



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
2001**

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The committee met at 09:36.

Crown Investments Corporation

The Chair: — Good morning. I'd like to call the meeting to order. The item of business before us this morning is Crown Investments Corporation. We're looking at the 1998, '99, and 2000 annual reports.

I want to start by making a brief statement. At the last meeting, there was some discussion about the amount of time that members were being allowed to ask questions. I have been considering this matter over the last week since it was raised, and have been debating whether or not we should revert to the practice Ms. Lorjé used when she was in the chair, which was to alternate in 20-minute segments between parties.

I have not yet come to a conclusion on that and as such, for this particular set of hearings — at least for today — I'm going to stick with the practice that we have been using to allow members to run through their natural list of questions, and at an appropriate time then break and move to another member.

I hope to talk to the Speaker about this at some point in the near future, and may well come back with the decision to revert to the way that the Crowns had traditionally operated which was to operate in 20-minute segments. But for the time being, I'll continue to allow members to pursue their questions to their natural end.

I am very pleased this morning to have with us the Minister of Crown Investments, Mr. Sonntag. I'd like to welcome him to the committee. And perhaps what I can do is start by asking him to introduce his officials.

Hon. Mr. Sonntag: — Okay, thank you very much. I have just a few opening remarks. I'll do that . . . How about I just introduce them at the end?

The Chair: — Could I suggest that what we do is we'll introduce the officials first, then we'll ask the auditor's office to introduce the audit team that's here, and then I'll recognize you again to do your statement.

Hon. Mr. Sonntag: — Sure. Thanks very much. I'll try and get these all in order. To my immediate right is our president, Frank Hart. Seated behind me, our general counsel and corporate secretary is Doug Kosloski; our vice-president of finance and administration, Sheldon Schwartz; vice-president of investments, Zach Douglas; vice-president of corporate development, Michael Fix; senior vice-president, Crown corporation services, Mike Shaw; executive director of communications, Ted Boyle, over there; and our corporate controller, John Amundson, right there.

The Chair: — Thank you, Mr. Minister. Mr. Martens, could I ask you to introduce the audit team.

Mr. Martens: — Mr. Montgomery will do that.

Mr. Montgomery: — I'm Ed Montgomery, Provincial Auditor's office, executive director. Andrew Martens is with

me. And also with me is John Aitken from Deloitte & Touche, partner and responsible for CIC's (Crown Investments Corporation of Saskatchewan) audits for the year 2000.

The Chair: — Good morning and welcome. Let me start by reading the standard caution.

Witnesses should be aware that when appearing before a legislative committee, your testimony is entitled to have the protection of parliamentary privilege. The evidence you provide to this committee cannot be used against you as the subject of a civil action.

In addition, I wish to advise you that you are protected by section 13 of the Canadian Charter of Rights and Freedoms, which provides that:

A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence.

A witness must answer all questions put by the committee when directed by the Chair. You are advised that you may be recalled to appear again before this committee at a later date if the committee so decides. You are reminded to please address all comments through the Chair. Thank you.

And with that, Mr. Minister, I would ask you to make some opening comments.

Hon. Mr. Sonntag: — Thank you very much, Mr. Chairman, members of the committee. Before we begin the examination of CIC's last three annual reports, I just want to take a few minutes to talk about the vital role that our public enterprises play in the economic development and social life of Saskatchewan.

Crowns provide, as I'm sure many of you are aware, reliable utility services in all parts of Saskatchewan at rates that are among the lowest in Canada and play an important role in the development of our economy.

We don't have power shortages and energy bills that double in less than a year like they do in Alberta. We don't have rolling blackouts like they do in California. We don't have unaffordable car insurance rates for families with young drivers, as they do in many provinces. And we don't have our rural communities bypassed by the information highway as is happening elsewhere around our country and in North America.

Because we own our own utility companies in Saskatchewan, we can provide the lowest natural gas and vehicle rates in Canada. We can be sure that when we flip the switch the lights will go on and we have a way to ensure that people who live outside of our major cities will benefit from digital cellular service, high-speed Internet, and other improvements to information technology.

We achieved a lot in our Crown corporations over the last decade. We've paid down over \$2 billion of Crown debt that was run up in the '80s and restored financial health to our

public enterprise sector. Our utility Crowns kept on expanding and upgrading services in all parts of Saskatchewan while keeping rates low compared to other provinces.

Following the Crown review in 1996, we implemented many improvements to the management and governance of our publicly owned companies to ensure the highest standards of performance and accountability. These improvements have been recognized in a number of ways.

The Provincial Auditor has recognized better reporting, accountability, and strategic planning mechanisms in recent reports. The improvements we have made in Crown governance have received national recognition. The Conference Board of Canada says that the governance practices of Crown boards are among the best in Canada, public or private.

The Institute of Public Administration of Canada Governor General's Award for Excellence in Public Service went to CIC's Crown services division last year in recognition of the governance, strategic planning, and performance management system we have developed in our Crown sector.

We are receiving international recognition as well. A senior official of the World Bank was in Saskatchewan last July to study SaskTel's deliveries of services to rural Saskatchewan. And here's what he concluded in a letter he wrote after his visit, and I quote:

I was looking for that silver bullet that would help me understand how SaskTel undertook rural telecoms so well. The only significant aspect that I could find that set SaskTel apart from other telecommunications operators is the following: SaskTel staff, down to the last person I met, takes the social obligations and universal services requirements far more seriously than any telecom company I have ever known. Other companies often pay lip service to these points, but SaskTel is the only company I have come across that really takes these points to heart and makes the social obligations a cornerstone of its business and a point of pride among the staff.

SaskTel has since been asked by the World Bank to provide consulting and project management services for the building of modern telecommunication companies in the developing world. The World Bank official could have looked at how our Crowns deliver power, energy, insurance, transportation, and investment services, and come to probably similar conclusions.

Our Crown corporations play such an important role in Saskatchewan's economy and society because they maintain the critical balance between business, success, and what he calls the social obligations. The contribution that the Crown sector makes to the development of Saskatchewan's economy can be summed up in a few numbers.

Crowns and public investments held by CIC account for 17 per cent of our gross domestic product. Crowns employ about 9,000 people in head offices in communities throughout the province, who put half a billion dollars in annual earnings back into their local economies.

Crowns purchase over a billion dollars in goods and services

from Saskatchewan suppliers every year, supporting nearly 12,000 local businesses. And Crowns spend over \$400 million every year, expanding and improving their services, creating thousands of construction jobs.

That is a lot of economic activity that we would not have in Saskatchewan if it had not had the courage to build these companies for ourselves, and the foresight to hang on to them.

I look forward, Mr. Chair, and members of the committee, to your questions about our public enterprises here in Saskatchewan. Thank you.

The Chair: — Thank you, Mr. Minister. I want to bring to the attention of the committee that Ms. Higgins will be substituting for Mr. McCall today.

In terms of the approach, I would suggest that we receive a presentation from the CIC officials and the audit team, and look at recessing for our normal break at about 10:30 this morning, 10:35, at which point we can then undertake questions.

So, Mr. Hart, do you have an overview?

Mr. Hart: — Okay, thank you, Mr. Chairman, and thank you, members of the committee for having us here to talk about Crown corporations today.

We thought we would begin with a presentation which I want to apologize a little bit for in terms of length, at the outset. But I think there's some fundamental matters related to how Crown corporations operate — CIC vis-à-vis the holding company or the holding company vis-à-vis the subsidiaries. That would be helpful for members to understand in their questions. So if you'll indulge us, we'll try to walk through this as quickly as we can.

And a copy of the presentation has been distributed, I believe. So if you're having difficulties seeing it on the screen, you should have a copy in front of you there.

I'm just going to cover the first two slides myself, and then ask my colleagues, Mike Shaw, Sheldon Schwartz, and Mike Fix in turn to each address the remaining parts of the presentation.

But just to provide, I guess, an overview. As you know, CIC is the province's holding company that oversees Crown corporations and other investments in the province. And our role really is threefold.

We as a holding company establish the strategic direction for subsidiary Crowns and through CIC III (Crown Investments Corporation of Saskatchewan Industrial Interests Inc.), various other investments, by providing effective governance and performance management systems and ensuring those are in place.

Secondly, our job is to manage prudently a diversified portfolio of commercially viable investments; and thirdly, to enhance Saskatchewan's long-term economic growth and diversification through investments and through Crown corporations.

