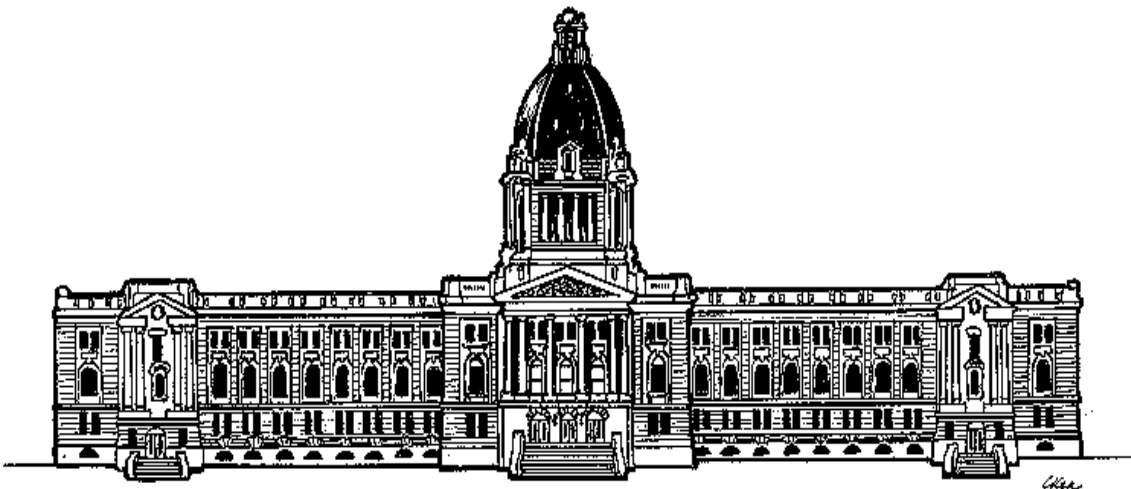




# **STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES**

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**Legislative Assembly of Saskatchewan**

**Twenty-fifth Legislature**

**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES  
2007**

Ms. Sandra Morin, Chair  
Regina Walsh Acres

Mr. Dan D'Autremont, Deputy Chair  
Cannington

Hon. Graham Addley  
Saskatoon Sutherland

Mr. Dustin Duncan  
Weyburn-Big Muddy

Ms. Donna Harpauer  
Humboldt

Hon. Warren McCall  
Regina Elphinstone-Centre

Hon. Mark Wartman  
Regina Qu'Appelle Valley

[The committee met at 10:00.]

### Investment Saskatchewan

**The Chair:** — Good morning, everyone, and welcome to this session of Crown and Central Agencies. Before us this morning we have Investment Saskatchewan. On the government side, we have with us this morning Ms. Crofford on behalf of Minister Wartman, Minister Addley, Minister McCall. On the opposition, we have Mr. Duncan, Ms. Harpauer, and Mr. D'Autremont.

The Minister Responsible for Investment Saskatchewan is Minister Eric Cline, and perhaps you'd like to introduce your officials at this time.

**Hon. Mr. Cline:** — Yes, thank you, Madam Chair, and good morning to you and members of your committee. With me, sitting to my left, is Don Black, who's the Vice-Chair of the board of Investment Saskatchewan, and to my right is Cliff Baylak who's the managing director of Investment Saskatchewan. Behind me is Don Wilson, the corporate secretary of Investment Saskatchewan, and behind Mr. Baylak is Janet Wightman, the president of Victoria Park Capital.

**The Chair:** — Thank you very much. With us this morning we also have the Provincial Auditor's office, and I'll just get Judy Ferguson to introduce the members that she has with her as well today.

**Ms. Ferguson:** — Thank you, Madam Chair. I've got with me today Andrew Martens from our office; Bruce Willis from KPMG; and behind actually is Colin Woloshyn, from KPMG also. Thank you.

**The Chair:** — Thank you very much. Minister Eric Cline, did you have any opening remarks that you'd like to make at this time?

**Hon. Mr. Cline:** — Yes. Thank you, Madam Chair. And I should correct myself. Mr. Don Black is not the Vice-Chair. That's Ray McKay. But he is a director of Investment Saskatchewan. Okay, no, I've already done the introductions so . . . [inaudible interjection] . . . Yes, thank you. Yes, I just came through the Saskatoon blizzard and came down from Saskatoon to Regina this morning and it's been quite an experience.

As Minister Responsible for Investment Saskatchewan, I'm pleased to present the corporation's 2005 annual results to the Crown and Central Agencies Committee. Investment Saskatchewan was created in 2003 with the mandate to enhance Saskatchewan's long-term economic growth and diversification through the provision of investment capital and financing, and to prudently manage portfolios of commercially viable interests.

Investment Saskatchewan is unique in that it is governed by an independent board of directors chosen by cabinet from the private sector, all of whom have directly relevant experience and expertise. This board has been delegated authority for all of the corporation's investment management decisions and other organizational issues. Cabinet provided this authority in order to ensure that the corporation is able to operate independently, and

that all investment decisions are made by those best qualified to make them.

