8:35 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Order please. We'll call this meeting to order. Might I have a motion to approve the agenda as circulated? Mr. Shariff. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried.

We have today the Hon. Stockwell Day, Provincial Treasurer. First of all, Mr. Minister, if you would introduce your deputy, then we'll introduce the Auditor General.

MR. DAY: Jim Peters is actually a controller from Alberta Treasury. He'll be assisting me today. Glad to be with you, Mr. Chairman, and members, friends.

THE CHAIRMAN: If we'd just hold on for opening statements, we'll ask the Auditor General if he would introduce his staff here today.

MR. VALENTINE: Thank you, Mr. Chairman. On my extreme left is Gerry Lain, who has responsibility for the consolidation of the government's accounts. On my immediate left is Jim Hug, the Assistant Auditor General responsible for the Treasury Department. On my extreme right is Ken Hoffman, who has responsibility for performance measurement, and on my immediate right is Suzanne Nickerson, who has responsibility for financial instruments including derivatives and other such instruments.

I'd like to introduce the staff who are responsible for the wide breadth of engagements that fall under Treasury: Mike Morgan, Erwin Hunke, Pat Doyle, Dennis Gee, Louise Johnson, Mimi Chow, Ying Tang, Trevor Mills, Bill Cruikshank, Tammy Bailey, Lawrence Taylor, Marcia Mielke, and René Boisson, who all partake in the most important section of our audit work, which is Alberta Treasury.

Thank you.

THE CHAIRMAN: Mr. Minister, if you have some opening statements.

MR. DAY: Sure. Thanks, Mr. Chairman. I could go on at length, but I won't. I'll try to wrap up my remarks by about 10 to 10 because . . . We have till 10 o'clock; right?

THE CHAIRMAN: Then the choir sings.

MR. DAY: I'll just take a few minutes of overview for the '95-96 public accounts and statements, just some areas and items that I think are worthy of note.

The finances improved in '95-96 mainly because of a strong economy. Business was recording higher profits, and more Albertans than ever before were working, paying taxes. We had then, which we do have now, the continuing picture of a robust economy, meaning more people working, more people paying taxes. Revenue from taxes increased without increasing tax rates, so it was a very enviable position for us to be in. Government spending was down for the fourth year in a row. I recorded a surplus of $1.132 billion as compared to a consolidated surplus of $672 million in '94-95.

Alberta's revenues were $15.572 billion. That was a decrease of almost half a billion over the previous year, mainly due to a drop on the non-renewable resource side. Revenues had increased and did increase on the income tax side. Corporate income tax was up $259 million, and personal income taxes were up $114 million.

Clearly it shows in the '95-96 public accounts a government with spending under control. In '95-96 Alberta's total spending was $14.386 billion compared with $15.43 billion in '94-95. That was a drop of more than a billion dollars, a result of a decrease in provisions for pension liabilities and an overall decrease of $758 million in the rest of government spending. So I think there are some significant numbers there.

With the decrease, it's important to note in areas of spending that close to $9 billion was spent on priority areas that Albertans identified: health, education, and social services. Almost three-quarters of the government's total program was on those three key areas. That was down 2.4 percent, or $217 million, from '94-95. When you look in the area of total program spending on other areas of government, it was $3.4 billion in '95-96. That was a drop of 11 percent from '94-95. So in the priority areas you see the drop of 2.4 percent, other areas of government spending dropping 11 percent, very keenly and significantly focusing the decreases away from those key priority areas.

The '95-96 results showed the net debt at $6.22 billion. That was down 15 percent from $7.3 billion. In the '95-96 public accounts, when you look in volumes 2, 3, and 4, you see a number of changes in government since '93. Just very briefly, Mr. Chairman, that would include the first complete set of audited financial statements for regional health authorities; information on salaries and benefits for government employees, universities, colleges, and technical institutes; financial information on pension plans; financial statements of universities and university foundations, public colleges; and for the third year in a row, no special warrants were issued under section 42 of the Financial Administration Act: all of those adding up to a picture of a government clearly in control of its spending and clearly targeting in its priority areas. It's that type of picture which results in, for instance, our ratings from agencies like Standard and Poor's being so significantly strong. The numbers in fact speak for themselves in terms of not just the priorities but the ability for the government to hit the target on its priorities and maintain them.

That's just an overview, Mr. Chairman. Obviously, I could and would like to go on at length, but I would be robbing myself of the opportunity of getting good advice and suggestions and even constructive criticism, which I know will be forthcoming in the session ahead.

Thank you for the time and opportunity. I look forward to input from the members.

THE CHAIRMAN: Mr. Zwozdesky has some questions for you, sir.

MR. ZWOZDESKY: Thank you. Good morning, Mr. Treasurer and staff, and to the Auditor General and his staff: good morning to you, gentlemen and ladies, as well. I'm pleased to begin this debate on the public accounts this morning. I want to pick up a little bit where I left off yesterday with the hon. Provincial Treasurer, of course looking at the past to do that, as we're required.

I want to begin by looking at public accounts, volume 2, page 15. If the Treasurer and staff could direct themselves to that area, my questions are with regard to loans and guarantees as they are monitored or at least as we hope they are monitored in the division of finance for that period. My assumption here, Mr. Treasurer, is that the department does do a series of financial statements on a monthly basis, perhaps cash flow statements, quarterly financial reports, and so on, which we've discussed in addition to the business plan in pro forma financial projections that the department puts out. Based on that assumption, I am wondering if we could get a little more clarification on the types of monitoring procedures that were in place within the loans and guarantees division of finance in '95-96 to minimize the exposure for taxpayers in the event of default on the loan or loan guarantee obligations, such as those listed on page 15 where it says "provision for doubtful accounts and loans." What type of monitoring procedures did you in fact have in place at that time?

MR. DAY: Mr. Chairman, the member raised yesterday a question about a team in place, and in my response I said that indeed there is such a team, if we could call it that. I alluded to three levels of that team: first, actual officials from within the department itself, whose job and mandate it is to monitor and work with these loans and loan guarantees. Robert Bhatia, who is our ADM, and Peter McNeil, heading up that team, are the ones who are significantly involved on a daily basis in terms of watching and monitoring and availing themselves of opportunities to maximize returns and minimize losses, and that's all within the constraints of the various contracts these various loans and loan guarantees are bound by. That's the actual on-site, hands-on team that is minute by minute involved with these loans and loan guarantees.

I made reference, as the member would recall, to a broader team, which would be my own colleagues in the Assembly and then Albertans in general, and I wasn't saying that at all in a minimalist way. In fact, many Albertans in the business community and other communities come with advice on a regular basis in terms of their personal insights. Whenever we get good advice on how to properly manage, we take that advice.

8:45

These loans and loan guarantees, virtually all of them are proscribed and prescribed by the details of the arrangements themselves, and when you look at some of those – I think I've said here in the Assembly and certainly I've said publicly that as a businessperson I guess I would love to have had some of the arrangements some of these companies had when these deals were signed. I'm not saying this at all in a blaming fashion. I'm saying that the majority were done, signed, sealed, and unfortunately not delivered anytime over the last 18 or so years. They were done at the time, I believe, in good faith and due diligence and in the hope – and a lot of them were done before my time here – of igniting and spurring an economy that was collapsing, the first sign of collapse of course in 1981-82 with the national energy program and then, following, the collapse of prices through the mid-80s related to oil and gas. Those were deals that would not be signed today, not just because we recognize that the policy was faulty, but in fact we are bound by legislation now not to be able to sign those types of deals and arrangements.