As you'll see in the next slide, we're involved in a broad array

of industries through various forms of investments. Some of these are wholly owned subsidiaries; others are joint ventures, partnerships, or loans either held directly by CIC or through its various wholly owned subsidiaries.

And I won't go into detail on this slide because you've got it in front of you, but that will give you kind of a snapshot of the portfolio.

So with those opening remarks, I'm going to ask Mike Shaw to take you through the performance management system and governance practices that we as a holding company require our subsidiaries to follow. And these changes have largely been as a result of the significant Crown corporation review that was undertaken in '96 and a series of updates since then. Sheldon Schwartz will then go through the financial results. And lastly, we'll have Mike Fix give you an overview of our investment strategy, if that's okay, Mr. Chairman.

Mr. Shaw: — Yes, thank you, Frank. Good morning, chairman, members, and staff of the committee. As Frank has said, my responsibility this morning is to talk about the governance and performance management systems which are now in place to direct the activities of Saskatchewan Crown corporations.

Since the completion of the Crown review in 1997, one of CIC's major activities has been the design and implementation of a governance and performance management system that is suitable for today's environment within which the Crowns operate, and also suitable for the environment which we believe they're going to find themselves in, in the future. We believe we've accomplished the goal that we've set out for ourselves four years ago.

I'd like to very briefly review, at a very high level, the outcomes of the Crown review that was undertaken in '96 and '97. As we all know, there was an extensive public consultation process involved in that review. There were situational analyses of the major holdings both investments and Crown corporations carried out by consultants. There was also economic modelling that was done to measure the impact of Crown corporation activities in Saskatchewan and the benefits from them.

There were a number of outcomes: one with respect to financial performance. The review concluded that the Crown corporations were all financially viable and should continue to be so into the future assuming that they were allowed to respond to changing market conditions.

With respect to ownership, the review concluded that the majority of Saskatchewan people continued to support public ownership in . . . from the perspective of the significant benefits that were derived from ownership by the government.

In terms of policy direction, these were important policy initiatives or policy statements for us in Crown corporation sector. The first one was that the Crown corporation's primary role was to ensure suitable access, equitable access to reasonably priced goods and services. The second role of Crown corporations was to support the economic and social policies of the government and the people of Saskatchewan. And the third was that Crown corporations were expected to operate efficiently and competitively, and that they were

expected to provide a return on the public's investment through dividends and improved asset value.

On the matter of governance, the Crown review suggested that we needed to fundamentally revamp the governance processes that were in place.

With respect to accountability, to the legislature and the public, the Crown review concluded we needed to significantly improve accountability and transparency.

With respect to human resources, there was an indication that there were challenging times ahead with respect to finding, keeping, and training good people in Crown corporations, as there are in every organization in the country, and that Crown corporations had to be able to pay particular attention to that, to that issue.

And with respect to international investment guidelines, the review concluded that Crown corporations operate in a mature marketplace in Saskatchewan and that growth is essential, and that growth would have to be looked for, in part, outside of the boundaries of Saskatchewan. And attached to the Crown review in 1997 were a series of international — as they were called then — international investment guidelines.

I'd like to just refer us to slide four now. This is a representation of the government's framework in the performance management systems that are in place in the Crown sector. I'd like to start with a couple of definitions. The term governance as we define it is a set of authorities and processes that are in place to guide decision making.

Performance management as we define it is a process that links strategy to outcome. Many organizations have strategies and the outcomes bear no resemblance to what they were trying to achieve. Performance management is a process that is put into place to give the highest possible probability that the outcomes that you achieve are those that you set out to achieve in the first place. So it's a process of managing two desired outcomes.

What we see on page 4 is a very high level representation of these two systems, governance and performance management, that are now in place. And if you start at the top of the chart you will see that cabinet is in charge of the strategic direction . . . setting the strategic direction for Crown corporations.

Through cabinet directives we receive long-term direction. We receive the guiding vision for Crown corporations and their place and role in Saskatchewan society. We receive the primary business purposes that Crown corporations are to undertake. And we also receive the public policy objectives that the Crown corporations are charged to fulfill.

This direction for us has been captured in the Crown sector strategic plan which is noted in the chart. And that plan was developed during 1999 and approved in 1999 by the CIC Board and by cabinet. And it is a plan that we refresh each year. And we're undertaking a 2001 renewal of that plan as we speak.

Moving to the right-hand side of the chart, you'll see that CIC Board acts as a holding company. Its role primarily is to ensure that there's an alignment between the business strategy of the

Crown corporation and the expectations of the government. The CIC Board allocates capital amongst competing demands. And my colleague, Sheldon Schwartz, in his presentation later on will show you how that works.

The CIC Board is also responsible for setting the business, financial, and public policy targets on an annual basis and is also responsible for the training, development, and evaluation of the boards of directors . . . the boards and the boards of directors of subsidiary Crown corporations.

Staying on slide 4, if you see at the bottom of the chart is the role of the subsidiary Crown Corporation boards. Their job is to ensure that their strategy is aligned with the Crown sector strategic plan. Their role is to establish a business plan for their company which achieves targets that are set by the CIC Board. Their job is also to distribute the available capital within the company and to ensure that there are activities that are undertaken in the company that achieves the business plan.

On the far left-hand side of this chart, you'll see the second role for CIC as a holding company, which basically completes the cycle, and that is a role of monitoring and evaluating performance. And CIC Board does this on a quarterly basis against the targets that are set each year. In the middle of that chart you'll see a shaded box called balanced scorecard, which I'll come to in a minute.

This high level view is of a system that has a number of significant benefits. It establishes a direct link between strategy and outcomes. It establishes a common planning framework that all Crown corporations adhere to. It establishes a disciplined and rigorous decision-making process, and it creates clear accountabilities. Just move on to the next slide, please Sheldon.

I'm not going to go into this slide in any detail. It's a significant amount of information but it is a very detailed description of the allocation of roles and responsibilities amongst cabinet, the CIC Board, Crown corporation boards, and Crown corporation executives. You'll see generally that the roles assigned to cabinet are in the strategic domain. The roles assigned to CIC Board are in the area of setting goals and targets and evaluating performance, and the roles assigned to the subsidiary Crown corporations are those of planning and operations.

Move on to slide six. We come back to the balanced scorecard which we saw in slide four, and I need to talk about this in a little bit of detail. This is a . . . Balanced scorecard is a particular performance management methodology. It was developed in 1992 at the Harvard Business School. Since that time it has become . . . come to be very, very widely used by both private sector and public sector companies and organizations throughout North America and, in fact, globally.

At its core is the belief that the board and management of an organization must focus on more than the bottom line of the financial affairs of the company, and that they have to take a much broader perspective in terms of what is important to manage in terms of the operations of a company.

The model, as it was designed at Harvard, sets four perspectives. One was financial, the other was business

processes, the third was customer, and the fourth was innovation and growth.

CIC was an early adopter of the balanced scorecard in Canada, and particularly for public sector organizations. We adopted it in 1997 and have been working away at it for about . . . since that time, and we're not finished yet. We think of it as a five-year process, and we're getting close to a situation where we think we have a well-functioning system right now.

This methodology is very well suited to public sector corporations and Crown corporations that we have in Saskatchewan because, of course, we have more than the financial perspective in view when we manage . . . when the companies are managed and decisions are taken, we have a much broader perspective. And when you see on slide six the four views that are there, you see that public policy is one of the views that we take. And of course you would never see that in a private sector organization's balanced scorecard.

Just to give you some examples of what we're talking about here, on slide 6 under the public policy perspective, one of the objectives might be, and is, to contribute to the social and economic well-being of the province. And some of the measures there might be job creation, representative workforces, and the percentage of goods sourced in Saskatchewan for example.

Under innovation and growth down at the bottom right-hand side, one of the objectives here might be to ensure that we have a skilled and motivated workforce. And some of the measures might be an employee satisfaction index or value added by new initiatives developed by the employees of the company.

These are some of the perspectives that are taken in Crown corporations when they establish goals and objectives using the balanced scorecard. And each one . . . There are some common themes in the balanced scorecard of course, but each company sets its own goals and objectives as it sees right and proper for their business. And those are negotiated with CIC and eventually approved by CIC board.

