the $4 billion actual loss, you'll have to go through, and we would provide the reconciliation, but I think it is provided somewhere else. There's an increase in the deficit of the Alberta Mortgage and Housing Corporation of $129 million, and therefore that increase is reflected in the final deficit of $4.03 billion. Similarly, we reflected a profit for the Alberta Government Telephones Commission as well. So on a consolidated basis, Mr. Chairman, in fact it is reflected, and therefore the loss of those entities, those Crown corporations, shows up, if you like, at the end of the day or the bottom line of the consolidated statement. I think Mr. Salmon would agree with that.

MR. McEACHERN: Why is it we have not seen an annual statement for the 354714 Alberta Ltd., Softco? We've got our annual statement for '85 and '86 for North West Trust, but there is no statement yet as to what's happening with Softco, the real estate properties that were taken out.

MR. JOHNSTON: Well, Mr. Chairman, I can probably deal with two questions there, because it was referred to in the opening comments in the last question. The question framed essentially is: why are some entities either controlled or managed by the province not included in the consolidation? That's a reasonable question, I think. Secondly, why have we not either consolidated or disclosed the real estate operations which the government not willfully but indirectly is now involved in?

First of all, the policy with respect to consolidation is clear. If there are shares owned by anyone besides the government entirely, then consolidation does not take place. You can see that that test therefore would preclude the consolidation of North West Trust and the consolidation of the so-called SC properties or the 354713 company. I suppose there are others, including Alberta Energy Company, that are not consolidated for the same reason.

Nonetheless, the debate on the second subset of that question is: what is the public's responsibility as to disclosure on the real estate operations? I think the records show that these real estate operations that I refer to come about as a result of the government moving to save the financial institutions of this province, to shore up the credit union system in particular for the first move we made and, secondly, to secure the two trust company operations to ensure that they operate and maintain an opportunity or an alternative as part of the financial services sector in this province. As a result of the consolidation or the restructuring of those entities, we opted to move the nonperforming assets off the balance sheets into a corporation that is essentially a mixed-sector operation. That is, it's controlled and operated by and owned by private sector and government ownership as a subtle test, because it really isn't ownership; it's essentially having the private sector participate. Therefore, these real estate assets are now being operated and managed as effectively as possible, considering at least two constraints. One is that it is our objective to get the money back as soon as possible. Secondly, we may need to ensure that the disposition of these assets does not disrupt the general mechanics of the real estate market, which has suffered extensively over the past two to three years.

Finally, with respect to the disclosure question, since my colleague the Member for Calgary-Buffalo has essentially asked the question via the legislative process by putting a motion for a return on the Order Paper, obviously it will be considered by the government over the next week or so.

MR. McEACHERN: Correction. It's my question on the Order Paper, not Sheldon Chumir's.

MR. DEPUTY CHAIRMAN: You stand corrected.
Hon. Member for Chinook.

MRS. McCLELLAN: Thank you, Mr. Chairman. I have questions about the Alberta Heritage Savings Trust Fund based on the information in volume 1, pages 4.39 to 4.50. The heritage fund held much more cash on March 31, '87, than it did in the past years. It seems that this figure is increasing. I guess my question is: why do we hold this pool of cash, and what would it be used for?

MR. JOHNSTON: Mr. Chairman, that's an excellent question, and it has been the focus of some debate recently. I must say that I was alarmed when someone in the private sector indicated in 1987-88 that the fund itself was only worth $1.2 billion. I scratched my head a bit, when in fact the cash itself of the fund is over $2 billion. That kind of alarmist statement is certainly inappropriate, and I took time to communicate with the person who made that statement that he was dead wrong in his assumption.