Within this delegated authority, Investment Saskatchewan has an annual allocation of up to \$50 million to invest in Saskatchewan businesses. It is important to note that Investment Saskatchewan's mandate is to invest this capital not in just any business with a need, but in ventures with a sound business plan and the potential for commercial returns.

To set the stage for future success in increasing deal flow, Investment Saskatchewan established an enhanced and proactive business development strategy in 2005. This comprehensive strategy helped raise the profile of Investment Saskatchewan, led to a significant increase in the number of deals considered by the corporation, and contributed to the \$9.3 million in new and follow-on investments in Saskatchewan-based companies in 2005. The corporation also provided ongoing management of a legacy or existing investment portfolio which was amalgamated from a variety of former government entities.

Investment management in the private equity business is an active, not a passive function. Investment Saskatchewan involves itself on boards of directors with investee companies, with management teams, and with liquidation processes. It is important to keep in mind that the management of the legacy portfolio is often restricted by the contractual agreements which were put in place at the time of each individual investment. From time to time, those agreements were driven by public policy considerations more so than by commercial considerations.

Investment Saskatchewan has made major strides since it was created. In 2005, earnings before provisions and writedowns were \$34.3 million, higher than the budgeted amount of 14.2 million. The corporation also finished 2005 with a strong cash position of \$177.2 million. These positive outcomes resulted from the strong performance of the majority of the investments in Investment Saskatchewan's portfolio.

While 2005 was a good year on most fronts for Investment Saskatchewan, net earnings for 2005 were negatively impacted by the Meadow Lake Pulp Limited Partnership. Like other mills across Canada, the Meadow Lake pulp mill fared poorly in 2005 due to a number of economic factors including a high Canadian dollar, low pulp prices, and increasing transportation and energy costs. To reflect the deteriorating financial position of the mill, a loan loss provision of \$109.7 million was taken against this investment. This resulted in a net loss in 2005 of \$87.7 million for Investment Saskatchewan.

As you know, the pulp mill was placed in creditor protection under the Companies' Creditors Arrangements Act or CCAA in December 2005 and is still in a court-monitored process with a pending sale transaction.

I'm happy to report that Investment Saskatchewan's performance demonstrates that the model works well. In 2006, Investment Saskatchewan has continued to focus on enhancing deal flow and attracting investment to our province. As well, the corporation's board of directors continued to pursue

cabinet's direction to explore options for private sector management of its investment portfolio, culminating with the creation of Victoria Park Capital late in 2006.

Victoria Park Capital commenced operations on November 1, 2006 to manage under contract the Investment Saskatchewan investment portfolio and new investment activity. With the transfer of 10 investment and administrative staff from Investment Saskatchewan to Victoria Park Capital, Investment Saskatchewan has been reorganized to meet the challenges of its new role as primarily a monitoring and reporting organization. Mr. Cliff Baylak was recruited as the new managing director of Investment Saskatchewan, and he currently has a staff of four administrative and finance staff.

In late November 2006, Investment Saskatchewan released its third quarter results for 2006, and I am pleased to report that the company had net earnings of \$50.7 million for the first nine months of 2006.

With that I will conclude my remarks, and I understand that after the remarks from the Provincial Auditor's office and with the permission of the committee, I can then ask Mr. Baylak to make a short presentation on the 2005 annual report of Investment Saskatchewan. Thank you.

**The Chair:** — Thank you, Mr. Minister. Ms. Ferguson.

**Ms. Ferguson:** — Thank you very much, Madam Chair, members, officials. We previously provided the committee with our comments on the 2004 audit, so I'll focus on the 2005.

We found the two sets of financial statements — those are the consolidated and the non-consolidated statements included in the 2005 annual report — to be reliable. Also we found ISI [Investment Saskatchewan Inc.] had adequate rules and procedures to safeguard public resources. It complied with legislation governing its authority relating to revenue raising, spending, borrowing, and investing. And I would like to acknowledge the co-operation that we received from management and from KPMG in the course of our work.

That concludes my comments and I'm going to turn it over to Bruce Willis from KPMG to provide his comments.

**Mr. Willis:** — Thank you, Judy. Madam Chair, we are in concurrence with all the comments of the Provincial Auditor's office and agree with all their statements they made. And again we wish to thank management and the office of the Provincial Auditor for the co-operation we had in the conduct of our audit.

**The Chair:** — Thank you very much. Mr. Minister, did you want to proceed with your PowerPoint presentation at this time then?

**Hon. Mr. Cline:** — Yes. I'll ask Mr. Baylak to present that. Thank you.

**Mr. Baylak:** — Thank you, and good morning to the committee members. I'm pleased to make a short presentation to the committee on the highlights of the 2005 annual report of Investment Saskatchewan. My presentation will focus on the non-consolidated results of the company.

Net earnings dropped from 19 million in 2004 to a loss of 88 million in 2005. On the right-hand side of this slide you will see that the variance from 2004 is identified. You can see that the largest contributor to the negative variance is provisions and writedowns.