Moving on to slide 7. This is some specific improvements that have been put into place since the Crown review in terms of strengthening controls and accountability. General government review of . . . General governance review principles and best practices was undertaken in the first two quarters of 1998 and resulted in a set of principles and a set of best practice guidelines which were developed through consultation with CIC staff, Crown corporation executives, Crown . . . some of the directors of Crown corporation boards, and were issued in . . . approved by the CIC board in 1998 in June and issued to Crown corporations and forms the basis, the fundamentals of the governance practices that are in place today.

The performance management process, I've just finished describing.

The next three — significant transaction reporting, annual and semi-annual reports, and tabling of subsidiary financial reports — these together constitute a very much enhanced reporting and accountability in communication focus in CIC and the Crown corporations.

And this reporting and disclosure has in fact been benchmarked by The Conference Board of Canada on our behalf, against TSE 300 (Toronto Stock Exchange) companies in Canada. And the conclusion by The Conference Board of Canada is that we compare very well with leading private sector disclosure and reporting practices.

External investment policy and guidelines. I have a separate slide on those a little later and I'll speak to them in more detail then.

We have instituted joint CIC board Crown Chair and CEO (chief executive officer) planning and consultation forums to ensure that there is vertical communications with the representatives of cabinet on the CIC Board and with those who operate and direct the operations of Crown corporations. So that there is an assurance that what the shareholders' expectations are is understood by those who operate the companies and also the issues that the companies face are understood by the decision makers at CIC Board and cabinet.

We also have instituted a reporting and disclosure policy for subsidiary Crown corporations, which is in place now. And at the end of its process, it'll ensure that there is a complete disclosure by every Crown corporation of each company's balanced scorecard, and this will be accomplished by the year 2002 annual report.

Just draw your attention to chart 8. There's a lot of information here, but it shows a series of initiatives and improvements that started in 1998 and are ongoing. There are entries in most of the areas for 1998-1999, year 2000, year 2001. I won't speak in any detail of these, but I'd be delighted to speak to them with respect to any particular questions that might be raised during the outcome of these hearings.

I should note that we have the training report. We have a code of conduct report and we have a conflict of interest guidelines report, which we can table with the committee if that is your wish.

Last issue I want to speak on is external investment process. These guidelines, as I said earlier, were first issued . . . external investment guidelines were first issued with the Crown review report in June of 1997. At that time, they were called international investment guidelines.

The Crown review, as I said, recognized that Crowns needed to grow and that part of the growth strategy would be diversification, in part outside of the boundaries of Saskatchewan. And so guidelines were established. We put together a policy that incorporated those guidelines in mid-1998 and, in following the Channel Lake reports; we updated our external investment policy and guidelines in April of 1999. So what you see in front of you on the next four slides actually are extracts from that policy.

The first thing I want to mention, on page 9, is that we have some steady state activities which are related to the external investment approval process and which ensure a number of features are in place.

First of all, that there is an updated strategy and financial plan

for every external investment in the regular business-planning cycle and the performance management documents of the Crown corporations. There is an annual report to the CIC Board in June of each year on external investment strategies in progress, and there is an assurance that within each Crown corporation's strategic plan there is identification of the external investment program that might be in place in the organization and identification of the objectives for that plan and how it fits into the overall business plan of the company. Then of course each year the Crown corporation business plan includes initiatives, business criteria, and resources for external investments.

So those are what we would call steady state activities to ensure that there's a linkage between the direction that the Crown corporation is going and the role that is played, if any, of external investments in that plan.

The next chart, page 10, shows on an individual external investment proposal, the assessment and approval process. And you can see, starting on the far top left-hand side, that each Crown corporation would have a strategic business plan that would have an element in it . . . if it does have external investments, it would have an element in it which establishes what the general targets and goals and directions are for external investments, and that any target investment is screened against those criteria.

And if it comes through the screen and the Crown Corporation Board approves and it goes on for further development, both in terms of the business case and due diligence, and at this point the due diligent guidelines that each Crown corporation has would be applied, and also the external investment guidelines that the holding company, CIC, has would be applied.

And there are then a series of approvals that have to be sought. First of all at the Crown Board, then at the CIC Board, then again at cabinet, and of course ending with an order in council issued by the Lieutenant Governor in Council. Finally there is a reporting to this committee through the mechanism of a significant transaction report.

The guidelines themselves are 15 in number and are on pages 11 and 12. And bearing in mind the time, I'm just going to leave them with you. They're fairly explicit, fairly well defined, and cover the issues that a holding company would believe are important for the holding company to examine.

So I will just leave it there and pass it on to my colleague, Sheldon Schwartz.

The Chair: — Thank you, Mr. Shaw. Who's next? Sheldon.

Mr. Schwartz: — Thank you very much. Good morning to all here today.

I'd like to take you through about seven slides that'll give you an overview and some detail on CIC's financial statement organization; how capital allocation — as Mike Shaw mentioned — works in the Crown sector, including dividend policy; and an overview of financial trends in the overall Crown sector; and some focus on our major subsidiaries and our major investments.

The first slide is slide 13. In your annual report you'll notice there's three sets of financial statements. There's CIC's consolidated financial statements, CIC's non-consolidated ones, and those of CIC Industrial Interests Incorporated which is CIC's investment arm. And as the graphic shows, that CIC consolidated financial statements are basically the combination or consolidation of the results of other groups' amenities. CIC's non-consolidated ones are the financial statements of CIC as a holding company itself.

The middle bar in light green are the financial statements of CIC Industrial Interests Incorporated which focus on the results of activities conducted through CIC III, as it's sometimes referred to as CIC's investment arm.

And finally on the far right, in the lighter blue colour, is the subsidiary corporation's financial statements including those in Power, SaskTel, SaskEnergy, and SGI (Saskatchewan Government Insurance). And the combination of all those three feed into the consolidated financial statements which basically look at the CIC Crown sector as if it was one entity, so it gives you a picture of what's going on overall in the Crown sector.

Slide 14, there's a couple of concepts and definitions I just wanted to touch on that will help in terms of the discussion in the following slides. The first one is the idea of self-supporting debt. And we define that as when a debt is incurred for an investment for which the timing and amount of the cash flow is sufficient to fully service and retire that debt, we consider it to be self-supporting. Why that's important is that our ability to pay regular dividends to the General Revenue Fund mainly depends on the level of Crown dividends that we get, less interest payments on our non-self-supporting debt.

Unlike non-self-supporting debt, self-supporting debt is not a burden on CIC's financial flexibility or its ability to pay dividends because by definition we get the cash and the amounts and at the times required to service it.

Another concept is retained earnings. In addition to having the money, we also need to have sufficient retained earnings. Retained earnings are an accounting concept that is basically defined as the aggregate amount of undistributed income since a company's inception, and that's true whether it's a Crown corporation or a private corporation.

Our earnings, and therefore retained earnings, are very sensitive to adverse developments in the earnings of the Crown corporation subsidiaries that we have, and therefore the dividends that we receive from them, and any interest costs on a non-self-supporting debt.

To ensure — and you'll see in the following slides that our income does tend to be fairly volatile — that a significant reduction in our income doesn't threaten our ability to pay the GRF (General Revenue Fund) dividend that's a component of the annual provincial budget, we target a retained earnings cushion of one year of the forward GRF dividend. And like any other company, CIC can only pay dividends to the extent of its retained earnings.

On slide 15, there's a discussion of how this all works between debt and dividends. Major asset sales since 1995 have been very

important in reducing CIC's non-self-supporting debt, and for that matter, that of the General Revenue Fund and facilitating higher regular dividends to the General Revenue Fund. Those asset sales have included a portion of our holdings in Cameco Corporation, CIC's interest in Wascana Energy and the By-Provincial upgrader, Saskfor MacMillan, and Crown Life.

The application of the proceeds from these asset sales, in combination with some of the dividends from our Crowns, enabled CIC to eliminate its non-self-supporting debt by the end of 1998. And in fact, overall between 1993 and 2000, CIC's debt fell over a billion dollars — about \$1.1 billion from about 1.15 billion — virtually all of which was non-self-supporting at the end of 1993 to \$48 million at the end of last year, all of which was self-supporting.

Over the same period, through the elimination of that non-self-supporting debt, our annual interest expense fell by about a hundred million dollars, and this is why it was important — it enabled higher CIC dividends to the General Revenue Fund.

On page 16, you'll see a graphic that basically talks in graphical terms about the capital allocation framework that is a part of our balanced scorecard in the subsidiaries and which is also applied in determining our dividends to the General Revenue Fund.