But the increase in cash, of course, provides the province of Alberta with significant opportunities. As you well know, the '86-87 change in the revenues to the province was such that we knew we would have to enter the marketplace, the capital markets in particular. Although in the first of 1986 we started off with a net asset position considerably above other provinces – we still have that net asset position if you consolidate it. Secondly, we had no debt in the General Revenue Fund. But we had to embark on a project of borrowing money in the marketplace, the capital markets. I know all members are aware of the frailty of the capital markets. Interest rates obviously drive the conditions. Today, if the American trade statistics are being disclosed, the market will rumble. In fact, the October 19 crash may well have been dictated by those trade numbers. You see the frailty of the capital markets currently.

In terms of a strategy, we thought we would use the heritage fund as a bit of a safety valve, if you like. If we could not access the capital markets to meet the debt requirements of the General Revenue Fund over the period ahead, we had the safety net of moving from the General Revenue Fund into the heritage fund to borrow on a short-term basis to allow us to get through that period. Therefore, as a result of that, we were able to stabilize the General Revenue Fund and stabilize our borrowing requirements by using some of the General Revenue Fund savings account, that $2.2 billion that is now sitting there, where necessary. We used it for some of those very important programs on a short-term basis until the long-term funding was set up. Those short-term programs I refer to include the farm credit stability program, the approximately $2 billion program that was set out in May of 1986, completed in August of 1986, and the small business credit program, the $1 billion program which obviously had to be up and running quickly. So on a short-term basis, we used that cash to fund those programs and, to some extent, fund the General Revenue Fund. Much of that has been repaid. However, I should say, Mr. Chairman, that we're phasing our position, the Heritage Savings Trust Fund position in the two funds, the farm and small business fund, based on repayment, and it's making a rate of return.

On the rate of return question, obviously if there are any borrowings by any fund, it is at a market rate. The reason the cash increased was that some of the debentures – that is, the advances to the other provinces -- started to mature. These were considerably large dollars. I think if you look at the heritage fund statements, you'll see that at one point it was at – I just forget what it was that year, but it's a heavy amount of money. At the end of 1987, it was $1.875 billion. As you can appreciate, Mr. Chairman, from time to time those debentures mature, the cash is brought into cash, and we use it to generate ongoing short-term revenue for the heritage fund and the province. So that's essentially what's happened. I think it reflects our fiscal strategy to ensure that there's liquidity in the heritage fund, and that did assist us considerably in meeting the very difficult period, 1986-87 financing.

MRS. McCLELLAN: We go to page 2.5 in volume 1. The heritage fund contributed about $1.4 billion, et cetera, to budget revenue. This was about $15 million below the estimates. Could you explain that shortfall?

MR. JOHNSTON: Say it again – 2.5, General Revenue Fund, and . . .

MRS. McCLELLAN: The contribution was below the estimate.

MR. JOHNSTON: In the Heritage Savings Trust Fund?

Mr. Chairman, just so I understand the question, in 1987 we budgeted $1.46 billion transfer from the Heritage Savings Trust Fund, worked out to be $1.44906 billion. I don't want to see immodest, but that's fairly accurate in terms of budgeting to reality.

MRS. McCLELLAN: I guess it would be in terms of dollars.

MR. JOHNSTON: What happens, of course, is that because we were, as the member properly pointed out, opting for a more liquid position in the fund and because during that period 1987 . . . In fact, early in 1987 the money markets were at the lowest period ever between 1987 and 1988. It was early in 1987. I recall that because we did a major issue that year. However, because the interest rate of the market was down in terms of what you could earn on your investments, obviously the cash flow to the heritage fund was down, so any variation between those two amounts would be as a result of the market forces.

I should say as well that as you look forward into 1988 and 1989, you find that the transfers from the heritage fund to the General Revenue Fund are decreasing as well, driven essentially by the fact that we're now more in cash because of redemptions of the province's outstanding investments that we have there and the fact that the market is not paying as high a rate for short-term marketable securities.

MRS. McCLELLAN: Thank you. Final supplementary. You commented on this in your first question, but I guess I would like a little more specificity on the effect of the decline in the stock market in October 1987; just the effect on the value of the fund.