So that's the backdrop to my response. When you have a team in place, as we do, to monitor these particular arrangements, they do have the constraints of the actual deals themselves, Millar Western being one example. When you look at the deal that was ultimately signed to get us out of that – there's a fascinating situation written into that loan agreement – part of that arrangement allowed the owner on an annual basis to make an offer to the government of a certain amount of dollars which the government would virtually have to accept. It's known in industry as a shotgun clause, which eventually came to be. That was unique to that particular agreement.

Other agreements like Al-Pac didn't have those provisions whereby the owner could come and offer a very low price and the government be in a position where they'd have to take it. Each one of those loans and agreements was unique; they had certain provisions in them. They were all very friendly to the borrower, very friendly, and many resulted in losses which were significant. When the losses are looked at as they should be and recorded as they should be, they are significant.

One of the things that isn't taken into account with those arrangements – and let's take one of the big horror stories, NovAtel. One thing that is never counted into the equation is the incredible amount of jobs that did take place over the period of time, albeit there was a loss. I'm certainly not defending this deal. I'm saying that if you want to talk about really full accounting, the construction that goes on when one of these companies builds their facility with that borrowed money, the shot in the arm to the economy when that happens.

Or move it up to date, move to an Al-Pac situation today, for instance, which was a loan arrangement which would not be signed today yet is putting millions and millions of dollars annually into the coffers of three levels of government, boosting an incredible economic spin-off both locally, provincially, and even nationally because of the giant amount of purchasing that goes on. All of these factors on an annualized basis are never applied nor should they be nor can they be in the public accounts of government, yet they are a key factor in terms of economic stimulus. So in looking at these with the team of people that we do have, they are intimately familiar with the details of the loan arrangements and will take steps when the opportunity arises to pursue maximizing the return on these loans. But there are restrictions. They are bound by the nature of the agreements themselves.

MR. ZWOZDESKY: Thank you, Mr. Chairman. I hesitated to interrupt the hon. Provincial Treasurer because I can appreciate what the backdrop was, and I can appreciate the 18 years of history and so on. But the simple question is: what type of monitoring procedures did you have specifically in place during '95-96 that would minimize the taxpayers' exposure? I realize that each deal is a little different and that there are different provisions, but, for example, could you comment on some specifics regarding the types of monitoring procedures you or the department at the time underwent with regard to such entities as Centennial Food Corporation, Kananaskis Alpine Resort, Pocaterra Development Corporation, Skimmer Oil Separators, and so on? Just a brief answer, if you wouldn't mind, hon. Treasurer, regarding the specifics of what you did in tracking those particular ones. Pick any one or pick them all and just comment on the specific types of monitoring procedures you had. That's really what I'd be interested in knowing.

MR. DAY: Well, again, Mr. Chairman, when you find yourself in the unenviable position of being the banker or to a degree the banker, then you emulate what banking institutions do. If I can use that analogy, a bank does not go out to the work site every day and see how the hamburgers are selling and how the houses are going up and how the cement is pouring. They do expect reports on a basis laid out in the contract. That type of monitoring is in place. There are certain dates – each one is different – at which the various borrowers have to either meet a certain payment or, if they don't meet the payment, indicate why they did not meet the payment. Much like a banking institution, the follow-up is done along the lines of the agreements that are laid out and signed. Each one is different. Each one is followed up on. When there is a situation that a payment, for instance, is not made, or it appears a default may be coming based on the report, then the follow-up is done. The contact is made much as a bank would do: what's the problem, where's the problem, and what remedies can be put in place to either make sure the payment comes through or some kind of provision is made to make sure a loss is minimized?

If you want, I can go back to that time when I was not Treasurer – and I'm not exempting any responsibility there – and ask for a sampling of some daily work reports that might give you an idea of the response. But I'm trying to indicate to you that with each contract being somewhat unique, there are action periods, action dates at which they're watched, and when that date happens, if the response is there, that's fine; if it's not, an immediate follow-up happens, much as a banking institution would do.

I'll try to get a report on an overlay of the actual work, a sampling, so that the member can see that, and if he's got some suggestions on how it could be improved – also, you may find some of the detail as I respond to close to 50 of the written questions and motions for returns which the member has on the Order Paper at this time. It's somewhat unprecedented, but we're doing our best. It actually makes it difficult, because the people we have on our asset team are also the ones that have to do the digging to respond to these questions. It's very time consuming, and I've told them that while we need to get the answers to the questions, I don't want to deflect them from their task of monitoring on a daily basis these loans and agreements. I can tell you it is a factor.

THE CHAIRMAN: That may be of some concern to another committee, motions for returns or not, but in fact we do have a time limit before the choir sings at 10 o'clock. If we could keep the answers a little shorter, we have a great number of members here that would like to have you answer their questions.

Mr. Stevens, if you would, please.

MR. STEVENS: Thank you, Mr. Chairman. Good morning, everyone. Fiscal 1995-96 produced the second consecutive surplus, producing a net debt pay-down of $1.1 billion. While the debt reduction was clearly welcome news to Albertans, this was also the second consecutive year the government estimated a budget deficit and instead had a surplus at year-end. Why were the results so different from the budget estimates?

8:55

MR. DAY: Well, the question is key, and we do have people that raise it. I mean, it turns out to be good news, and people do address that from the same point of concern the member has raised. Really, it comes down to a matter of revenues. We did budget for revenues of $14.25 billion. Actual revenues for the year were $15.5 billion. That's a good problem, but the forecast obviously was off, as the member indicates, by about $1.3 billion more than the estimate. You can peg almost the entire amount of that increase, the $1.1 billion, from two sources: resource revenues and corporate income taxes. Those are really the two most volatile areas of revenues. We had set aside resource revenue and corporate tax cushions of about $391 million. The cushions obviously weren't required. We realized $730 million in additional windfalls above the budget forecast.

It really points to how difficult it is to forecast revenues from one year to the next. A few years ago when we tackled the problem as we started into this new program and new regime, a survey was done on the oil and gas reporting side of all the major agencies in North America that do that, and we said: let's see who's the closest; let's look at their track record; let's go with which agency is the closest. They tracked it back I forget how many years. Mr. Chairman, they were all over the map. One year one would be on; the next year another would be on. That's why we put in then, by law, a conservative forecasting base. We have to go with a five-year average. We are forced to project on the low side, and when it comes out on the high side, that's the result. We've made it against the law for ourselves to be optimistic, and that's why these numbers come out on the low side. It's not a matter just of radically hitting a low button. It's just how it works with that five-year averaging.

MR. STEVENS: Thank you. It appears that the revenue declined in the '95-96 fiscal year. If that is so, would you please explain how the government was able to pay the debt down by $1.1 billion?