The company took a \$110 million provision on Meadow Lake pulp mill as the mill was placed in creditor protection under CCAA late in the year. The impact of low pulp prices and the high Canadian dollar, combined with continual increase in transportation and energy prices, meant the Meadow Lake pulp mill was no longer able to meet its financial obligations.

Other factors were, firstly, the recognition of an additional \$10 million for Investment Saskatchewan's share of the environmental remediation related to a former government Crown corporation that was transferred to Investment Saskatchewan's predecessor CIC III [Crown Investments Corporation of Saskatchewan Industrial Interests Inc.] in 1999; and secondly, lower interest income from HARO Financial Corporation than was realized in 2004.

On the positive front, earnings from equity investments increased by some \$8 million. This chart compares the equity earnings for 2005 with those of 2004. The major positive contributors are HARO Financial Corporation and Saskferco products. Due to changes in accounting rules, HARO was reflected for the first time in 2005 as an equity investment, whereas in prior years it had been reflected as loans receivable. And Saskferco was the benefactor of strong fertilizer prices in 2005. You will see that there are a number of smaller fluctuations, both positive and negative.

Administrative expenses were consistent from 2004 to 2005. These expenses include such categories as salaries and benefits, legal and consulting, facilities costs, and corporate expenses.

The writedowns and provisions increased from 36 million to 122 million. This illustrates the details of that 2005 number. I already mentioned that the major part of the writedowns consisted of the \$110 million provision for Meadow Lake pulp mill and the \$10 million for environmental remediation.

There were additional provisions and writedowns of approximately \$5 million taken by fund managers against the outsourced investments that they managed. There were also recoveries of just over 3 million for investments previously written down. And that's netted in the provisions and writedowns number of 2005.

During the year, a total of 9 million of investments were made either in new or follow-on investments. New investments were 1 million in each of Solido Design Automation and Northwest Community Holdings or Beauval Forest Industries. Follow-on investments were made in Foragen, Big Sky, Biorginal, Prairie Ventures Fund, and the PCF outsource portfolio.

The company generated almost \$7 million in additional cash during 2005. This is a summary of the major sources and uses of cash during the year. Operations which consist mostly of inflows of interest income and dividends and outflows of administration and interest expense generated approximately 20 million. Collections of loan principal payments and proceeds

from the sale of investments generated an additional 41 million and 4 million respectively.

Major outflows were the purchase of new investments, long-term debt repayments, and the payment of a dividend to CIC [Crown Investments Corporation of Saskatchewan]. As a result, the company was left with a healthy cash position at the end of the year, some \$175 million.

The year-end portfolio amounted to \$413 million. As you can see, the vast majority of the investment portfolio consists of equity investments. The equity portfolio amounted to 378 million with two investments, namely HARO and Saskferco accounting for the majority of this amount. There is a significant size drop to the next tier of equity investments made up of Big Sky Farms, Centennial Foods, and Meadow Lake OSB. All other equity investments are of a much smaller nature.

The debt portfolio totals a little over 7 million. The largest in this portfolio is the debenture loan to Canadian Western Bank. No other loan in this portfolio was in excess of \$1 million at year-end.

The fund-to-fund portfolio consists of four separate funds that total almost \$16 million. By far the largest is Prairie Ventures Fund. The two outsourced portfolios total slightly more than 8 million. These investments consist of a total of approximately 50 small investments of less than 3 million each. Many of the investments originated from the former SOCO [Saskatchewan Opportunities Corporation] and SEDCO [Saskatchewan Economic Development Corporation] investment portfolios. In addition there were . . . approximately \$3 million of properties held by the company makes up the balance of its investment portfolio.

The company's long-term debt rose from 15 million to almost 61 million at the end of 2005 as a result of Investment Saskatchewan having to perform on its \$52 million guarantee of debentures held by third party investors related to the Meadow Lake pulp mill. Quarterly principal repayments totalling 6 million were made on these debentures during 2005 and the balance of these debentures was paid off during 2006.

I can summarize the year by reporting that the majority of the investment portfolio is performing as anticipated with the notable exception of Meadow Lake pulp mill which was placed in CCAA protection late in the year. Significant positive earnings were generated before the provisions and writedowns. The company ended the year with a healthy balance sheet and a strong cash position.

The outlook for 2006 was very good with an increasing deal flow presenting new opportunities for investment. As the minister reported, earnings for the first three quarters of 2006 were \$51 million and are ahead of expectations. We do not anticipate any significant provisions or writedowns for 2006 and expect that the 2006 final results will be amongst the best in the company's short history. That concludes our presentation.

**The Chair:** — Thank you very much. So we are now in consideration of the 2004-2005 Investment Saskatchewan annual reports and related documents. Ms. Harpauer.

**Ms. Harpauer:** — Thank you, Madam Chair, and welcome to the minister and his officials here today. The first question that comes to mind in both the minister's opening speech and the information given is, why there was a need felt for another level of management of the government's assets?

We now have Investment Saskatchewan that's, by the minister's word, simply going to monitor and report assumably to CIC, which is going to monitor and report assumably to the Assembly. Why was there felt a need to privatize this particular Crown? And if the employees within Investment Saskatchewan were capable, had the expertise obviously to manage the assets, why were they not utilized then in that capacity?