The top part in light blue that you'll see shows — and this is true whether it's a Crown corporation or any corporate entity — there are three and only three uses of cash profits generated by a Crown corporation.

You can take a portion of it and reinvest it in the company to sustain existing operations or to grow new investments. If you have more in the corporation than your target level of debt — and these are determined in relation to industry standards for the Crowns — you apply a portion of your cash profits to reduce debt. So you're at your target ratio. And that's the ratio between debt and debt and equity in the company — debt/equity ratio.

Anything that you don't need for the first two uses within the corporation — reinvestment or debt reductions — by definition is surplus to that company's needs, and it can be paid to the shareholder as a dividend. And in this case it's a dividend to the shareholders represented by CIC.

The bottom half of this chart looks very similar to the top half because it's basically the identical conceptual framework. CIC, the same as any other company, has three and only three uses of its income. It can apportion a part of it to reinvestment, which we do through our investment arm, CIC Industrial Interests Incorporated. We can apply some of them to reduce a debt if it's required. And because we don't have any more self . . . non-self-supported debt, it's no longer required.

The importance of that is that if there's a less of an . . . no longer an allocation required for debt reduction, it enables us to increase our dividends to the General Revenue Fund, because there's a use of cash that is no longer required.

Slide 16 gives you an overview of the CIC consolidated Crown sector over the last five years. And there's four graphs on the

chart, so I'm moving from left to right. It's the consolidated earnings of CIC, the consolidated return on equity, the debt ratio, and dividends to the General Revenue Fund.

In a number of these bars you'll notice there's a light portion and in this case in lighter orange and a dark portion in dark orange. The lighter portion are in consolidated earnings related to a non-recurring item, special one-time kinds of events often related to asset sales, and the red portion is the earnings from core or ongoing operations.

And what it shows is that our consolidated earnings from ongoing operations, i.e., excluding those non-recurring items, has been fairly volatile over the last five years; increased from 226 million in '96 to 274 million in 2000. But it also shows that 2000's income was about \$122 million higher than in 1998. And it also shows there was a significant amount of volatility between '98 and '99, where in 1998 consolidated earnings were at 237 million.

Corresponding return on equity from ongoing operations has also reflected a volatility in earnings, and it's been quite volatile itself: about 10 per cent in 1996; eight and a half per cent in 2000; and it's varied as low as 6 per cent in 1999, which as you can see from the left hand graph was a relatively weaker year in terms of earnings performance.

A story that's been consistent over the five years is reduction in the proportion of debt in the Crown sector overall. It's been over a billion dollars since 1996 and it's reduced the consolidated debt ratio by 13 percentage points — from 62 per cent in 1996 to 49 per cent in 2000. And the debt ratios at the four major crowns, SaskPower, SaskEnergy, SGI have decreased to be more in line with the industry standards.

Actually SGI doesn't have any debt. We use a ratio called the net risk ratio which is used in the insurance industry as an analogue to the debt ratio. So the debt ratios would be for Power, Energy, and Tel.

As was disclosed in the provincial budget released in March, the \$150 million dividend to the General Revenue Fund for 2000 was deferred by the shareholder. The budget also indicated that expectation of a \$200 million dividend on regular earnings for 2001. Our regular dividend was \$125 million in 1999. And it shows in those two components in the bars for 1998, a regular dividend of \$100 million and a special dividend related to the sale of Bi-Provincial upgrader of also \$100 million for 1998.

In aggregates, since 1996 including special dividends and equity payments, we've returned \$875.7 million to the General Revenue Fund. And that's to support its priorities.

Looking at the four major Crowns, you can also see a fair amount of volatility in their results over the three years. And this focuses in on 1998, 1999, and 2000, which are the annual reporting years for which you're reviewing.

Looking at 2000, 2000 earnings were up about \$12 million from 1999. Primary factor there was record-high export sales as well as strong sales to key accounts and oil field customers. '99, as you can also see, was a fairly weak year for SaskPower. And

that was primarily due to higher costs for fuel purchase power, as well as some non-recurring items and higher wage expense.

For SaskTel, also a significant amount of volatility over the three years. '99 was about twenty-nine and a half million dollars higher earnings; and in 2000 was twenty-nine and a half million dollars higher earnings than 1999. And that was primarily due to higher revenues from Internet, local service, and cellular.

SaskTel's also done a very good job of retaining its share of the long-distance market. Its market shares was 91 per cent for last year. '99 earnings were about \$25 million lower than '98, primarily due to the effects of competition in long-distance revenues, lower interprovincial settled revenues, and restructuring and other charges.

Looking at SaskEnergy, its earnings were about \$7.8 million higher in 2000 than 1999, and that was mainly due to the sale of natural gas assets from a storage facility in west-central Saskatchewan, combined with royalty income. 1999 earnings were very similar to 1998 levels.

SGI has also shown a significant amount of volatility. Earnings in 2000 were up \$12 million from 1999 due to higher earnings on its investment portfolio. And what was good for the 2000 results was a factor that subdued results for 1999, which were about 29 . . . \$21 million lower than in 1998. One factor was reduced gains on the sale of its investments from its portfolio, as well as impacts of higher claims costs related to summer storms and adverse developments in prior years' claims.

Looking at our three largest investments over the period. Also if you can . . . I guess the theme of the day is volatility in terms of the financial results. Meadow Lake Pulp on the far left, on chart 19 — our share of 2000 earnings was about \$7 million higher than in 1999 due to continued improved pulp prices and demand for most of the year.

1999, incredible swing in earnings; over \$57 million better than in 1998. And factors there were a partial buyout of a long-term supply contract combined with improved pulp prices.

'98 results were also depressed due to a \$30 million provision against the carrying value of CIC III's loans to Meadow Lake.

Looking at NewGrade, also very large swings in our share of the earnings. And for all these investments it's not the earnings of the projects themselves, it's our share of them. \$40 million swing in 2000 to the positive from 1999; improved price differentials were the factor there. And that was the same factor that depressed '99 results compared to '98.

In terms of Saskferco, it's usually been a very strong performer and a consistent performer for CIC; 1998 earnings were \$10 million. Falling natural gas . . . sorry, rising natural gas prices and falling prices for its urea and ammonia product were the factors in our share of the earnings being a \$2 million loss for 1999. And improved urea prices in the face of much higher natural gas prices were the factor that allowed an improvement in the results. Our share of the earnings was 3 million for the year 2000.

And that concludes my report.

Mr. Fix: — Thanks, Sheldon. Good morning everyone. I'm now on the investments and CIC's mission slide. These two elements of CIC's mission have been assigned to . . . (inaudible) . . . separate division.

The first component on the overhead is to enhance Saskatchewan's long-term economic growth and diversification through investments. And that is the area of new investments. This has been assigned to the corporate development division for which I'm responsible. And our mandate is to identify and develop new investment opportunities.

The second component of what is described is to manage prudently a portfolio of commercially viable investments and this is the ongoing management investments. This task has been delegated to the investments division for which Zach Douglas is responsible.

Anything you wanted to add to that, Zach?

Mr. Douglas: — No.

Mr. Fix: — Okay.

Mr. Douglas: — Contribute at a later date.

Mr. Fix: — Okay. As you can imagine, these two divisions work very closely together. That's really important from an internal perspective — again the left hand knowing what the right hand is doing — but also from a customer service and relationship perspective.

As we move to the next slide, CIC's investment strategy, before I touch upon that directly, I thought it might be useful to just speak to why we have an investment strategy first.

In the late '90s, we did an assessment of the investment adventure landscape in the province. We consulted with business people both inside and outside Saskatchewan, spoke with regional economic development authorities, provincial economic development authorities, members of the various chambers, and our colleagues in the public sector, as well as seeking out some statistical information beyond the anecdotal which often comes from consultations.

The results of that were, although they varied in terms of the degree of the problem, I would say it was generally accepted that there was certainly a lack of venture capital in the province, right from the earliest stages from seed capital to develop new innovations and proof concepts to start-ups and expansions.

As we then looked around the landscape further, we tried to determine why the capital markets, particularly from out of province, were having difficulty placing capital in Saskatchewan. And there were some real practical reasons for it in our estimation as well as some perception problems.

The practical elements of it were that venture capitalists, for the most part, like to be within an hour, hour and a half, two hours of their investments. When there are ample investments in your jurisdiction or within an hour, hour and a half of where you are,

you're generally not seeking beyond that.