MR. DAY: Well, the member is quite right. It did fall for that year just about half a billion, about $500 million. The actual fall wasn't as much as we had budgeted for. It shows, I think, and underlines the benefit and the need of having those cushions. The '95-96 spending plan, if it had been previous years, would have been built on the '94-95 revenue base, maybe even a little more than that. Then when the revenue fell, we would have had a growing deficit and not debt pay-down. But that actual fall wasn't as much as we had budgeted for.

THE CHAIRMAN: Dr. Pannu, please.

DR. PANNU: Thank you, Mr. Chairman. My questions are essentially fairly simple and straightforward and relate to pages 113, 114, and so on and so forth from public accounts, volume 2, '95-96. On page 114 these are statutory expenditures, I suppose. I believe it's under "operating expenditure-statutory," corporate tax interest refunds: $12 million, I guess; is it?

MR. DAY: I'm sorry. Just to catch up, it's page 114?

DR. PANNU: Yes.

MR. DAY: Which program reference number?

DR. PANNU: This is under, I believe, "operating expenditure-statutory," halfway down the page.

MR. DAY: Okay.

DR. PANNU: There's 12 million or so dollars overexpended, I suppose, under corporate tax interest refunds. Is this the result of corporations having overpaid taxes and then the interest on it is paid back? Is that what the $12 million is about?

MR. DAY: Actually, that's good spotting there by the member. That $12.2 million overexpenditure was mainly due to Revenue Canada settling appeals, which then resulted in several major downward reassessments that went back a number of years.

DR. PANNU: I see. In the same category of expenditures, there's the pension liability funding, $24 million overexpended.

MR. DAY: Right. There was an overexpenditure there; you're quite right. That was actually the $30 million that was an unbudgeted lump sum payment with respect to the MLA pension liabilities. That was partly offset by savings and surcharges resulting from the pensionable payrolls being lower than expected, but that's largely what the amount was, a $30 million unbudgeted lump sum payment. It had to do with the MLA pension liabilities. As you know, the plan is no longer in place. You will not be experiencing that, but that was the catch-up year there.

DR. PANNU: Thank you, Mr. Treasurer.

Mr. Chairman, I have a question on page 116. Can I go on, or shall I wait for my turn next time around?

THE CHAIRMAN: Is it semirelated to the last question? If it's semirelated, I'll let you go ahead.

DR. PANNU: It's on the revenue side now. I think I'll wait.

THE CHAIRMAN: Mr. Amery, please.

MR. AMERY: Thank you, Mr. Chairman. Good morning, Mr. Treasurer. In volume 3 of public accounts, page 203, note 1 states that "the Alberta Securities Commission . . . was created as a Provincial Corporation on June 1, 1995." I wonder if you could tell us what are the implications of this change. Does it mean that it is now a self-funding corporation?

MR. DAY: Well, that's quite right. As a matter of fact, I think yesterday the *Globe and Mail* was making some observations on our situation here and also in some other provinces. Basically the commission's discussions with the industry and the work of the national task force on operational efficiencies and the administration of securities regulation did point out a serious concern relating to the provision of an appropriate level of funding for the securities regulation. The concern was noted actually in the final report of their task force. As a result of that, a self-funded provincial corporation, being the commission's operations, is funded by fees to the commission by the market participants. It's interesting; this article yesterday was pointing out that a number of these other commissions that are falling in the same genre are in a significant surplus position because of that and are looking at adjusting their rates downward. Those fees do include registration fees and the filing fees, fees for the filing of the prospectuses in Alberta and fees for the filing of annual financial statements.

If the member is interested, the commission publishes its annual and quarterly financial results in its weekly summary and on the Canada news wire. You can follow that closely. But it is a self-funding corporation.

THE CHAIRMAN: These other questions are related to the '95-96 history?

MR. AMERY: That's right.

THE CHAIRMAN: Okay. And the answers obviously are the same.

MR. DAY: Yeah. As the member noted, it's in volume 3, page 203.

THE CHAIRMAN: Okay.

MR. AMERY: Thank you, Mr. Chairman.

You answered my next questions too, sir. Thank you.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mr. Melchin and Mr. Lougheed.

MR. ZWOZDESKY: Thank you. Just getting back to the subject of these loans, loan guarantees and other investments. You know, one of the things taxpayers appreciate is transparency. What the Treasurer often talks about is openness and accountability in government. I appreciate again, Mr. Treasurer, that these deals were made prior to your time. I'm sympathetic to that and I understand that, but nonetheless it is our chance to try and get some answers.

I want to refer to volume 1 or what is called actually the annual report of the government of Alberta, Report to Albertans, page 46, where we have one of several examples of lumping of numbers. I want to refer to the second line from the bottom, which is guarantees and indemnities for the period in question, $60 million. `Now, given the Treasurer's comments about the fact that the $1.3 million guarantee to Skimmer Oil Separators and the $947,000 guarantee to North Saskatchewan River Boat company likely are contained within this $60 million estimated liability for guarantees and indemnities, can you, Mr. Treasurer, or your department provide a breakdown of the entire $60 million in estimated liabilities for guarantees and indemnities by recipient?

9:05

MR. DAY: It is included in there, hon. member. You know, I operate from a policy of: anything to do with taxpayer dollars as far as is humanly possible should be public. I have said to officials, as I'm looking at these – I'm still fairly new in the portfolio, but I'm not making excuses here. Some people say that early on in a portfolio you can claim ignorance and any later than that you will be deemed with that title. I have said I want a full breakdown in terms of these particular items, and I want to see – this is what I told my officials – the legal citation that would prohibit me from making these public. I'm not worried about a company being nervous or embarrassed. If you've signed a sweetheart deal, take your lumps; you've signed a sweetheart deal. So I'm asking for the legal citation, and there are certain parameters.

If I can use the analogy when I was Minister of Family and Social Services, and as the member would know, you can talk generally about cases, but you can cross a line at which you are in trouble legally from the point of view of legal confidentiality, and those are what I have to be careful of. So on the specific, if you've got a specific company that you want information on – for instance, yes, Skimmer is involved in that $60 million – I will make the commitment to do the search and see if there is actually in the contract that legal prohibition that keeps me from violating a contract. If that is not there, I'll make that available. So you've asked about Skimmer; then I'll do that. I'm not being evasive at all, because I don't care about revealing the details of these. If a company got a sweetheart deal and there's taxpayer money involved, let's talk about it.

MR. ZWOZDESKY: What I'm simply looking for, Mr. Treasurer, is probably a five- to 10-minute bit of work for somebody. It's just a listing that would account for how that $60 million is, I guess, arrived at.

Now, just following up on that, we have a number of places within the public accounts where we have this lumping, and it's usually under the title of "other" or it's some unexplained thing. If you follow through the point that I just raised to you, looking at page 46, there is a simple statement there that says: guarantees and indemnities, $60 million. Then I go on and read schedule 13. Schedule 13 gives me no breakdown either, and it refers me to schedule 15. Then I read schedule 15, and that gives no breakdown either. All I'm saying is: tell me how that $60 million is arrived at. Yes, Skimmer Oil is $1.3 million. Yes, North Saskatchewan River Boat is approximately $1 million. What happens to the other 57 and a half million dollars?