The only reason that I can think of for privatizing this Crown is to put it one step further from scrutiny from the Legislative Assembly and therefore the people of Saskatchewan.

The expertise was there, the employees obviously were given . . . or there was enough confidence in the existing employees of Investment Saskatchewan that they are awarded the same duties that they were doing already for Investment Saskatchewan, only now it's Victoria Park Capital. Why was there a need for privatization?

**Hon. Mr. Cline:** — Thank you, Madam Chair, and to Ms. Harpauer. First of all I'd like to point out to the committee that the creation of Victoria Park Capital does not represent another layer of management when you consider that we have not created new jobs, new positions in addition to what we had. The cost of management that will be paid to Victoria Park Capital I understand is basically the cost that was paid to . . . or that was incurred running the additional people they had at Investment Saskatchewan.

So I think it's important to understand that in terms of the basic costs and the number of people, we don't anticipate that there is anything additional there. I do understand the question — why was the management function contracted out by Investment Saskatchewan to Victoria Park Capital? — and I intend to get to that. But I first think it's necessary to put on the public record and reassure the public that we don't have something that is larger and more bureaucratized there. It is not larger, and it is not in that sense something new and additional.

I think it's important to point out as well that there has not been a privatization of the assets owned by the people of Saskatchewan. What has been done is . . . Those assets are owned by the people of Saskatchewan through Investment Saskatchewan. Nothing has changed in that regard.

What has been done is that a private entity has been contracted — that private entity is Victoria Park Capital — to provide management services to Investment Saskatchewan Inc. which holds assets on behalf of the people of Saskatchewan. In that sense I think it's important . . . So the assets have not been privatized.

This is a management contract, and in that sense I think it's very important to point out so that people understand when the opposition is apparently trying to make the point that there's something very unusual going on by having a management contract, that it is in fact not unusual at all. It's quite similar to

what happens from the Public Employees Benefits Agency which controls, I guess, hundreds of millions if not billions of dollars on behalf of the government and the people and the employees.

They contract with no fewer than seven investment management companies which are Greystone management investments, TD Asset Management, Franklin Templeton Investments, AMI Partners, Northwater Capital Management, and Tweedey, Browne Company LLC.

Similarly, prior to the contract with Victoria Park Capital in fact Investment Saskatchewan had already contracted with two private entities in Saskatchewan, namely . . . or, I'm sorry, Prairie Financial Management and Westcap financial management to manage smaller investment holdings for the people of the province.

Also the province of Saskatchewan contracts out a lot of the administration of employee benefits to Great West Life and banking services to the Royal Bank of Canada. I think I could go on if I had information throughout the entire government and the Crown corporations and probably identify many more instances, at least some more instances, where management of investments and so on is contracted out to private entities. There is absolutely nothing new about it. There is nothing unusual about it, and I'm here to say, Madam Chair, that if members of the opposition or other political parties want to say it's new or unusual, they're obviously not aware of what is going on in the public sector in Saskatchewan. Those are 11 other entities that are contracted by the Government of Saskatchewan.

But to get to the question, the question is, well why would you set up this private entity or why would you contract with a private entity? The answer is, and it is consistent with what has always been said about the creation of Investment Saskatchewan in the first place, that the creation of Investment Saskatchewan had several objectives. One of those objectives was to remove from the management of the non-core, non-core Crown corporation assets of the government and the people of the province, the decision making with respect to those non-core assets; to take it out of the political realm and separate it from the political realm and the cabinet if you will, or the CIC board which is cabinet ministers, and get private sector expertise. That was one of the prime objectives, if not the prime objective.

I'm very surprised that our so-called free enterprise parties in this province, including the opposition and the Liberal Party, have been so critical of that process because it's something that I think they in fact called for before this was done. So their comments on it are quite strange considering the philosophy that they're supposed to espouse.

Having said that, there was another objective that was announced at the time of the creation of Investment Saskatchewan, which is that we did not have enough venture capital for enterprises in Saskatchewan. And that's well known to people that know much about the business community in the history of our province.

Part of the objective, and it was stated at the time, was to create a private sector entity which would be contracted by Investment

Saskatchewan, that would not only manage the assets of the Government of Saskatchewan but would be a private company which could seek other funds from other investors and other bankers, I suppose, in order to create a private investment pool that would be available to businesses and enterprises in this province so that they could help us build the economy.

And again I find it strange that the opposition party, which is supposed to be a free enterprise party and always says it is, and the Liberal Party which likewise is supposedly espousing that philosophy, has taken every opportunity to criticize the creation of a private sector entity to try to create more investment funds for the business community in this province. So that's why Victoria Park Capital was contracted with.

**Ms. Harpauer:** — Thank you. And I want to thank the minister for, in large part, making my argument for me when he pointed out that you haven't added on to people to manage the investment portfolio. You've used the existing people that were under Investment Saskatchewan to begin with. So why the need then to move that into the private sector?

In addition I find that your decision to privatize Investment Saskatchewan or a large portion of Investment Saskatchewan is quite strange to the policies of your particular party, so we can go down that political road.