Also an element of that practical again was that venture capitalists like to work in an environment they know. They like to be able to network with people, like to ask about management, and hope someone in their community knows about the management in which they're considering investing.

From the perception problem, which is also an issue, we found that there was a lack of knowledge, as I would describe it, about the Saskatchewan economy. The perception again being that it's simply a commodity-based economy which is certainly not true and is a consequence and education of the capital markets. And participation alongside them was an important element of it.

Interestingly when we finished up our piece, the Sask Chamber came out with their vision for 2005 which described a lot of the outcomes we came to, and that is that there was a shortage of venture capital in the province, of risk capital, at every level and that one of their mandates over the coming few years was going to try to solve that problem.

Moving on to the next slide which is CIC's investment philosophy, I think the cornerstone could be summarized, that our investment philosophy is that economic development is a by-product of prudent investment practices. First and foremost a business needs to be commercially viable and provide an acceptable return. If it provides that, our view is that good economic development will be the outcome.

CIC's investment objectives are on the next page. The five are, to provide an acceptable financial return to CIC on capital investment, which I just described a minute or so earlier.

To diversify the existing portfolio. As Sheldon mentioned in some of his commentary, our portfolio is largely commodity based. And as a consequence we're moving toward value-added sectors which aren't subject to the same vagaries that commodity prices are, particularly the huge swings that we often see and were described on Saskferco and NewGrade in particular.

To strategically invest in industries where wealth and employment growth are significant. We've defined those particularly as ag and related. And that is a broad spectrum of industries in that sector. Biotechnology again at every level — from ag-biotech to plastics and the like — and information technologies.

Again interestingly in the chamber's 2.0 version of their vision for 2005, they have identified ag and related and biotechnology again as two sectors they've identified as being a key to the growth of the Saskatchewan economy.

To facilitate and enhance Saskatchewan's economic and employment growth. And that will be defined a little bit more on the next page where we speak to the investment guidelines.

And to facilitate the growth of the venture capital investment management capacity within the province. We see that as huge in terms of the availability of capital. All the statistical information we've seen from reports and studies that have been undertaken by Western Economic Diversification, by the

Canadian Venture Capital Association of Canada, all of them show that Saskatchewan is simply not getting its pound of flesh as it relates to venture capital in any manner in which you'd like to measure, be it capital . . . or pardon me, population; be it measured by growth or the size of our economy with respect to the rest of Canada.

There's a huge gap there and as a consequence, a part of what we've been trying to undertake in the last year or so is not only investing alongside the private sector in projects specific, but also in forming funds along with the private sector where they inject capital and we inject capital and share risk.

A couple have been done in the last 12 months that were identified again on Sheldon's chart — Foragen Ventures, which was a fund established between ourselves, the Crown Investments Corporation, Royal Bank Ventures Inc., and Soquia Incorporated of Quebec. And a subsequent fund we did was Primaxis in the advanced technology sector, which again had partners of Royal Bank Ventures, the BTC group, well-established developers of technology. And DuPont Canada is involved in that one as well.

So a broad array; again the goal being to identify opportunities for them in Saskatchewan, make them aware of Saskatchewan, some of the wonderful innovations we've . . . our academics and entrepreneurs develop here.

Finally on the investment guidelines, relatively self-explanatory so I won't go into a lot of detail and try to meet the Chair's objective of us winding her down at 10:30. Thank you.

Mr. Hart: — That concludes our presentation, Mr. Chairman.

The Chair: — Thank you, Mr. Hart. Thank you, Mr. Minister, and your officials.

I'm going to, just before we break, I will recognize Mr. Montgomery with the auditor's office. If you could give us a brief overview.

Mr. Montgomery: — Thank you very much, Mr. Chair.

Just by way of a little bit of background, for 1998 and 1999 you should be aware that we were the sole auditor of CIC and did all our procedures directly. For the year 2000 Deloitte & Touche were the appointed auditor for CIC and we primarily relied on the work of John Aitken and his team at Deloitte & Touche, but we also worked together with Deloitte & Touche in the area of investments.

I'm pleased to report to the committee that CIC's financial statements for 1998, 1999, and 2000 are reliable. I'm also pleased that we have reported to the Assembly that for 1998 and 1999, that CIC's rules and procedures to safeguard and control its assets were adequate. And that also CIC complied with legislative authorities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

With respect to the year 2000 we expect to issue our Spring Report to the Assembly in early June, next week likely.

And I would also like, before I finish, to take the opportunity to state that we support CIC's balanced scorecard initiative to improve the quality of information contained in its annual reports and also the annual reports of CIC subsidiaries.

We look forward to seeing CIC subsidiaries reporting publicly on their targets for public policy, innovation and growth, and customer satisfaction. And when this information is publicly available, we think MLAs (Member of Legislative Assembly) and the public will have better information to assess the performance of Crown corporations.

And with that, I'll turn it over to my colleague John Aitken in case he has any further comment?

Mr. Aitken: — No. In the interests of time, I have really nothing to add to what Mr. Montgomery just said.

In conducting the audits of the Crown Investments Corporations, the financial statements referred to by Sheldon earlier are contained in the annual report. Our report is attached, as Deloitte & Touche, on the financial statements being presented fairly.

In forming these opinions we did collaborate quite extensively throughout the planning, conducting the audit, and reporting to the Audit Committee of CIC. We did collaborate with the Provincial Auditor's office and really encountered no significant difficulties in forming these opinions.

So with that, I would say that's all I really had to say.

The Chair: — Thank you. Thank you very much for your comments.

It's now just after 10:30. I am going to suggest that we break, as we traditionally do, for 10 minutes and we will reconvene at just before quarter to. With that the committee stands recessed.

The committee recessed for a period of time.

The Chair: — I'll call the meeting back to order. I have Ms. Jones and Mr. Wall.

Ms. Jones: — Thank you, Mr. Chairman. And I'd like to thank the minister and his officials for their very excellent presentation. As a new member of the board it helps to have a good overview like that. And I'm looking forward to learning more.

I wondered if one of you could explain to me what the CIC holdings add up to and how much of Saskatchewan's economy does the Crown sector account for?

Mr. Schwartz: — In terms of its assets at the end of 2000, December 31, 2000, it would be on page 46 of your annual report for 2000, our consolidated assets were a little over \$7.6 billion.

In terms of percentage to the provincial economy, I don't know what the GDP (gross domestic product) of Saskatchewan was for 2000, but I understand it's approximately 17 per cent.

Ms. Jones: — Seventeen?

Mr. Schwartz: — Yes.

Ms. Jones: — I just received my annual report so I haven't had an opportunity to look that up.

In terms of employment and the spending that the Crowns account for, how much of the economic activity are the Crowns responsible for in areas like employment and purchasing and capital investments?

Mr. Hart: — I think it's around 9,000 employees. Do you have that information handy, Mike? I've got some of it here.

Mr. Shaw: — I think I can . . . I'll give you this information. I can't verify it exactly. It's in one of our planning documents so . . . But with respect to employees, there's a little over 8,500 employees in the four major Crown corporations. About half are located in Regina and about half in communities throughout Saskatchewan.

There's, as Sheldon I believe said, CIC assets are about 7.6 billion — 6.8 billion alone in the four major Crown corporations.

In terms of local purchasing, support of local businesses in Saskatchewan, expenditures are about 1.5 billion in the year 2000, that supports or does business with about 11,500 local suppliers throughout the province.

Capital expenditures by the four major Crown corporations in the year 2000 is going to be about 375 million. So a very extensive participation in the Saskatchewan economy by Crown corporations and their operations.

Ms. Jones: — It certainly appears so. And do you have any way of being able to gauge how much of that economic activity would take place if we did not own the Crown corporations? Is there any way to measure the contribution that you make because you're a Crown as opposed to if you weren't . . . if the people of the province didn't own those Crowns?

Mr. Shaw: — The best I can do is to suggest to you that if the telephone company, for example, was owned by a national interest or an international interest, I do not believe — and evidence across the country and throughout North America shows — I do not believe that there would be a head office for the Saskatchewan division of that telecommunications company located in Saskatchewan. Many of those highly qualified, well-paid jobs would not be in the economy.

I believe that the local service that's provided to Saskatchewan people, particularly in rural and remote areas, would not be available or would not be available at the level and quality it currently is. It certainly wouldn't be available at the prices it currently is.