Let me refer you to another specific example as well, with the Chairman's permission: volume 2, page 22. We have another example of the same type of thing.

MR. DAY: Sorry; can you give me the citation again, hon. member?

MR. ZWOZDESKY: It's volume 2, page 22. Now, this is a relatively small amount comparatively speaking listed under the first category of guarantees. Right at the bottom of that, about the middle of the page, it says "Other under $1 million." Now, I realize we're talking about a small amount of money relative to the full operations of government, but here again we have another lumping of a million dollars on which I think we should have a breakdown on a by-recipient basis.

At the same time, Mr. Chairman, I will direct the Treasurer to volume 2, page 17, where we have another listing of "Other." These are $2 million loans. Then we have additional "Other" commitments listed in volume 1, page 36. I guess the point I'm trying to make, Mr. Treasurer, is that just in a general sense and in the interest of advancing the cause of openness, transparency, and accountability, if you could provide breakdowns for that, some of them perhaps this morning and the rest perhaps in writing or in follow-up, that would go a long way to establishing credibility not only for you but for your department in terms of making things available.

I would hope, Mr. Chairman, in concluding, that doesn't violate any particular agreement. All we're asking for is: where did the taxpayer moneys go? We realize that the bulk of those moneys is out the window, but it would explain to taxpayers what it is that actually happened in the period in question.

MR. DAY: On the ones you mentioned in – let's see; you were talking about page 22, "Other under $1 million." Strictly for the purpose of recording, anything under a million is rounded off to a million.

MR. ZWOZDESKY: Yes.

MR. DAY: I can tell you, if you want that breakdown . . .

MR. ZWOZDESKY: Well, that's it. It could be $1,000. It could be $10,000.

MR. DAY: Sure. It could be. I can tell you that there's a guarantee to Atlas Lumber, $248,000, on that particular line. The department of culture has some guarantees to the tune of $106,000, and the Alberta capital loan program has some guarantees to the tune of $219,000. It's just because those are under a million that they're put in that "under $1 million" category.

MR. ZWOZDESKY: You'll comment on the others in writing?

MR. DAY: Yeah. We're jotting that down as we go, and we'll get to you on those.

MR. ZWOZDESKY: Fine. Thanks.

THE CHAIRMAN: Mr. Minister, if today you give any undertakings to return any information, if you could do so through the secretary so we can distribute it to all members, it would be helpful.

MR. DAY: Sure. Okay.

THE CHAIRMAN: We have next on the list Mr. Melchin, please.

MR. MELCHIN: Thank you. I'd like to refer first to the annual report of the Auditor General, page 174, recommendation 26. It was mentioned that

> it is recommended that the Treasury Department record all revenue . . . on the accrual basis.

Then it goes on:

> Revenue currently recorded on a cash basis arises from corporate income taxes, mineral tax, motor vehicle and operator licences, grazing leases and energy rentals and fees.

Then the next paragraph down it says . . .

MR. DAY: Sorry. Can you give me the citation again there, hon. member, page number and reference, so we just can just catch up?

MR. MELCHIN: Yes. It's in the annual report of the Auditor General, page 174.

MR. DAY: Page 174?

MR. MELCHIN: Yes.

MR. DAY: Okay.

MR. MELCHIN: It goes on with respect to the accrual of revenues in the consolidated financial statements. It lists a number of them, where they've been recorded on a cash basis. The third paragraph down says:

> Revenue currently recorded on a cash basis arises from corporate income taxes, mineral tax, motor vehicle and operator licences . . .

Have you got that far yet?

MR. DAY: I'm going as fast as I can. Okay. Yeah. And you're talking about licences?

MR. MELCHIN: My general question really has to deal with the accrual versus the cash basis of recording.

MR. DAY: All right.

MR. MELCHIN: In the one paragraph . . .

MR. DAY: And you're talking about the third paragraph now?

MR. MELCHIN: The third. Then going down to the fourth paragraph, it says, "In total, the accruals amounted to approximately $170 million."

MR. DAY: Right.

MR. MELCHIN: From the next sentence it looks like those accruals are not booked in that year, in '96.

MR. DAY: Oh. Because there's the reference that "the accruals will be booked in the consolidated financial statements in 1996-97 or 1997-98"?

MR. MELCHIN: Yes.

MR. DAY: That is correct.

MR. MELCHIN: So in that year, for '96, there still were no accruals even though there was an estimate of the accruals, I guess, by the Auditor General. There still were no accruals being made in '95-96.

MR. DAY: That's correct. Yeah.

MR. MELCHIN: On the following page it talks about accruals, the more difficult one being the corporate income tax as far as the methodology of being able to calculate it. It looks like it's been accepted by the recommendations of the Auditor General to accrue all of the revenues in future years. In the one it talked about the corporate income tax, and I go to page 175 in the same report. I guess I'm getting down to the last paragraph:

> In my view, the Department should begin reporting corporate tax revenue on the accrual basis on or before March 31, 1998.

My question there is: has this recommendation from the Auditor General been accepted? I know it's not yet been implemented for '95-96, but in the future is this a recommendation that has been accepted?

9:15

MR. DAY: Yes, it has been. We've agreed to move to an accrual basis there. With the corporate income tax system, as the member would know from his own experience, it's more complex than other taxes. Just as an example, corporations file self-assessed tax returns several months after their corporate year ends, which are scattered throughout our fiscal year. We have to reassess these returns, conduct the audits when necessary, and assess fines, penalties, et cetera when appropriate. So it's not an entirely simple process. We are putting together the public accounts with the . . . We have good information on the cash received, but at times it's only partial information about corporate tax assessments, and that's the basis of the revenue accruals. So we have to estimate there what accrued revenues will be once all the information becomes available.

To respond to the good recommendation, as all the Auditor General's are, Treasury is working with the Auditor General's staff because we need to come up with a methodology acceptable to both. They haven't been entirely happy with that, and we're trying to come up with a methodology that's going to work and gives an accurate estimate of the accrued CIT for the public accounts. The methodology is developed and will be in place for next year's public accounts. Meanwhile, it's our assessment that remaining on a cash basis doesn't really materially affect the estimates of the corporate income tax revenues, but we're keeping a close eye on that and working closely with the Auditor General on it.

MR. MELCHIN: Thank you.

THE CHAIRMAN: Mr. Lougheed, followed by Dr. Pannu and Mr. Stevens.

MR. LOUGHEED: Thank you, Mr. Chairman. I'm looking at page 113 of volume 2.

MR. DAY: Page 113, volume 2. Okay.

MR. LOUGHEED: Line 2.0.5, strategic management and integration. There's a surplus there. First of all, what is strategic management and integration, and how did you get that surplus there?

MR. DAY: The reference there: volume 2, page 113, program 2.0.5. There was a surplus of $659,000. Basically strategic management and integration – it's not just a fancy title. It is our tax and revenue administration area that looks after analyzing the planned or known changes to tax legislation or tax policy. If you recall probably as far back as 15 years ago, the federal finance minister at the time said that he didn't know if there were six people in Canada who understood the tax Act. That was 15 years ago, before it really got complex. You can understand that takes a fair bit of work, and that's what this group does: analyze either what's coming or what we know is in place in terms of tax legislation or policy. They identify the system changes that are necessary, and that would mean computer systems and the manual systems. They co-ordinate the implementation of those changes and do the testing. Before the changes are put into production, they have to run the models, and they also do the strategic planning for the TRA. That's what that group does, and it's significant work.