But this is highly suspicious when we have the existing employees who would have had access to detailed information on the investments that were in Investment Saskatchewan make a presentation on how they want to manage it, and they're awarded that contract when there were competitors. And I think we do need to ask the questions as to how that process took place, and what role Victoria Park Capital will have, what authority it will have, what assets it's had. So we will be asking those questions. And they need to be asked because the public wants to know. These are public assets.

When you compare it to the other public sectors that are using or outsourcing their management, fair enough. But employee benefits belong to the employees. Employee benefits are entitlement to the employees. These are public assets. They belong to the people of Saskatchewan and that is a defiant, definite difference in the other situations — where you may be outsourcing management — and this situation. So I think the questions need to be asked even if the minister doesn't want to hear them asked.

**Hon. Mr. Cline:** — Well let me say this, Madam Chair, to begin with. I respect the right of any members of the legislature to ask questions. I mean Ms. Harpauer can ask any questions she likes, and I don't mind having people ask questions. But I also have the right to answer the questions in the way that I see fit, and that's what I'm going to do. And she may not like the answers.

But I do want to say again, she again repeats that something has been privatized. Nothing has been privatized. A contract has been made to contract out the management of certain assets to a private entity. I've already explained why that has been done. And at least, if nothing else — and I would invite Ms. Harpauer to say this clearly so that we know — I take it from her remarks that it is the position of the Saskatchewan Party that this

management contract ought not to exist and this function ought not to be privatized, that these assets should be managed either by Investment Saskatchewan directly with a board appointed by the cabinet and so on or perhaps that Investment Saskatchewan itself shouldn't have been created. She can comment on that too if she likes.

But I think the people of the province are entitled to know — what is the position of the Saskatchewan Party? Because they like to take all kinds of potshots at Investment Saskatchewan, at Victoria Park Capital, at various individuals that are involved in the board or the management, but they never quite make clear their position. And perhaps Ms. Harpauer could take the opportunity to do that today because then we can have an informed public debate on the issue.

So she again repeats that there's privatization when there isn't. I've answered the question about why Victoria Park Capital was created. And as far as I'm concerned she can ask questions as long as she wants, until the cows come home, and we'll be here to answer them.

**Ms. Harpauer:** — Well that's good to hear from the minister that they're going to answer the questions. Because we're not here for debate, and the debate can take place in the Assembly at the appropriate time.

One of the fundamental problems, which will help me form my position, we need to understand this deal. We need to understand the structure before we're going to take a position. Will Victoria Park Capital, the government assets that are being managed by Victoria Park Capital, be scrutinized by the Provincial Auditor?

**Hon. Mr. Cline:** — Well I want to say, you know, in response to the suggestion that we're not here for debate, when the questions have all kinds of implications to them and insinuations, those insinuations will be answered. I'll say that.

And in terms of scrutiny, there will be full public scrutiny and auditing of both Victoria Park Capital and Investment Saskatchewan as is appropriate. And there will be full accountability to the Legislative Assembly of the province.

**Ms. Harpauer:** — So is the minister telling us that the management of the assets that are being managed by Victoria Park Capital will be looked at by the Provincial Auditor and a report will be coming from those assets and their annual statements will be coming before this committee?

**Hon. Mr. Cline:** — Well I'm not prepared to say that their annual statements will be coming before this committee, because it's a private company, any more than I wouldn't expect all of the financial statements of any of the companies I've mentioned that contract with the Government of Saskatchewan to come before this committee. But the performance of the company insofar as it's relevant to this committee certainly will be reviewed by the Provincial Auditor and I think will be before this committee. And it will be done consistently, the same way that it's done with any other company that contracts with the Government of Saskatchewan or a Crown corporation of the Government of Saskatchewan.

Will it be done differently than that? No, it will not. It will be done consistently, but what is required lawfully and properly to be done will be done. I might want to ask Mr. Black to add comments as to how this would be scrutinized on behalf of the people of the province.

**Mr. Black:** — Thank you, Minister. Perhaps I can shed some light on some of this that will be helpful to all members and those that are external to this room who have levelled a lot of criticism at this.

I think it's important to understand that this is all based on an advisory committee report that was commissioned by the CIC Board over four years ago. That report was made public in June 2003, I believe it was. That report was prepared by independent individuals who were asked by the CIC Board to present to government a better mousetrap, if you will, for management of the government's non-core investment assets.

To make a long story short, that report recommended taking the management of those assets outside of CIC and outside of the political realm of influence, if you will. The government chose to accept those recommendations, created Investment Saskatchewan, appointed an independent, non-political board to make decisions and empowered that board indeed with more powers than any other Crown corporation in this province has.

And that's an important distinction. It's a distinction because of the sensitivity of investments. All governments over time in this province have taken heat for whether or not investments were well considered, politically motivated, or whatever. The objective here was to continue the laudable objective of offering government economic investment support to quality — with an emphasis on quality — well-thought-out economic development initiatives. And it was considered that it should be taken out of the realm of politics and put into the hands of individuals who have some experience and some know-how in this regard.