MR. JOHNSTON: Well, on October 19, 1987, presumably what you're referring to, the market did reduce. I know, Mr. Chairman, this is outside of the current period, but let me set aside the reference to October 19 and simply make a general statement which does apply to 1987 as well as any other period. Because the Legislature opted to allow the heritage fund to invest in the commercial investment division, and in the commercial investment division there's an opportunity to invest in Canadian stocks, obviously you must take the risk. You have the opportunity to ride the market up, because you've had a bull market since 1982, and I guess it's still safe to say we have a bull market today in stocks. The market started at the end of July or early August in 1982 and continued through to October 19, 1987, where there was a nominal or a significant correction, depending on how you see it, and then it's continued back up again.

But obviously, if you're going to manage a fund such as the heritage fund or, for that matter, any pension fund, you have to take some risk. You have to invest in some of these high yielding, conservative stocks, and generally speaking, the commercial investment division reflects that. So if the market goes up, the stocks go up; when the market goes down, the stocks go down. It is safe to say that we're well ahead of our investment cost in the commercial investment division, even within the vagaries of the October 19 adjustment.

MR. DEPUTY CHAIRMAN: Hon. Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. To the Treasurer. I wonder if the Treasurer could indicate that during the latter part of the year in question, 1986-87: did he direct his officials to evaluate the market value of the strong parts of Principal Group, such as the mutual fund, the trust companies, and so on?

MR. JOHNSTON: Say again? You said "Principal." Always when I hear that word, my ears perk up. We should have a cue card, "This is how you spell it."

MR. MITCHELL: I'm wondering whether during this fiscal year, which is when, clearly, your government was deliberating the fate of Principal Group, you had directed your staff or had sought outside consulting advice to assess the value of what could be construed as discrete parts of Principal Group not affected by First and Associated, their value on the public market such as the mutual funds, such as the trust company.

MR. DEPUTY CHAIRMAN: Which section of the report does that come under, hon. member?

MR. MITCHELL: Well, I assume that the Treasurer, Mr. Chairman, would have utilized staff in his department or budgeted to hire consultants in his department during the fiscal year 1986-87 if he was going to make a decision two months after the end of this fiscal year on the fate of those companies. I mean, I think it's clear that it relates to how the money of this department was spent.

MR. DEPUTY CHAIRMAN: Well, it doesn't actually relate to an expenditure of that year, and we're examining expenditures of that year, hon. member.

MR. JONSON: Point of order, Mr. Chairman.

MR. DEPUTY CHAIRMAN: Point of order?

MR. JONSON: Mr. Chairman, I appreciate this topic is of great interest to the Member for Edmonton-Meadowlark, but I really think that this is not an appropriate place or time to get into a mini-inquiry on the Principal Group. I think it's out of order in this context.

MR. BRADLEY: Well, Mr. Chairman.

MR. DEPUTY CHAIRMAN: On a point of order, Pincher Creek-Crowsnest.

MR. BRADLEY: My point of order is that I believe this matter is sub judice, and the questions being asked are out of order in this forum.

MR. DEPUTY CHAIRMAN: I would have to agree, hon. member, that it's not in line with what we're here to do. We have the Code inquiry asking all those questions now and . . .

MR. MITCHELL: They haven't asked this question.

MR. DEPUTY CHAIRMAN: Basically, the Code inquiry isn't completed. We don't want to get ahead of them. We're now examining expenditures for the year 1986-87, so would we have your second question please?

MR. McEACHERN: It would save an awful lot of trouble if you'd just let the minister answer. He's quite capable of answering it.

MR. DEPUTY CHAIRMAN: Well, I want to make sure that you get your questions in, hon. members, and we don't want to stray.

MR. MITCHELL: But I'll continue, because the way I'm asking this is not sub judice. It's my decision, I guess, to evaluate that, and it's the minister's decision to evaluate whether he wants to answer it.