If you had an international or North American company owning SaskTel, I do not believe that they would . . . their purchasing patterns would be the same as SaskTel's. I think they would be looking at sourcing on a North American basis.

So I think I can't tell you what the difference would be specifically, but I believe there are indications that the economic . . . there would be significant disadvantages to the Saskatchewan economy of having that company not owned by the people of Saskatchewan. And a similar analogy can be made for the other major Crown corporations as well.

Ms. Jones: — And I assume that there'd be no way of guaranteeing, if we didn't own them, that any of those jobs or offices would stay here.

Mr. Shaw: — I think if you were planning, you would have to assume that you could not guarantee in the long term that they would be here.

Hon. Mr. Sonntag: — Can I just supplement that just a little bit, just to sort of describe a parallel in the US (United States) which is largely deregulated, specifically in the cellular service industry. I know just from personal experience if you go to Seattle, just a few miles out of Seattle, 15 miles out of Seattle, you can't get cellular service anywhere . . . (inaudible interjection) . . . Well I hear the member say just like here.

In Saskatchewan we have 90 per cent of the population that is serviced by cellular service. They'll have, in fact with the announcement this spring, they'll actually have digital cellular service to a large population in areas that I would argue that if you were in the United States, they would have absolutely no coverage. And in fact I know while we get calls about, concerns about the level of coverage, largely the majority of people in Saskatchewan are served quite well by the level of cellular coverage. But I mean that's just a comparison, or the little thing that I wanted to add parenthetically.

Ms. Jones: — I had one more question, Mr. Chairman. I can't seem to locate it. It has to do with a terminology that was used with debt. But perhaps I should pass and if there's an opportunity later I'll come back in on that . . . (inaudible interjection) . . . Yes, and the definition of . . . Was it non-self-sustaining? I can't seem to . . . (inaudible interjection) . . . Oh that's it — non-self-supporting. If you can just explain that to me a little bit more.

Mr. Schwartz: — Sure. Basically another way of defining it would be self-liquidating debt, that the investment for which the debt has incurred will generate cash flows that will fully retire the associated debt, and you can rely on it being able to do that. That would be self-supporting debt.

Mr. Hart: — Just if I can add one bit of information to your question, Ms. Jones, about the issue of would we have the same economic benefits under a different form of ownership.

You know one model, since we've used SaskTel, is the MTS (Manitoba Telephone System) model where the company was privatized. About 80 per cent of its ownership is widely held; 20 per cent is held by Bell Canada. And the head office has retained in Winnipeg. There's always the risk, when you're in that state though, that Bell Canada could buy up the rest of the shares and then would, as Mike said, likely consolidate the head office in Toronto where it is for Bell Canada or Bell Telephones.

But the other issue relates to the question of local purchases. And if you recall Mike's presentation, the balanced scorecard has the four elements to it, one of which is public policy.

And of course in a non-Crown corporation business corporation, you'll tend to see a very strong emphasis on the financial bottom line issue. Because of course it's in the public markets, so return, price-earnings ratios, those kinds of things, are very important. Which means that you tend to strip out of your operations anything that's sort of surplus to earning that maximum bottom line.

In the case of SaskTel, what that would probably mean is a big consolidation into urban Saskatchewan — I'm talking about the two major centres — of jobs and functions. Because SaskTel actually carries, relative to other telephone companies, quite a lot of employment out in the rural areas compared to what, say, an MTS or a TELUS or someone like that would do.

And that's one of the key differences I think.

Ms. Jones: — Okay, thank you, Mr. Chairman.

Mr. Wall: — Thank you, Mr. Chairman. And thank you to Mr. Hart and his officials for their presentation, and welcome to the minister. I'm new to this committee, relatively speaking, but I understand it's a rare privilege to have a minister join us for proceedings, so welcome to him.

Hon. Mr. Sonntag: — It's a privilege for me too.

Mr. Wall: — And the questions I guess I have, surrounding an item in the presentation that was made this morning regarding external investment guidelines. And I'm assuming that . . . you mentioned there was two sort of developmental periods for this list — one in August of '98 and then another one subsequently after the Channel Lake report of this committee, in April of '99. So I'm assuming that what we have here before us in this presentation package is the most recent, is the April '99. Yes, and they're nodding their heads to confirm that's the case for the record.

So I would like to ask this question. I'm looking at the document that was circulated by officials of the government and I assume provided by CIC. It's on their letterhead to the media not long ago, during a media scrum after question period. It also is the list of external investment guidelines.

And it's identical, save for the word "in advance" in point no. 6. I've just had this morning, very quickly, while the presentation was on to review these, so I may have missed another difference. But I can see absolutely no difference in these two lists — the August '98 list, in principle especially, and the list that you're saying was prepared after the Channel Lake report of this committee.

So that would be my question for CIC. Indeed what changes did you make as a result of the recommendations of the Channel Lake inquiry?

Mr. Shaw: — I'll take that one, Mr. Chair. There's actually three, I wouldn't call them versions, but there's three developmental periods for the guidelines. As I said in my

remarks today, the first set of guidelines were actually issued, developed in 1996-97, and were issued as an appendix with the Crown review, that final report which was issued by CIC in June of 1997. And the guidelines, as you see them here, are substantially the guidelines that were issued at that time.

During early 1998, as we were going through the Channel Lake review process, we were examining the guidelines and examining our policy to determine if there were improvements that we should be making at that time. And whatever those improvements were, they were built into the '98 document.

And you'll be aware that we at CIC were intimately involved in the Channel Lake review. We did a review and report ourselves and caused two other reports to be done — one by Deloitte & Touche and one by a counsel, a solicitor in town.

And we were learning as we went through that entire process, so the guidelines as they were established in kind of a draft policy in 1998 were built on what was issued in '97 and what our experience had been. And we created a draft policy out of that which incorporated the guidelines. And then when Channel Lake report came out, we had a review of that and finalized the guidelines in 1999, in April of 1999, and that's what you see here.

Mr. Wall: — Can you point to anything specifically then . . . and by the way, we're not going to get into a debate — we're not allowed to by the rules of this committee. But it seems very much like the list hasn't changed since pre-Channel Lake period report — period. That's what it would seem to anybody looking at these two lists.

That notwithstanding, could you then please point to anything on the updated list that you provided us that you say is post-Channel Lake that is different than the investment guidelines used previous to Channel Lake?

Mr. Shaw: — The first thing I'll say is that in addition to the guidelines, there's the governance and performance management framework that I spoke of today and went into some detail. That was not in place when Channel Lake occurred.

You recall the Channel Lake series of events began in 1992 and ended in April 1997. The very significantly changed governance and performance management framework that I talked about this morning was . . . development began in 1997 and has been ongoing since that point in time.

So the first thing that is fundamentally different is the way that external investments are treated by the Crown corporations and by CIC in terms of planning, in terms of building into business plans, in terms of building into strategic plans, in terms of accountability and reporting mechanisms. So all of that I believe is substantially improved and substantially different.

The individual guidelines themselves which are used to test proposed external investments, are not substantially different from the ones that were introduced, created and introduced in 1997.

Mr. Wall: — Okay. Thank you for that response. And I guess

my subsequent question would be, what I'm hearing from you is that the guidelines haven't changed really. I mean they're the same. Channel Lake did its work and reported and highlighted several deficiencies in the process, but the guidelines remain the same.

However you're saying some other process is in place by CIC and your Crowns, specific Crowns, as they look at external investments. They've adopted certain changes in behaviour as a direct result of Channel Lake.

And I don't want to put words in your mouth, I just want to understand what you're saying, if that's the case, because it has a bearing on my questions.

Mr. Shaw: — I would answer this, that when Channel Lake occurred, there were no guidelines in place. It was pre-'97. In fact, that whole investment was made during the period of '92 to '97. The guidelines that were put into place were substantially sound. If they had been in place, I would tell you that there would not have been a Channel Lake.

They were put into place after Channel Lake and were found over the period of development over the last three or four years, including being informed by the recommendations of the Crown Corporations Committee, to be substantially sound. So they're substantially in the same form as they are now.

Mr. Wall: — The question would also follow then as it relates to specific Crowns as they look at external investments, who would obviously be bound by these guidelines, but also as you're saying bound by . . . because these guidelines are pre the Channel Lake report, they should also be bound by the recommendations, the specific recommendations, and some of them differ, than this list we have here.