The government created Investment Saskatchewan, appointed the board, and empowered the board, among other things, to consider the establishment of independent management of those assets. It's all in the advisory committee report. The board then embarked upon a process of saying yes, it still believed because some of us moved from that advisory committee to the new board. We endorsed the concept of independent management.

We then set about a process of request for proposal to the investment community at large in Canada — over 50 RFPs [request for proposal]. The board went through a process of narrowing those RFPs down, developed a short list of those RFPs, and determined that its objectives could not be met through an arrangement with any of those proposers, the primary objective being to create mind and management of those assets domiciled in the province of Saskatchewan; second objective, not to increase the overall cost of management of those assets. None of those RFPs met those objectives.

We made a decision then to create what is now Victoria Park Capital. It is an important nuance here that that decision was made at the board by independent individuals, independent of the employees and independent of the government. It's very important to understand that. That decision having been made,

we then embarked on a process of trying to make it happen.

From my own personal perspective, I can tell you that I don't think I had any gray hair at the start of this process. It took considerably longer than I thought it would. However we have achieved it, and we achieved it through a process that we went to extreme ends to make sure was bulletproof; that we engaged all kinds of consultants along the way to keep it, first of all, distanced from employees who — after all, it's been rightly pointed out — could have a conflict of interest. Because we did expect them . . . Once we created this entity, they would be given an opportunity to move to it, be engaged as employees of it, and be engaged as owners of it entirely on a voluntary basis.

So we made sure that we got independent valuation consultants. We got consultants to help us establish the management contract. The management contract was not created by the employees. The management contract was created by the board through the intelligence quotient, frankly, and the experience of the people sitting around the table who do have some experience with this and through the benefit of external legal advisors, external investment advisors, external accounting advisors, and the list goes on.

Frankly I thought it was ridiculous that we were spending as much money as we were on external consultants because we didn't need to, other than to make sure that we could provide assurance to everybody that it wasn't just the board making this decision based on their own knowledge and experience. They were doing it with the benefit of some very talented external advisors.

We created that management contract. We created the company as a wholly owned subsidiary of Investment Saskatchewan. When the company was created, not one employee owned one share. Not one director owned one share. We then said to the employees, we have now done this. We have now accomplished this. This is the management contract we put in place. We have established a share value based on independent valuation of that management contract and the revenue it will generate. And by the way, the revenue it will generate is largely the same as the revenue or the expenses that Investment Saskatchewan occurred in the years before.

I mean, the minister has quite rightly pointed out . . . I mean all we've done is carve out some employees and expenses out of Investment Saskatchewan, leave some there and move the rest to Victoria Park Capital. So an independent valuation of the shares, the employees then hired their own independent legal counsel and advice to determine whether this was a good deal for them or not. And it was not a negotiation. This was put to them as a take-it-or-leave-it.

They then had to go to the bank and borrow money to buy the shares. This has been an entirely arm's-length process. We asked the employees then to leave their cushy government jobs, resign without compensation, and move and take some risk having borrowed against their houses and other assets to invest in this company, knowing full well that the company will not earn a profit based on the management contract it has with Investment Saskatchewan. The success of this company will be dependent on the success of these employees to take it to a new level.

And forgive me for a tortured analogy, but I think it's important to understand this. In the mid-1980s another government had a vision to take a management function from within government and move it outside of government and create something that was better than existed. And Greystone was created in 1988. It was controversial then, too. But nobody had to pay for any management contracts. There was not nearly the process supporting it that has supported this. And today, arguably, Greystone is an unbelievable success story for Saskatchewan. It is so because government of the day had the vision to create it and it gave the employees the opportunity to take their skill sets, build on a management contract based on cost, and take it to a new level.

And the risk in Victoria Park Capital now, incidentally, is now all on the employees — not on the province of Saskatchewan. The costs for the province of Saskatchewan are limited to the management fees that it will pay on that portfolio, which are largely the same as they were in direct costs. The Government of Saskatchewan no longer has direct costs. It no longer has liabilities for those employees. It no longer has liabilities for continuing lease costs. We have moved it outside. And these decisions will now be made, investment decisions will now be made at arm's-length — now two levels of arm's-length — from government. We will have an independent investment manager, and we will still have an independent board at Investment Saskatchewan.

This is a very good thing for the province of Saskatchewan. And I believe strongly in it. I've worked my heart out for four years to create this thing, and I've not accepted one nickel of compensation. I believe in this. This is the right thing for Saskatchewan. It's the right thing for the province because that investment portfolio today, that exists today, I guarantee you will perform better than it would have otherwise, and there will be better investments made in the future, and there will be more economic development. There will be more capital brought to this province as a result of this exercise.

And I can't prove it to you today. It takes some vision. It takes a leap of faith. But I can assure you that I didn't risk my personal reputation and none of the colleagues on the Board of Investment Saskatchewan with me risked our personal reputation to do some fancy deal that somehow enriches anybody — not one single individual. And frankly it hasn't happened in this committee, but it has happened in the press. And I'm sick and tired of having our characters vilified because we're trying to do something positive for this province. So otherwise, Madam Chair, and ministers, committee members, you can put me down as undecided.