MR. HERON: Point of order.

MR. DEPUTY CHAIRMAN: Point of order, Stony Plain.

MR. HERON: Mr. Chairman, this committee has operated very, very effectively under the chairman and under your own guidance as the vice-chairman in keeping this committee to the strict terms of its mandate, and those are to examine the Public Accounts in an historical perspective. You know, we've taken great pains to point out volume 2, pages such and such, section such and such in our questioning and have been kept right on the guideline. I think the hon. Member for Edmonton-Meadowlark is endeavoring to abuse this committee if we start moving in the direction of a mini-inquiry. I don't want to test his memory this early in the morning.

MR. DEPUTY CHAIRMAN: Hon. Member for Edmonton-Meadowlark, you'll come back to . . .

MR. MITCHELL: There is absolutely no question that this falls within the mandate of this committee. If you look under volume 2, there is a section under the Treasury's public accounts that relates to expenditure for the regulation of the financial industry. There's no question. And I'm asking a simple question: were the resources of this department utilized to direct employees of this department or consultants hired by this department to evaluate the market value of companies that could have been sold on the public markets, companies that were part of Principal Group? That's all I'm asking. That's a simple question.

MR. BRADLEY: Point of order.

MR. DEPUTY CHAIRMAN: Point of order.

MR. BRADLEY: Mr. Chairman, it's very clear in my mind that this is a matter which could be coming before the Code inquiry and, as such, is sub judice and should not be answered in this form at this time.

MR. DEPUTY CHAIRMAN: Well, hon. members, we won't have any more points of order on this. The Chair is ruling that these are questions that will adequately be answered under the Code inquiry. Let's get back to the public accounts, volume 2, and the Auditor General's report. Hon. Member for Edmonton-Meadowlark.

MR. McEACHERN: Why don't you let the minister decide?

MR. MITCHELL: Does the minister want to answer?

MR. DEPUTY CHAIRMAN: I just decided, hon. Member for

Edmonton-Kingsway. Hon. Member for Edmonton-Meadowlark.

MR. MITCHELL: Okay. Well, he'll be sorry, because I've got some even tougher questions.

MR. DEPUTY CHAIRMAN: A tougher question, hon. Member for Edmonton-Meadowlark... Would you refer to the page and volume of where you're getting your tougher questions so that all members of the committee can follow?

MR. MITCHELL: I'm only kidding, of course.

We have heard a great deal about... I just hate to do this. I hate to leave this, you know that? I just hate to leave it. Could I ask another question to see if it's sub judice? Because of course I haven't used a question yet.

MR. DEPUTY CHAIRMAN: You're on your second supplementary, hon. member.

MR. MITCHELL: I haven't asked a question yet, because you've ruled it out of order. So I at least get three.

MR. DEPUTY CHAIRMAN: All right. We'll call it first.

MR. MITCHELL: Okay, I'll go back. On loan guarantees could you please tell us, Mr. Treasurer, give us some explanation of the argument that the details of the loan guarantee arrangements with various companies are not released by your government because you are concerned of the impact that that may have on the competitiveness of the companies involved. It seems to me that that makes very little sense, particularly if they are told at the outset that one of the conditions under which a loan guarantee would be approved would be that it would be made public. I don't want to be cynical about it, but I've asked myself and asked myself: how is it that that can affect their competitiveness? Could you please explain that?

MR. JOHNSTON: With respect to the loan guarantee initiatives of the government, these guarantees, of course, in a strict economic sense probably shouldn't be a lever or an arm of government. There is that argument that suggests that guarantees provide certain sectors or certain corporations exceptional or additional advantage to compete within the marketplace here in Alberta. On a strict interpretation of that, of course, you would see that that's a form of assistance or a form of subsidy that on a pure market system you would not be involved in.