MR. LOUGHEED: Maybe that's related, then, to 2.0.6, internal support.

MR. DAY: Yes.

MR. LOUGHEED: The numbers are about the same there.

MR. DAY: As a matter of fact they are. That particular group manages the internal services; for instance, document reception, receipt of tax returns, other correspondence. They do the records management. That would be the taxpayer return files where your name is safely ensconced for nobody else to see but the people who need to see it. They do the data entry. They do the production control. They do the computer system development and maintenance. Management, data entry, system development, maintenance functions: those particular ones have been outsourced. That's what they do internally.

MR. LOUGHEED: Okay. Thanks.

DR. PANNU: Mr. Chairman, Mr. Treasurer, on page 116, the '95-96 public accounts, volume 2, the nonrenewable resource revenue item, with a subheading, the royalty tax credit numbers.

MR. DAY: That's page 116, and you're on royalty tax credit, you say?

DR. PANNU: That's right.

MR. DAY: Okay.

DR. PANNU: The royalty tax credits are slightly up in '96 from '95. That's obviously a matter of interest. I would appreciate your explanation of that. Being a new member, I hope you will help me get a better understanding of these numbers, if you would try to inform me about whether or not there has been any change in the royalty tax credit rate or regimes that were put in place in the '80s to help the energy industry fight off the crises in the area at the time. Has there been any change in the regime of royalty tax credit rates or whatever? If not, why not?

MR. DAY: Yeah. Other than it being price-sensitive, so there is some movement there, there hasn't been a direct change.

I can tell you that you don't have to feel badly about the complexity of how that particular credit works, because frankly I struggled with it a bit myself. We know we have something in place now that the industry itself – I mean, nobody likes paying taxes, but they are satisfied that they have something they can work with now. There's some degree of predictability. They know where and how the dollars are going to be assessed.

In terms of that actual increase, I'm going to make the assumption that it's simply a result of increased activity in the area, therefore leading to an increase in terms of revenue. I'll just put a caveat on that, Mr. Chairman. When I respond through you to the secretary, if there's any other implicating factor there, I'll include that in my remarks. I'll just keep that general. That's my assumption at this point. It is a price-sensitive mechanism. It's a policy that's been developed over time and seems to be working.

Also with that, Mr. Chairman, I'll give an explanation of how that price-sensitive tax credit system works, in layman's terms so I can understand it.

DR. PANNU: Supplementary, Mr. Chairman. Mr. Treasurer, during the election one of the questions that came up at forums in my constituency, and I think Albertans in general asked this, was: is justification for these royalty tax credits ongoing, continuing? My understanding – and certainly please feel free to correct me – is that the royalty tax credit rate arrangements presently in place were revised around '85-86 in order to help the industry at that time to, I guess, deal with the crisis it faced. That crisis is long gone; the economy is booming. So my constituents have been asking: why continue with this tax credit when in fact we are trying to cut down expenditures and make our revenue situation more robust than it has been?

THE CHAIRMAN: Dr. Pannu, that would be a question of policy. It's certainly a question of policy from 1986 to 1997 and '98. The minister here is to speak specifically to the Auditor General's report and to his accounting procedures in his department for '95-96. Unless you have some other arguments to the contrary, I believe that question is more to the policy area and therefore would have to be ruled out of order, sir. There are other forums in this Legislature in which to ask those questions though. Could you ask your question more along the lines of the first?

9:25

DR. PANNU: Thank you, Mr. Chairman. I do accept your ruling. I'm not entirely sure if I should continue to insist on this. There are other forums, and I shall be seeking that answer there.

I have questions on the annual report of the Auditor General, but that's a separate issue. I think maybe I'll come to that later.

THE CHAIRMAN: Mr. Stevens, followed by Mr. Zwozdesky.

MR. STEVENS: Thank you. I'd like to ask a couple of questions relating to the Auditor General's report, and in particular I'm referring to page 259. This area deals with the Auditor General reporting on the implementation status of his recommendations for the '94-95 year.

Dealing with recommendation 33 at the top of page 259, the Auditor General recommended that "valuation adjustments be allocated to program costs." It appears that the government accepted the recommendation in principle, but progress was reported as unsatisfactory. Would you please comment on that matter?

MR. DAY: Thank you for bringing up the item of unsatisfactory progress. I appreciate that. But it's a valid question. The recommendation was a good one. There has been some progress made on the issue, Mr. Chairman. The valuation adjustments actually related to the student loans are now reflected in the program costs. Agenda '96, page 73, does provide some detail about allocation of valuation and other adjustments, although it's not reflected in the financial statements.

The allocation of the remaining valuation adjustments is going to continue to be reviewed. We're going to keep looking at that as part of the financial statement project that's currently in process, and we'll implement that when practical.

We find we have to give consideration to allocating the provision for doubtful accounts during the 1989-99 business plan cycle, so that's the target there, Mr. Chairman, as a result of this. The allocation of provision on loans, guarantees, and indemnities must not result in the value of individual provisions being inferred, since if you do that, you can adversely affect the province's ability to manage its exposure or even to recover on its loans. This question is similar to one sometimes raised by the opposition, that if you record that publicly, that valuation adjustment – in other words, you're making an accounting provision saying, "I don't know if we're going to recover this." So you make the provision in case you don't. That's accounted for. But the company or the student or whatever is not off the hook. They still have to pay. But the very act of recording it can send a message, let's say, to a company that they're off the hook, and they may not as intently go after making good on their commitment. So there's some sensitivity there. However, we're making progress on that, trying to move that along, though it has been indicated that the progress is not one hundred percent satisfactory.

MR. STEVENS: Thank you, Mr. Chairman. Since the hon. Treasurer appears to appreciate this line of questioning, I'd like to follow up on the same page with recommendation 34, where the Auditor General made two recommendations relating to the issue of revolving funds, one being a recommendation to the Treasury Department to "reassess the need for revolving funds" and the other being

> in the event that revolving funds continue . . . financial statements include all material costs of operations.

In both cases it would appear that the government's response to these recommendations was to accept them in principle, and in both cases the Auditor General reported to the Treasurer that progress was unsatisfactory. Would you please comment on that?

MR. DAY: Yes. Well, we accepted that. Since we started the whole process of consolidated budgeting, at least three ministries were considering winding up those revolving funds actually. These funds continue to provide program managers with some flexibility in terms of delivery of certain programs, and more cost-effective alternatives to separate out these revolving funds are being looked at. The review is planned to occur in time for the 1999 business cycle, so we are following through on that and balancing off that flexibility that's given to program managers with the concern raised by the Auditor General. Progress is being made there, and that's the timing of the cycle in which we think that will be implemented.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mr. Johnson.