**Hon. Mr. Cline:** — Well I would like to also add on the question of the access to the Provincial Auditor, the Provincial Auditor has access to all investment information held by Victoria Park Capital of four Investment Saskatchewan investments. The only thing that the Provincial Auditor wouldn't have I think would be the financial statements of Victoria Park Capital itself.

**Mr. Black:** — If I might interject, Mr. Minister, the other thing that's important to know here is the payments being made to Victoria Park Capital annually are going to show up in the Investment Saskatchewan's statements. So the cost of managing



these assets isn't somehow going to mysteriously not be accounted for. There will be accountability.

**Ms. Harpauer:** — Thank you. And with due respect, Mr. Black, I again say that, yes, Greystone is a great success story, and we don't dispute that in the least. The difference is it takes vision. It takes a leap of faith as you said, and in this case it takes \$600 million worth of government publicly owned assets.

Having a privately formed management company isn't the issue. The issue is that it formed from within the Crown sector, and it formed with Crown assets, and it's going to be dealing with Crown assets. We can philosophically go down the road of whether the government should or should not be investing in business, period. But the fact is this government is invested in business, so we need to scrutinize how those assets are being treated going forward.

So just some simple facts, you said Investment Saskatchewan owns the assets and Victoria Park Capital will manage those assets. Are they getting the entire portfolio that is presently in Investment Saskatchewan, or is Investment Saskatchewan still managing some of the assets that they presently hold?

**Hon. Mr. Cline:** — Well the difficulty that I want to point out, Madam Chair, is again what Ms. Harpauer is saying is factually incorrect. When she says that somehow the creation of this corporation took \$600 million in government assets, that is simply incorrect because none of those assets are leaving the Government of Saskatchewan. Those assets are owned by the Government of Saskatchewan on behalf of the people of Saskatchewan.

I'm going to repeat: if committee members are going to keep saying that somehow assets have been given to a private entity, they have not been.

I'm going to repeat: what has been done is that the government, through Investment Saskatchewan on the advice of a private board as has been described, has decided that the investments of Investment Saskatchewan and — to answer the question — all of the investments of Investment Saskatchewan that were under management by Investment Saskatchewan as opposed to the ones that already were contracted out to private . . . the Prairie Financial Management and Westcap financial management of which there's no questions about that apparently for some reason. But all of those investments that were still under the management of Investment Saskatchewan are now managed by Victoria Park Capital.

But it's important to note, because I think there may be some misunderstanding, they are not owned by Victoria Park Capital. They are simply managed. There is a contract, Madam Chair, and members of the committee, whereby Victoria Park Capital, for a term of five years I believe, will manage the assets. At the end of those five years perhaps the contract won't be renewed, perhaps it will be renewed. I suppose there would be a competitive process, and people could probably bid on it.

But the point is, it's a management contract. That's all it is. The reason for the creation of a private management company has been described. Mr. Black has underscored the point that this was a decision made by the Board of Investment Saskatchewan,

not by the people that work for the private entity or who have invested in the private entity. It is a decision that was made by . . . or recommendation, the decision ultimately was made by the government, but on the recommendation of Mr. Black and his colleagues on the board.

So in answer to the question, all of the assets that Investment Saskatchewan was managing will be managed by Victoria Park Capital. But no assets have gone to Victoria Park Capital, nor has there been any cost of \$600 million or transfer of \$600 million. And as Mr. Black pointed out, and I think the public is entitled to know, the costs of this process we anticipate will be no more than what the costs were before but we anticipate that the results are going to be better.

And in answer to the suggestion that anyone wants to depart from public scrutiny of what is being done, I again reiterate there is going to be full public scrutiny. As I said, the Provincial Auditor has access to all of the investment information about the investee companies under contract to Victoria Park Capital. The amount paid to Victoria Park Capital will be included as part of the payee reporting that is done every year in the report of Investment Saskatchewan to the Legislative Assembly.

There will be full scrutiny. And again I want to assure Ms. Harpauer that we're here to answer her questions. And any questions the opposition has, we're here to answer them. I don't want any more suggestions that there isn't going to be scrutiny because there is. But we may not answer them in the manner that she wants them answered.

**Ms. Harpauer:** — No, you didn't actually answer the question at all. But it's interesting that you . . .

**Hon. Mr. Cline:** — Well I did answer the question, Madam Chair, because the question was how much of the investments will be transferred . . .

**Ms. Harpauer:** — No, it wasn't.

**Hon. Mr. Cline:** — By management to Victoria Park Capital?

**Ms. Harpauer:** — No, it wasn't.

**Hon. Mr. Cline:** — The answer was, all of them will be. That's the answer. All of them will be. The question has been answered three times.

**Ms. Harpauer:** — The minister has to excuse me because I have had conversations before with Ms. Wightman, who suggested that such as Meadow Lake pulp mill, which is no longer an issue, would not be managed by Victoria Park Capital. So I asked a question. Why you're getting so cranked out of shape, I'm really not sure.