However, so much for the lack of intervention, because, of course, intervention is a policy of all governments. They may not describe it as that. But we have taken the time, going back to 1985, to talk about the aggressive nature of this government in pursuing economic diversification and real economic growth and the strengthening of the strong sectors of this economy. And one of the least objectionable forms of intervention, as I see it at least – and I think it's shared by my colleagues in government – is the guarantee route, in that you really don't interrupt the market forces to the same extent you would if you went a massive direct subsidy. And it does allow the dictates of the marketplace to influence investment decisions, generally speaking, at the margin, assuming that capital investment decisions are based on reasonable approaches to discount and cash flow, the cost of borrowing, those kinds of things that the member, I know, is well aware of.

So I think as an implementation or as a lever of economic development guarantees can be effective, and I think they're showing to be effective here in the province. And I might make this comment, Mr. Chairman, because I think it's fair to know how policies evolve and how I see them and to some extent how others in government see them. So I think the guarantee itself is a fairly reasonable approach by governments. And it is being used by other governments. I know if we didn't do it and other provinces were doing it and we lost investment or development, rightly so the opposition would be up to say, "Well, why didn't you go after that company in the same fashion as the province X did?" And so we've had to be brought into this game because it is currently the game across Canada, setting aside the implications of free trade or whatever resolution takes place there in implications for policies of government. Put that aside for the time being.

With respect to the policy question, more specifically as to how guarantees are used, I think I have given some explanation of guarantees in the House already, but let me just generally state them again. Obviously, a guarantee is an off-balance-sheet assistance. It's disclosed in the public accounts. Somebody knows more specifically where it is than I. We try to list the guarantees so that there is a public record as to where the guarantees are going. We don't give full details, and I'll come back to that in a minute. Secondly, the fee is usually levied for a guarantee, in terms of economic development guarantees at least. It's generally based on the credit worthiness of the entity. Thirdly, we take full covenants wherever possible. By full covenants I mean charges against the fixed assets, together with personal guarantees. And finally, the guarantee tends to prorate based on the amortization of the loan itself. So if the loan decreases, obviously the guarantee decreases.

That's the general framework that we talk about: one, the broad policy question as to why guarantees are necessary; secondly, the narrower application as to how guarantees were applied. But then finally you come to the other point that has been raised by the member; that is to say, why would you not disclose more fully the terms of the guarantee? And I think that there is a fair discussion here, that if you've put full disclosure to the people applying for the guarantee and said, "Look, we may have to answer a question in the House and provide information in the terms of guarantee," that some would come to the marketplace based on those terms. Yet others probably would say, "Well, I don't really like that particular condition because it opens up the nature of our business to not only the government but to others as well." And you could see that once you started disclosing terms of guarantee, you would soon have to disclose the market value of a company, the equity of the company, where the financing has taken place, the cost or the value of the assets that provide the security. And pretty soon, Mr. Chairman, once you started that, you would quickly reveal, fairly generally speaking, the assets and liabilities of an entity, its cash flow, and likely its profitability over the period or the course under which the guarantee is provided.

So I think it is reasonable to say that if you want to use the guarantee as a vehicle to attract economic diversification and new investment in this province, you have to give up a bit as well. We have to make it as easy as other provinces are doing, so that you're indifferent as to whether or not you invest here or somewhere else. But you can't go too far in terms of that disclosure, because the companies won't come. I mean, you simply cannot ask them to give out more than they would in a normal sense, unless it's a public company, I agree, in which case, I think, generally speaking, the guarantee is disclosed on their own financial position statements, and I know that the members will check that.

So that's generally our policy. I think, in fact, that it does go quite a ways to disclosing the competitive position of the entity. It would not do much to attract new industry to this province and probably isn't being done in other provinces, where guarantees are an effective tool of economic diversification as well. That's the general notion of guarantees. It's legitimate to disagree on this question, I know, but that's generally the government's feeling.