MR. ZWOZDESKY: Thank you, Mr. Chairman. I want to refer the Treasurer and other members of the panel to page 197 of volume 2, paragraph (e), which refers to Ridley Grain. I've gone through this a few times, and I want to ask a two-pronged question in relation to the decision that was made to reverse the interest of about 8 and a half million dollars.

MR. DAY: Okay. That's 197, paragraph . . .

MR. ZWOZDESKY: Paragraph (e) for Edward. We're talking about Ridley Grain. Just at the conclusion of the first paragraph of (e), it states that "the principal, including capitalized interest, is repayable on or before July 31, 2015." Then a little further down in the next paragraph we see there's been a change where the Treasury Department has decided to reverse $8.59 million in recorded and capitalized interest, and it's been moved to unrecorded and capitalized interest. So I have a two-pronged question there. One is just a request for a further explanation of the rationale Treasury had for that decision, and secondly, what impact that has overall to the amount still owing to Alberta taxpayers. It's one thing to have the interest capitalized. It's clearly easily identifiably tracked and owing, but what happens when it slides across, is reversed, and is suddenly unrecorded? So rationale and then impact.

MR. DAY: It's a good question. The first time I saw that in going through these piles of books a couple of months ago, interest reversal struck me as a rather interesting phrase. My banker has never used that one on me. He just says that I owe. But this remaining $8.6 million of the unrecorded interest is the result of the reversal of the capitalized interest in March '96, as the member is pointing out. When the member talks about what the team, this loan and loan guarantee team, does in terms of ongoing management, this is part of the process of what they do in their ongoing daily evaluations. The amount of interest was reversed. That was really in recognition of increased uncertainty over grain throughput volumes at the Ridley terminal as a result of changes to those federal rail subsidies, which the member would recall, in 1995. When that happens, immediately there are some competitive realities which kick in, and that management team to which I've been referring looks at that. They look at the distance factor, they look at some of the competitive realities, and they have to make some tough decisions on whether they think a payment is going to arrive at a certain time. In this case, based on those evaluations, they made that reversal of interest notation.

In answer to the second part of the question, yes, Ridley is still 100 percent required to not just account but make good on that payment at 2015, the date mentioned by the member. It's also important to remember that Ridley pays interest on the heritage fund loan at 11 percent per year. They owe and they pay interest on this interest reversal. So the full amount is forthcoming with interest on that maturity date, if not sooner should the cash flows allow it.

THE CHAIRMAN: The Auditor General will supplement at the end of this. If you have further questions, then we can supplement at the end.

9:35

MR. ZWOZDESKY: Well, I'm taking from what the Treasurer said that the fact that it's been reversed is not an indication of forgiveness. It does impact our financial statements, and presumably it cleans up theirs to some extent too.

MR. DAY: It's a hundred percent. That is an excellent concern, and it was my concern which led to my question. The answer is yes. They are absolutely required to make that payment. That is part of it. There is no forgiveness there. That is part of the amount that is going to be due.

MR. ZWOZDESKY: All right. Thank you.

MR. VALENTINE: Well, Mr. Chairman, there are two things being discussed in this paragraph. The first one has to do with the obligation that the borrower has and how that is determined, and the second one has to do with the valuation of the receivable in the accounts of the province of Alberta. It's appropriate to have the correct valuation of the account, and that gets into these valuation items that you had been pursuing earlier. At the same time, it's necessary that the government keep a record of the amount owing in accordance with the agreement and at the appropriate time make every effort to collect. The financial statements need to reflect both of those subjects, and this note does that.

MR. ZWOZDESKY: Just to follow up, then, with Ridley Grain in the same paragraph. I think the Treasurer indicated earlier, perhaps in this session of the Legislature, that an $11 million payment on the $125 million in series A of the participating debentures by the Ridley Grain terminal had been made in '95-96. Can you provide some further information on the terms and conditions of repayment of these debentures with respect to '95-96 and what that impact is for the period coming up, 1997 through to 2035 as recorded, which is I believe the date they're fully due and payable? Just to round it off. I mean, there must be, for example, a precedent of payment, who gets paid out in what order, and where does the government of Alberta stand in relation to the payouts?

MR. DAY: Right. There is $125.2 million. That's the series A participating debentures. That's provided by the province's general revenue fund. In 1995 the province recovered approximately $11 million of those, as I stated whenever it was last week. That reduces the amount to $114.2 million still owing. These are noninterest bearing debentures. They mature at 2035. They are repayable at that time regardless of the cash back. So within the present agreement there are some cash flow provisions in terms of dates, but there's no provision and no allowance past that maturity date. They all have to be paid in full.

MR. ZWOZDESKY: What's the order of precedence of payout? Where do Alberta taxpayers stand in terms of collecting? We're third, fourth, fifth in line, somewhere in there?

MR. DAY: Well, I know that we have first charge on the asset, so in terms of order of payout I'm not quite sure what you mean. It has to respond to the trigger dates in the contract.

MR. ZWOZDESKY: Right, but those trigger dates are tied to cash flow availability, and I believe shippers and bankers and others get paid out ahead. So the precedence of payment.

MR. DAY: Right. Okay. I'll get that precedent list to you through the secretary and the chair.

THE CHAIRMAN: Thank you, Mr. Zwozdesky.

Mr. Johnson, please, if you will.

MR. JOHNSON: Thank you, Mr. Chairman. I'd like to turn the minister's attention to page 116 of public accounts, volume 2, Treasury revenue. It's the same page as Dr. Pannu's last question, I believe. About halfway down the page under fees, permits, and licences, the Alberta Securities Commission revenue declined by $8 million. Why was there such a large decrease in revenue for the Securities Commission?

MR. DAY: That's 116, volume 2. The '95-96 revenue figure only represents the two months, April and May of '95. It's not that clear there. The Alberta Securities Commission corporatized on June 1, 1995, and therefore all the revenue earned from June 1, 1995, and onwards was retained within the commission. That's why the discrepancy is there that you've noticed.

MR. JOHNSON: Okay. Thank you. On the same page under "other taxes," a little higher up on the page, "financial institutions capital tax," I note the revenue from this source declined from nearly $42 million to $35 million. What was the reason for this decrease?

MR. DAY: There is a decline there for sure. In '95-96, that was when we introduced the legislation to end the double taxation of the capital that was happening in the financial subsidiaries of financial institutions. The effect of doing that actually reduced the estimated revenue which we had put in there of those financial institutions, that capital tax, by about $10 million. That was partly offset by an increase in the value of other capital that was held by the financial institutions but not totally offset, and that's why you see the decrease.

MR. JOHNSON: Thank you.

THE CHAIRMAN: Dr. Pannu, followed by Mr. Shariff, please.

DR. PANNU: Mr. Chairman, my questions have just been asked.

THE CHAIRMAN: And answered?

DR. PANNU: Yes.

THE CHAIRMAN: Terrific. We're moving right along.
Mr. Shariff, please.

MR. SHARIFF: Thank you, Mr. Chairman. I just want to begin by first congratulating the Provincial Treasurer on his new role. I'm pleased to say I have confidence in this Treasurer of making sure that our province stays on track.