In fact we've had the testimony from both Messrs. Ching and Clark to date — we've asked this question of both of them — that they, other than receiving a copy of Channel Lake from CIC or perhaps from this committee, I don't know, they received no direction from CIC, from Mr. Hart or his predecessors or from yourself, I assume, no direction that those recommendations should be followed.

And I wonder if you could explain why that might be the case.

Mr. Shaw: — Well what direction . . . CIC gave direction in two instances. You might recall this morning I referred to a period of consultation and development in the first two quarters of 1998, which resulted in the presentation to the CIC Board and the approval of the CIC Board of a series of governance principles which bear directly on how, in part, on how external investments and subsidiaries are to be managed within Crown corporations within the CIC system.

Those were developed in consultation with Crown executives with, in some cases, some of the directors of Crown boards, the Chairs of the Crown boards, and CIC staff. And they were issued not only the principles, but a corresponding list of best practices were issued in June of 1998. They were sent to, they were sent to the CEOs, all the CEOs, and they were sent to the Chairs of the boards. So that was in place.

And secondarily, we, as I said, did a review of the external investment policy and guidelines following Channel Lake. We found that we were very substantially in compliance, that no substantial and significant changes were required, that most if not all of what the Crown Corporations Committee recommendations contained in terms of application to external investments were covered by our policy. And we confirmed that and issued that policy to all of the CEOs and all of the boards of directors.

Mr. Wall: — Mr. Chairman, thank you for that response. So there was no specific directive from . . . because you thought they . . . you believed, CIC believed that the . . . your external investment guidelines as they existed and the recommendations of the Channel Lake work were basically the same. And so there was no direction to the Crowns to familiarize themselves with the recommendations of the Channel Lake report and to follow them in addition to whatever guidelines you already had established?

Mr. Shaw: — What I'm saying, sir, is that the Channel Lake report was distributed to all the Crown corporations. Its recommendations were discussed with all of the Chairs of the Crown corporation boards. All of our processes — governance, performance management, and planning — were examined in the light of the Channel Lake experience. In fact they were under development and being formed by what we knew of Channel Lake in 1998 and 1999.

And we find and I personally believe that all of our approaches and all of our policies are substantially in compliance with the recommendations of the committee. And we believe that we have in Saskatchewan a very high quality and well recognized as leading in practice in governance in performance management. And we think that is totally consistent with the recommendations of this committee on Channel Lake.

Mr. Wall: — Just to follow up on a comment and a new line of questioning. Just to follow up on a comment made by Mr. Hart and raised by the member for Saskatoon Meewasin I think, of this just whole general discussion of public policy and how these Crown corporations can be tools of public policy. And you cited an example that I would like to follow up on.

Specifically, you cited the example of SaskTel and other telecos not employing those numbers of people in rural or remote areas from their head office. And so I wonder then, since you have raised it, Mr. Hart, if you would comment.

Because, you know, ironically enough the CEP (Communications, Energy and Paperworkers Union of Canada) Local 3 is currently in the process of a public relations campaign highlighting the fact that of the downsizing currently underway at SaskTel, 60 . . . the greatest majority of them are coming in rural Saskatchewan of course. And they've gone to some effort to raise this point. SaskTel's already testified here, but you have raised the issue of public policy. You've cited this as an example.

So I wonder if you could indicate whether or not that is the public policy of the Crowns as directed by CIC, that rural employment be given a priority, some level of priority, in terms of the deployment of your resources. And if that's the case, then

why are these Crowns — in this case SaskTel, the one you raised — seemingly going in an opposite direction?

Mr. Hart: — The issue of SaskTel's employment and downsizing as you know, or may know — I think it was in the press anyway — was the subject of a voluntary severance program that SaskTel put in place basically to get its numbers in line with similar telephone companies based on that standard.

So the way that program worked was that people had to in fact apply for a voluntary severance arrangement. And so the applications come from the employees. They're not particularly driven by management at that stage.

What the management then does, is does an assessment of whether or not they can accept that application for voluntary severance, based on how critical that employee's skills are in that area or whatever. And they try to manage then the . . . optimizing the wishes of employees to sort of elect for voluntary severance, while maintaining whatever skills and resources they need by geographic area.

So what has essentially happened in that process is that there have been some instances where there's been a high degree of take-up of the program for various reasons — age levels, demographics, I presume — and in some cases, SaskTel has had to, as I understand it, not allow applications to proceed based on the skill requirement in that area.

So it's really . . . it's been driven to a large extent, as I understand it, by the employees but more specifically, you'd have to ask SaskTel the question, I think. That's our general understanding of the program at least.

Mr. Wall: — Well that's fair enough, the comment with respect to SaskTel. You had brought the issue up so I wanted to give you the chance to explain.

Mr. Hart: — I think maybe I've not quite answered your question in the sense that we do obviously have an understanding with SaskTel, and I think they believe that maintaining some level of rural employment higher than they might otherwise need is important, because of course they're in a competitive business.

And one of their marketing strategies, as you well know, which translates into 91 per cent long-distance market share is that they are locally owned, they employ people locally, that sort of thing, and they see that as a competitive advantage over Sprint, AT&T, etc.

Hon. Mr. Sonntag: — Just a brief comment on this because I was asked this question once before myself, from CEP actually. The actual numbers — I don't have them here but we can certainly provide them — the actual numbers are very comparable and in fact the downsizing was slightly greater urban than rural, in terms of actual numbers. But they're very, very close when the downsizing occurred. But there's more downsizing has occurred in the larger urban centres than has occurred in the rural. We'd be happy to provide that for you if you want.

Mr. Wall: — I have one more line of questioning. It's probably

just one or maybe two questions, Mr. Chairman, and I'll try to pose them as quickly as possible. They relate to the Saskatchewan Government Growth Fund, if there's an official here that can comment.

And specifically, I just would like some information. They are in regards to a couple of companies, Odin Industries and Pergis — I think its Pergis Technologies, I'm not sure of the full name of the firm — and their relationship with a Grenadian bank called the Cambridge International Bank & Trust, Company. And that bank currently has had its . . . and actually its involvement with these two companies. All three of them have been suspended on a Canadian Venture Exchange as of today, I believe.

And the Saskatchewan Government Growth Fund is a 26 per cent owner of one of the companies — Pergis. There's a gentleman who has been involved in these things, promoting this, and I understand been promoting here in the province of Saskatchewan — a Mr. Burns. He's, I believe, also under investigation currently as well. And I know that Saskatchewan Government Growth Fund would have used obviously Immigrant Investment to place this investment, but certainly would have been done under the auspices and responsibility of Crown Investments Corporation.

So can you tell me what you know of SGGF (Saskatchewan Government Growth Fund) — I believe it's SGGF II, SGGF III and SGGF IV? All made investments and currently their investment represents 26 per cent of this company's stock on a fully diluted basis at this time. This is Pergis I'm talking about.

Pergis has had its trading suspended on the Venture Exchange, and its involvement with the Cambridge bank, I believe, is under investigation. The Cambridge bank is the Grenadian offshore bank. And there's been other people in Saskatchewan who have made an investment in Cambridge, specifically a woman from Moose Jaw, cited in the Stockwatch information that anybody can get on the Internet, who has taken a considerable bath on promises — or loss, I should say, to be fair — on promises of a 60 per cent return.

So understanding it's not necessarily tax dollars invested in this company, it's Immigrant Investment, still CIC responsibility. And I wonder if you could comment about that back in the year 2000 where much of this investment would have taken place and in the reporting years.

Mr. Hart: — Well, there's an independent board that oversees the investments and they have the knowledge of the details of those. But I'd be happy to take notice of the question and try to bring the information back.

Mr. Yates: — I'd like to return to the area of investments again, Mr. Chair. And I just want to clarify in my own mind the guidelines around external investment.

And would it be fair to characterize that as a result of the Crown review and events going on, that CIC itself determined during that 1997-98 period that they needed to develop some external guidelines? And about that same time the Channel Lake issue came to public concern. And during the period of time of the Channel Lake review, you were in fact developing and

reviewing and enhancing these guidelines as a result of several things going on simultaneously. And then in light of the review then coming out, you checked your guidelines against that review.

Would that be a proper characterization? You having, yourselves, decided you needed to make some changes, started that process, Channel Lake comes along, and then check your guidelines against what the review said.

Mr. Shaw: — Mr. Chair, two points. One is, Channel Lake was an investment that was originally entered into in 1992 and came to a conclusion in March or April of 1997, for all intents and purposes.