MR. MITCHELL: You're right, of course, that the nature of this kind of an arrangement could affect a company's market value or people's assessment of the company's market value. Is it not therefore an obligation, if not of the government perhaps of the company itself, to disclose the terms of that particular loan guarantee arrangement to prospective and existing shareholders so that they can assess the impact that would have on the value of their company? For example, if the conditions were that the government was very quick to pull or call or rearrange the loan, that could have a serious negative effect. Does the government not have an obligation, therefore, if shareholders can get that information, to provide that information to the public of Alberta as well?

MR. JOHNSTON: Well, I would suggest, Mr. Chairman, that in most cases a guarantee is probably noted on the financial disclosure on those entities. Now, I can say that in some cases there's something called the nonrecourse guarantee, wherein the company has no obligation to disclose the financial picture or the financial liability on the balance sheet because the government's guarantee is so good that it essentially takes the liability off the balance sheet. Nonetheless, that is the contingency which would likely be noted by a footnote on the financial statements. Generally speaking, in a public company at least, there would be a full disclosure as to the terms and conditions of the guarantee. Now, specifically with respect to private companies, I don't see why a shareholder wouldn't have the same information in a private company because, of course, distribution of documents, statements in particular including the auditor's statement, would include that information.

MR. MITCHELL: I'm going to go back to my Principal question and whether or not it's ruled out order, I want to get it on the record. Was the minister aware in the spring of 1987 that various, at least two, national brokerage firms had valued the mutual fund companies in the Principal Group of Companies for sale on the public . . .

AN HON. MEMBER: Point of order, Mr. Chairman.

MR. MITCHELL: I can get the question out. How can you rule it out of order unless I get it out?

. . . for sale on the public markets . . .

MR. DEPUTY CHAIRMAN: Hon. member, you are out of order. You will not go back to that subject. Would you have your final supplementary?

MR. MITCHELL: I am not out of order. I mean, if I asked the minister how do you spell "Principal," would that be out of order? No. It would not be sub judice. I am asking a specific question and I . . .

MR. DEPUTY CHAIRMAN: If you want to ask your final supplementary, hon. member, we'll accept it.

MR. MITCHELL: I don't care if the minister answers it or doesn't answer it. I have a right to ask it.

MR. DEPUTY CHAIRMAN: Hon. member, this committee isn't here to make political points. This is here to ask expenditures for the year of 1986-87, and please get back to that.

MR. MITCHELL: Can I draw a picture for you, Mr. Chairman?

MR. DEPUTY CHAIRMAN: No. You are entirely out of order. If you continue . . .

MR. MITCHELL: The minister . . .

MR. DEPUTY CHAIRMAN: You are out of order. You have now lost your privilege on your third supplementary.

The Chair recognizes the Member for Pincher Creek-Crowsnest.

MR. BRADLEY: Mr. Chairman, I have a question on page 26.6 of the public accounts under statement of expenditures by element regarding Debt Servicing Costs. The estimate for that year, '86-87, was to expend $203 million on Debt Servicing Costs. The actual expenditure was $184.9 million for a savings, I guess, to the province of some $18 million less cost of debt servicing than had been anticipated. Could the Provincial Treasurer explain why the Debt Servicing Costs were less than what had been estimated?

MR. JOHNSTON: Well, Mr. Speaker, I should first explain how the government was financing in that period. That takes us to March 31, 1987. But let me say that because we had the move into the marketplace in a variety of fashions, we essentially took a short-term position because we had to put in place prospectuses in various markets, whether it was in Luxembourg, Switzerland, London, New York, or, for that matter, Canada. These are not easy processes. They take some time to get done. Because of the situation, the government was changing so dramatically in terms of the revenues, we had to be sure that, in terms of a so-called due diligence, the prospectus properly noted the change of economic situation of Alberta.