My question today is in reference to page 198 of the annual report of the Auditor General, recommendation 35. In that recommendation the Auditor General reports that

> Alberta Treasury Branches adopt a more business-like and profit-oriented approach when approving and monitoring large commercial loans.

I wonder if you could make comments on the circumstance and actions taken to resolve the problems that the Auditor General referred to.

MR. DAY: Well, Mr. Chairman, the member's identifying an area of growing concern, so it's appropriate that he's zeroed in on it. There are actually three things that are taking place right now specifically on this. The first one: in the first quarter of '97 a credit asset recovery team was established to take over all loans that are 90 days or more in arrears. This goes along the lines of what the Member for Edmonton-Mill Creek had talked about in terms of is there an actual team in our own loans and guarantee area, and there is. Just as you're interested, he might also be interested to know that a credit asset recovery team was established to take over all loans 90 days or more in arrears. In past days often the lender responsible for initiating the loan was also collecting loans past due, and that really didn't produce the best results, as I'm sure the member can imagine. By separating these two functions out, ATB's focus will now be to maximize returns on these problem loans, specifically focusing on them.

The second thing that was done was the creation of a unified head office credit department, which is responsible now for the application of credit policies right throughout the organization. That had not been done in a consistent enough manner. So now what you have, hon. member, is a clear separation of the credit organization, which is the branches, from the credit adjudication, which is the credit department. Those are clearly separate roles. A credit management committee is actually going to review all those policies and the large credits, and the credit policy and risk management committee of the board of directors is going to approve all loans over $25 million and all credit policies. So you have much more specific task-related and team-related approaches being taken to these.

Thirdly, there's increased training on credit granting and also on the ATB's credit policies. That's going to, we believe, make for greater consistency of granting credit throughout the organization. So it's becoming much more specialized, much more specific, with actual teams identified to be zeroing in on these specific areas.

MR. SHARIFF: Thank you. Moving along to the following page, page 200, the Auditor General raises an issue about allegations of inappropriate business practices, and that raises a number of red flags for me. I'm just wondering if you could comment on that statement therein.

9:45

MR. DAY: Well, again, these are serious and sensitive areas that the member is zeroing in on. I certainly don't hesitate to comment on them, because I think it is past due. Though people sometimes think that government gets defensive about ATB and just wants to operate everything from a protectionist point of view, we want to see what happens. Anything that's going on we want to make sure is best for the organization, the best for the depositors and the people who do business. So when the Auditor General comes out with comments like this and investigations, I actually welcome that. If there's a way to expose things that are happening that are inappropriate, then I don't mind that those things are exposed, because in the long run it's going to make for a better-run organization.

The chief inspector has carried out a number of investigations in this area, and I can tell you that ATB management takes these allegations very seriously. As a result of the work that's been done there, some criminal and civil prosecutions have been initiated. That's not something that makes people happy necessarily. I'm just checking to see what I can publicly say in terms of specifics to let you know. I think I'll leave some names out, but just to give you an example, there have been criminal and civil prosecutions, as I've indicated.

A new code of conduct and ethics was passed by the board, and all management of ATB has taken a course dealing specifically with code and ethical issues. Senior management is going to be leading by example, and the chief inspector's office will now be actually monitoring compliance with those standards. In terms of results, yes, there have been some criminal and civil prosecutions. A result of that has been this new code of conduct and ethics, training, and now monitoring to see compliance. Allegations of continued inappropriate business process continue to be investigated, and where enough evidence of fact is found, then corrective actions will be taken.

To give you an example – I'll just leave the names out though; these have probably been in the media since sentencing has in fact happened in some of these cases – we have a situation where an employee stole $25,000 from customer accounts. Criminal charges were laid, and that particular person was sentenced to four months in jail and two years probation and ordered to pay full restitution.

Another situation is where an employee made false loans to himself for $65,000 and was sentenced to 31 months in jail and has to fully repay restitution.

A fairly public one – I'm just leaving the names off; I'm being extra careful here even though it wouldn't be a legal problem – was allegations in a situation out of Calgary of secret commissions totaling $40,000. That swirled around the sale of a hotel in Calgary. That person has been charge criminally. There will be a court case, and I believe the court date has been set for October.

From my own part of the country is a situation where a person made a false loan to herself and actually stole money from a customer totalling $15,000. That person's been charged criminally. That case is coming up in my own city this month, I believe.

An individual with a group of companies who stole $2.8 million has been convicted and is due for sentencing this week, as a matter of fact, and is actually in custody pending sentencing.

Then, of course, a well publicized investment scheme which I'll refer to as the Ponzi scheme. Over a million dollars was frozen in this particular individual's accounts. The Alberta Securities Commission and the RCMP are considering charges.

So no bank, unfortunately, is exempt from these types of things happening. Any bank in Alberta or any province can trot out a list of people who will try and test the system. Now if there are still people who want to try and bilk the system, they're up against tougher standards, tougher monitoring, and tougher compliance.

So that's been the results, Mr. Chairman. That part of it is not happy news, but it certainly will send a message that, because of these recommendations from the Auditor General, it's a ship that is sailing in a much tighter fashion than before.

THE CHAIRMAN: The minister seems to be very concerned about this particular area. If you do wish to file a report vetted by your staff so that you don't get into any legal difficulty, the committee would be most happy to receive it, if you'd like, sir.

MR. DAY: Okay.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mr. Hlady.

MR. ZWOZDESKY: Thank you. Time is running short. I'll cut straight to the chase, Mr. Chairman. Volume 3, page 258, talks about the Alberta Treasury Branches' contingent liabilities of the province in that regard. I want to have the Treasurer or some of the staff explain the jump in the level of guarantees. The guarantees listed there regarding the Alberta Treasury Branches are recorded at $475 million for the year ended 1995 and $461 million for the year ended 1996. Now, going back to the first figure, that reflects a jump of about $350 million from the previous year, '93-94. I wonder if you could comment and perhaps explain why the sudden increase in guarantees.

MR. DAY: This is where we get into that fun area which is a frustration but a frustration that cannot be entirely removed, I guess, because of all the reporting I have to do related to ATB. This organization in terms of its specific lending is arm's length, and I know the member would appreciate that. I don't think he would want me involved in the process of the specific guarantees. As the shareholder certainly we're involved in terms of a regulator and setting out the policies for these guarantees. That's also being refined and sharpened in an ongoing way. I think it's fair to say that some of these guarantees would not be done in the coming year that were done maybe three, four, five years ago. In the amendments which will be coming forward to the legislation, they are requiring certain prudent lending practices to be in place which maybe weren't as sharply defined as in whatever happened here in '95-96 to allow for these guarantees to increase.

I do not have the minutiae in terms of those guarantees. I suppose I could legally access them. I am very hesitant to do that. I don't want to be seen to be involved in any way in terms of a specific decision that was made to guarantee this asset or that company. Where we are involved is in the honing of the policies which relate to those guarantees. Again, the amendments which will be coming forward are going to reflect that. So I don't have those actual specifics. If the chairman wishes, I'll do the looking to see if there's some legal impediment there, but as I don't have them, I can't promise that I can make them available. I want to go after, which we are doing, the policies that lead to guarantees being done and see what can be done to really hone those in and make them responsible.