So the guidelines that we have now and the guidelines that were originally issued and the governance performance management systems that we have now to guide decision making, were not in place during the time when the Channel Lake investment was made and when it was wrapped up.

In June of 1997 the first version of the external investment guidelines which are to be used at the holding company level to screen proposals for external investments, they were issued by the government, by CIC, by way of being attached to the Crown review.

When Channel Lake became an issue and we understood the nature of the issues there — and the nature of the issues there were, was it a good investment; and secondly, what were the decision-making and approval mechanisms in place to make that investment and to supervise it during its life — we were in the process of developing all of that framework during late '97 and in 1998.

The external investment guidelines themselves, the governance principles and best practice were developed in early 1998, which spoke directly to the flaws that were found in the Channel Lake investment.

Quite frankly, we didn't have to wait for the Crown Corporations Committee report to understand some of the fundamental issues that were there. We were part of the investigation process. We engaged consultants to examine the issues. We testified before this committee.

So we knew fundamentally what the issues were. And in the early part of 1998 we established a set of governance principles in best practices, as well as an external investment draft policy to deal with these issues.

When the Crown Corporations Committee report was made in December of 1998, we examined that report against what we had put into place and found that we were substantially in compliance and in accord with the recommendations from the committee. And we fine-tuned our policy and went from there.

The Chair: — Thank you very much, Mr. Shaw. Mr. Yates?

Mr. Yates: — Okay. My second question, again in the investment area, has really three dimensions to it. I would like a little further explanation on our investments and the impact of those investments on the CIC being able to pay dividends to the

General Revenue Fund for the continued activities of government. What impact having a diversified investment portfolio has on the ability to pay a dividend?

Secondly, what impact CIC's investment in business within the province, in many cases, perhaps in an equity share ratio or loan, has to the potential of developing business in the province that may not otherwise develop?

And last but not least, what CIC's investment portfolio role may play in sustaining businesses that may otherwise become unsustainable for periods of time due to fluctuations in the market during development or difficult times and that role on the social aspects of jobs and development of rural Saskatchewan? Those dimensions, if I could have some comments on those?

Mr. Hart: — You're referring primarily, I think, to CIC III, as we call it, and . . .

Mr. Yates: — Right.

Mr. Hart: — . . . those type of investments as opposed to the ones made by Crown corporations particularly?

Mr. Yates: — Largely, because those are . . .

Mr. Hart: — Okay. Yes. Maybe I'd get Zach to answer that question for you.

Mr. Douglas: — I can certainly give you a few of the basic numbers on the scope of the portfolio and some of the impacts of it. And that was a long question and forgive me if I don't touch on all the topics raised in it.

But the total value of the investment portfolio of III, which represents approximately 100 investments including the big four that you've heard talked about this morning in Sheldon's charts, big three or four I guess, is about \$1.35 billion, and there's also some related loan guarantees and so on for a total of \$1.76 billion.

The investments are made in companies which have combined revenues in excess of \$3.6 billion. Obviously a very significant part of the Saskatchewan economy.

And these companies that we've invested in employ over 3,400 people in Saskatchewan, and that's over and above the numbers that were talked about earlier with respect to employment in the subsidiary Crowns.

The portfolio is quite diverse in terms of the areas that we're involved in, but the focus is on supporting economic growth where, as Mike has explained, it's difficult for the private sector to provide capital or the private sector has not historically been willing to provide capital. And it's, as I say, a wide-ranging portfolio that has a very large impact on the provincial economy, and the investing companies that we invest in have that impact.

The Chair: — Could I just ask . . . I forgot to advise the officials that we've switched microphone systems since the last time you appeared and so these new digital mikes, although

they're a little bit better for *Hansard* to work with, they don't have quite the same pick up. And so if you could just speak either a little more loudly or more directly into the mike, that will make sure we capture everything you say.

Mr. Yates: — Thank you. Just a supplementary question. Would it be safe and fair to say that without CIC's investment in some of these large companies, they would either not have been . . . remained in Saskatchewan if they had started and run into difficulties, or would not have come to Saskatchewan without investment of the Crown Investment Corporation?

Mr. Douglas: — We certainly believe that to be true. It's very difficult at times to establish cause and effect in situations like this, but we feel that deployment of this investment capital has had those impacts.

And just on your point of contribution to the holding company's ability to pay dividends. I'd refer you to the sort of the summary of operations of CIC III in the annual report and point out that the earnings for the year 2000 were \$22 million. And the other key indicators are on that list as well if you'd like to talk about those some more.

Mr. Yates: — Thank you. Can I have one additional supplementary question? Thank you, Mr. Chair.

So I want to just go a little further in the area of due diligence at the moment. Could you explain in a little more detail the steps of the due diligence process you go through before you would make such an investment, and then some of the considerations that you would take from a social policy perspective — being a Crown corporation versus what might be looked at if you were just looking at the bottom line as it may pertain to sustainability of infrastructure in Saskatchewan and those types of issues?

Mr. Fix: — Mr. Chairman, as I mentioned during my presentation element, our view is that good economic development is a by-product of a prudent investment. As a consequence, because of our participation and partnerships with the private sector, we're not necessarily driving the, the expectations of the investment. A financial investor is often or principally looking at the financial returns. We of course are looking at the financial returns as well, the acceptability of the financial returns, and then of course the implications it'll have on the economic development and growth of the province.

In terms of the due diligence component . . . and I've brought with me today what we describe as . . . called the CIC checklist, and that outlines in a fair bit of detail the analysis we would go through with respect to the due diligence process.

In addition because some of the companies and their completion of their business plan varies, we also provide all our prospective partners a complete business plan outline that is what our expectation is with respect to the information that we expect to receive from them in the business plan. I'd be pleased to hand that out if you'd like.

Mr. Yates: — Just one further supplementary question. Would the due diligence process carried out by CIC . . . do you have any indications on how other private sector companies or other benchmark organizations would view our due diligence

process? Is it, by outside agencies, viewed to be adequate? Are we called upon in any way to provide due diligence to others? Or any other indicators about how our process is either good or bad?

Mr. Fix: — Yes because we partner with the private sector in most instances, we'll often run a parallel run. So in other words, they'll do a piece of the due diligence, we'll do a piece of the due diligence, or we'll do the due diligence together. So our standards, at least the standards that the private sector has, ours would have to be that high at least for them to participate with us.

I'd go on to say that you know as a result of the annual audit that's undertaken . . . and this particular year it's a question we posed to Deloitte & Touche. And I don't wish to put words into the mouth of the auditor, but the feedback that we got was that our due diligence process was a good standard.

Zach, I don't know if you want to add to that at all?

The Chair: — Perhaps, Mr. Aitken, if you want to comment also?

Mr. Aitken: — As the conversation was occurring, I recalled this comment being made that we brought in from our firm some people who had done a fair amount of work with . . . in Canada government is involved in many lines of business. So we're not completely comparing against the private sector because this investment portfolio is similar to other entities in Canada.

But we formed the conclusion that what we saw here in place in Regina, in terms of due diligence process and procedures, is of a high quality. And of course it has to be high because it has that political government dimension to it that perhaps the other capital markets do not have that same obligation.

So it's reflective of the social obligation, political obligation, a broader mandate of a Crown Investments Corporation. But in the final analysis it compared very well to what we saw.

Mr. Douglas: — Just I'd add and echo Mike's . . . add to and echo Mike's comments in my relations with our private sector partners around our investments, they've never failed to be impressed by the standards of our analysis and due diligence around our investments.

The Chair: — We are almost at 11:30. Mr. Yates, I don't know how far into your questioning you are, but I was going to suggest that at this point we prepare to adjourn.

My understanding is that CIC officials are prepared to return again next week to continue our discussion. I have Mr. McMorris and Mr. Addley on the list.

One of the other issues that was raised with me was raised by Ms. Jones. I forgot that I've been on this committee for some time now, and obviously have been getting copies of these reports for some years.

Are there other members who need copies of the '98 and '99? The 2000 reports were circulated, but as I look around I think

almost everybody here is new since '99.

Okay, perhaps I could ask CIC officials if you could dig through the old boxes and find us some additional copies.

With that, we will resume our discussion next week; 9:30, I understand, we are on for here at room 10. Hopefully, the electricians won't be working downstairs, and we will have a good sound space to work in.

With that I'll accept a motion to adjourn. Moved. Agreed. Carried.

The committee adjourned at 11:28.