At the same time, the province went through a downgrading in its credit worthiness, still the best there is in Canada, but nonetheless it went from triple A to double A1. Through all of that we had to scramble to put dollars in place. I've referred already to the use of the heritage fund on a short-term basis, but as well we did use something called the short-term markets in Canada and I think also in the United States. That short-term market was made up of T-bills, where the government sold T-bills into the market, the use of promissory notes into large financial institutions, and if my memory is accurate, we established of course a paper market as well, which obviously are all short-term instruments.

As I've also indicated, through the period of late '86 through to early '87 the market was fairly favourable to borrowers. We could borrow money in the short-term markets very cheaply. Obviously, because the short-term markets were dropping down fairly rapidly over '86 through to early '87, the year in question, and because we were exposed on the short-term side because of the entry into the marketplace, we had favourable results as a result of the market situation. Therefore, our expectation of paying $200 million for borrowing probably was not quite accurate because of the market forces.

As well, Mr. Chairman, there's another reason. That is, in the fall of 1986, we instituted a freeze in government expenditures that saved the government a dramatic amount of money both in terms of the operating costs to government, the new capital investments, and the job constituency of the provincial government itself. All in all, those costs obviously would have had to be borrowed if they were spent. As a result of not having to spend the money, we did not have to borrow the money. Therefore, the financing costs were below our estimates. So two factors: the marketplace in particular, and secondly, the fact that the expenditure freeze implemented in the fall of 1986 worked to our advantage.

MR. BRADLEY: Mr. Chairman, a supplementary question regarding vote 3, Revenue Collection and Rebates, which we find on page 26.2 and again on 26.3 and 26.5. The estimate for Revenue Collection and Rebates is some $276 million. In addition you have a special warrant of some $30 million, for a total authorized estimated expenditure of $306 million. The actual expended amount is $151 million. So you have an underexpenditure of $155 million under vote 3, Revenue Collection and Rebates.

I note that this is made up largely in terms of grants and it also has to do with the corporate tax administration. Could the minister explain the underexpenditure of some $155 million in vote 3 under Revenue Collection and Rebates? Why is it so dramatically large?

MR. JOHNSTON: Well, if you look at that line, of course, you'll see that there's a special warrant added in, and the total authorized expenditure is $306 million. We expended $151 million. Essentially the $155 million difference is a result of enrichments to the royalty tax credit arrangement. The voted expenditure was, I guess, offset against the collection of the income as opposed to being shown as an expenditure and therefore was a tax expenditure as opposed to a revenue expenditure. It was a change in policy.

Al, do you want to elaborate on that?

MR. O'BRIEN: Yes. If I just could, Mr. Chairman. The funds were initially appropriated as an expenditure because the program was amended, you may recall, on April 1, 1986, and then again I believe in June of '86. There was no authority under the royalty provisions in the Act for that enrichment of the royalty tax credit, so it was voted. Subsequently, in the 1986 legislative session, the Act was amended to authorize charging those credits against nonrenewable resource revenue, and so they were subsequently charged to revenue rather than being recorded as expenditure.

MR. DEPUTY CHAIRMAN: Final supplementary.

MR. BRADLEY: Mr. Chairman, I did have a question with regards to recommendation 47 in the Auditor General's report, but given that we're running out of time, I think I will defer my question. It's been a matter of public debate for some time.

MR. DEPUTY CHAIRMAN: Before I accept a motion for adjournment, there are several speakers on the list. I know, hon. Provincial Treasurer, your door is always open, you'll entertain those questions, and they can come in and get the answers, I'm sure -- all those. Pincher Creek was just finishing up. Cardston, Calgary-McCall, Calgary-Glenmore, Bow Valley, and Calgary-Millican didn't get their first questions, and I'm sure all you people will go directly to the Provincial Treasurer and receive his usual cordial welcome at his office.

The next meeting will be next Wednesday, 10 a.m., June 29, when the Hon. Les Young will appear before us.

And gentlemen, all four of you, I appreciate your coming here and providing us with very worthwhile information. We look forward to the next time that you will return.

[The committee adjourned at 11:30 a.m.]