MR. ZWOZDESKY: I appreciate what's coming in the future. I think there are some excellent things that have happened even in the last year since that quasi arm's-length board has been appointed, and I'm all in favour of that. But am I given to understand, then, that they simply increased their contingent liability by $350 million on someone's say-so and that the government of Alberta simply rubber-stamped it without any real explanation?

MR. DAY: I'm sorry, Mr. Chairman. I have to look for the identifying line which shows an increase of $350 million.

MR. ZWOZDESKY: Well, the jump is from '93-94, which isn't shown here, to '95, which is shown here.

9:55

MR. DAY: Okay. I'm sorry. Mr. Chairman, this is '95-96 public accounts. The '95 is $407 million, and the '96 is $461 million, so that's what I'm at liberty to comment on. I don't know if you deal with the Treasury Branch – I don't want to know that – but if you did or in fact with any bank, if that bank was to come under scrutiny for some reason, even though it was coming under scrutiny, I don't think you would want the details of your loan arrangements made public, and that would be your right to be concerned about that. So I want to make sure, as we're doing with these amendments and the overhaul of the organization, that we eliminate the possibility of so-called sweetheart deals, of inappropriate lending. That's what the amendments will do. But in terms of being able to release details on specific customers, I think legally I'd be in trouble there. I can just assure the member that the lending practices are being sharpened and ratcheted down.

MR. ZWOZDESKY: Yes, I appreciate that.

THE CHAIRMAN: If I may interrupt you, as I understand it, the change in the accounting was from '93-94, and then there was '94-95 and then '95-96, which we're examining today. The question may be rightfully put but in the wrong year unfortunately. So we're perhaps a year late in discovering that information and having the information with these specific reports, as unfortunate as it is, and unfortunately there is no other avenue to ask the question.

MR. ZWOZDESKY: My final question really, Mr. Chairman, is with regard to volume 2, page 208, which is also Treasury Branch related. In the middle of the page is the heading "regulated funds and agencies – accounts and loans receivable," and the first item listed is "Alberta Treasury Branches." I just wanted the Treasurer to comment in the moment or two remaining here regarding the $76.1 million in write-offs for accounts and loans receivable in 1995-96.

MR. DAY: According to the second grouping there on page 208, correct?

MR. ZWOZDESKY: Right. Could you just explain that $76.1 million write-off as it pertains to Alberta Treasury Branches?

MR. DAY: If you can give me half a second here. I have that under "regulated funds and agencies – accounts and loans receivable," and that is correct in terms of write-offs. I don't have the detailed breakdown. I will commit to get that to the hon. member through the chair, a breakdown of that.

MR. ZWOZDESKY: Thank you. At the same time just explain, too, in that undertaking, if you would: how does this relate to the write-offs contained under "allowance for credit impairment" on the balance sheet of the Treasury Branches deposit fund, which you'll find in volume 3, note 7, page 256? I'll look forward to getting that in writing at another time.

MR. DAY: I'll just clarify: volume 3, note 7, page 256?

MR. ZWOZDESKY: Right.

MR. DAY: I'll commit to getting a breakdown of that information, Mr. Chairman.

MR. ZWOZDESKY: Thank you, hon. Treasurer.

MR. HLADY: How much time do we have, Mr. Chairman?

THE CHAIRMAN: We have about three minutes, but we can go over if required for questions.

MR. HLADY: Thank you. I'm going out of the Auditor General's annual report, page 189, under the heritage savings trust fund. Mr. Chairman, it may sound like policy, but I'm really looking for how we will achieve this. In the Auditor General's side statement he

> had previously recommended that the level of acceptable investment risk, and additional performance measurement criteria, be established.

I think this government is trying to come back to a net balanced budget. That's a target that it wants to achieve in the relatively near future. As it's trying to get there, I think the rate of return on your heritage savings trust fund, especially over the last four years as we've seen lower interest rates and a very heavy weight in income vehicles inside the heritage fund, has been a very limited rate of return possibly. So the growth of the heritage savings trust fund has been quite limited.

If you compare being completely invested or nearly completely invested in fixed income vehicles, it's as risky as it is being completely invested in equity investments, if you're looking on a chart to compare. A balanced fund might better allow for a better investment environment so that you can have a better rate of return, given different types of investment environments where we have very low interest today and equity investments have done very well for the last four years. That's why we have this separate board today, so that they can sort of make some decisions and help you as Treasurer to maybe come up with some ideas on how to do that. I guess what I'm wondering is: are you in the position now, have you made the decisions and targets to see this fund grow to $15 billion or $18 billion in the future so that you'll have a better chance of coming back to your net balanced budget in the near term?

MR. DAY: Mr. Chairman, I'll try and take a very good-news story and make it really brief, because your time is running out. For the information of members, I'm meeting with a rating agency right at 10 o'clock, so I don't want to be late and thereby cause our ratings to drop.

I think an exciting thing has happened with the heritage savings trust fund. It has been split now into two portfolios, one being what is called an endowment portfolio and one being the transition portfolio. So just very roughly: $12 billion overall, and what has happened is that $1.2 billion is going into the longer term, the endowment portfolio, and $10.6 billion is in this transition portfolio. That portfolio has to meet a benchmark that exceeds our debt cost on the Canadian dollar side. That's their benchmark, and it makes sense that it has to exceed that.

Over a projected period, to the year 2005 I believe, what is going to happen is the transition portfolio is going to move to the endowment portfolio, which has a mix of longer term instruments. The transition portfolio is going to be the shorter term instruments, because we need to keep the dollars coming into the fund. This year, for instance, there was $962 million that was earned on the fund, give or take a few million. I think it was $962 million; $176 million of that stayed in the fund for the required inflation proofing. What is going to happen is the dollars will move from the transition portfolio to the endowment portfolio at the rate of actually $100 million a month. When you think about it, it's about $3 million a day, as we sit here, moving from the transition portfolio to the longer term endowment portfolio.

There is a very clear asset breakdown and an asset mix once you move into that endowment portfolio. For instance, only 3 percent, I believe, is going to be allowed to be higher risk, real estate related items, 47 percent is going to be related to the university bond index, and 30 percent of investment will be on the TSE 300. These are the types of very clear designation in terms of the mix that will be required there. It's a very good-news story for Albertans to be aware that that longer term endowment portfolio is increasing as that move happens to the tune of $100 million a month.

MR. HLADY: Just quickly, do you have a target rate of return, anything like that, a percentage?

MR. DAY: Yes. I'm just trying to think now. In each of those portfolios, of course, there is an index that is set, anything from what might be found with the TSE target down to the ScotiaMcLeod target. So each one has benchmarks that it's slated for, and I can get the precise breakdown for the member.

MR. HLADY: Okay. Thank you.

THE CHAIRMAN: You'll return that to . . . Wonderful.

There being no further business, the appointed hour is upon us. The next meeting is a week hence with the Minister of Community Development here.

Motion for adjournment? Dr. Pannu. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried.

Thank you kindly, Mr. Minister. It was a pleasure.

MR. DAY: Thank you, Mr. Chairman. You're very good in that chair.

[The committee adjourned at 10:04 a.m.]