**Hon. Mr. Cline:** — I'm not cranked out of shape. But I can tell . . .

**Ms. Harpauer:** — But it's interesting that you're saying . . .

**Hon. Mr. Cline:** — That the Meadow Lake pulp mill is managed by Investment Saskatchewan.

**The Chair:** — Excuse me. I'm happy that we've got all the people here that are competent to answer all the questions and that the questions can be posed, but let's try and maintain a sense of decorum in the room, okay. So, Ms. Harpauer, can you pose your question again and then we'll get it answered.

**Ms. Harpauer:** — Thank you. It's interesting the minister has said that the same people will be doing the same job for the same amount of money, which goes back to the very original question of why the necessity of going the route of Victoria Park Capital if we had the expertise that were doing it within Investment Saskatchewan. And if we do want to outsource to Victoria Park Capital, fair enough, then why do we need Investment Saskatchewan? What's the purpose of Investment Saskatchewan? Why isn't Victoria Park Capital therefore then reporting directly to CIC? But we've got to go from the legislature to CIC to Investment Saskatchewan to Victoria Park Capital, and back and up and down that chain.

We had CIC that had this portfolio. They formed Investment Saskatchewan to manage it. Investment Saskatchewan, fair enough, decided to outsource that to a private company using the expertise that they already had. What is the purpose of Investment Saskatchewan if they're just going to report and monitor? We already have staff in CIC that are more than capable of doing that.

**Hon. Mr. Cline:** — Well the first . . . I'm going to turn it over to Mr. Black to make some comments. But the first comment I want to make is, the statement by Ms. Harpauer that Ms. Wightman told her that Investment Saskatchewan and Victoria Park Capital would not manage the Meadow Lake pulp mill is completely false. It's a false statement. It was never stated to her. She may have misunderstood what was said to her. That statement is false.

Now it's already been answered, Madam Chair, why the rationale for the creation of Investment Saskatchewan and Victoria Park Capital, and I'm not going to repeat it. It's been answered. It's on the public record and people can read it in the transcript of this committee. I'm going ask Mr. Black to make further comments. Thank you.

**Mr. Black:** — Thank you, Minister. It's a logical question: if the expertise existed, why do you need to do this? Well forgive me again because I'm a simple kid from north Regina and I need to use an analogy. But I go back to the creation of Greystone when approximately 3 billion — not 500 million, not 400 million, \$3 billion of assets were moved, the management of those assets was moved from the control of the Department of Finance to Greystone in 1988. The initial employees — same ones that were in Finance — might well ask, why did we do it? Well there was a realization that they could not attract and keep the expertise necessary to manage those assets in a changing world.

And the investment world is changing daily, as you know. And it's getting more and more complex, not less complex. Deals are getting more complex. The kind of people you need to oversee these deals are highly compensated, highly motivated, highly incentivized individuals. You cannot attract and retain those people inside a government compensation system. I'm sorry.

Further, what we've tried to create with Victoria Park Capital is to take that base of expertise and build on it to attract more expertise, people graduating out of universities in Saskatchewan — just as Greystone has done. From those six employees that we started with from Finance in 1988, Greystone now employs in this province over 75 people. And their average income, I can assure you, is considerable and they spend it all here. They buy houses here. They pay taxes here. We employ graduates from our universities. We import people from other parts of the country. We now import over 65 per cent of our revenue from other parts of the country. But when we started in 1988, we had just the management contract with the pension funds — the people that owned the company.

The analogy is perfect. We're doing exactly the same thing. Only I think we're doing it better this time because we've got the Greystone experience. We've cut the timeline down. We got the employees in as owners day one instead of us having to wait seven years at Greystone. And it's no accident that the growth at Greystone hockey-sticked as soon as we changed the ownership structure of Greystone from being 100 per cent owned by pension funds, quasi-government institutions, to the employees. We hockey-sticked; we've grown. It's good for the province and it brings more expertise.

And let me just say about the expertise that we had in Investment Saskatchewan, we could not retain it. You have to understand that we have several individuals who we transferred from Investment Saskatchewan to Victoria Park Capital who were recruited expressly with the promise — by the board — that we were creating Victoria Park Capital. Indeed Ms. Wightman's management agreement, her employment contract with Investment Saskatchewan — which has been a public document for some time — starts out with the board has decided to do this and we are going to move you from Investment Saskatchewan to the new entity when created. So the shock and dismay and the surprise about this and the process, I find somewhat amusing.

People just have to go back to the original advisory committee report before the Premier announced the creation of Investment Saskatchewan to find out why we wanted to do this. All we're doing is following the road map that was set out four years ago.

**Ms. Harpauer:** — It's interesting that Mr. Black has basically stated what a lot of people are questioning, that there was a preconceived, pre-decided, predetermined decision to contract with Victoria Park Capital before there was any tendering process to take place. And there's reference to it in a number of documents and everything, that the employees were chosen for the expertise. Fair enough. I have no doubt they are highly qualified and very capable. And I wish them well in their new company. However, to then go through the process of saying that others were looked at and considered, I think there was a predetermined decision which is being questioned by the public of whether or not there was a predetermined decision.

In comment to the minister, he was not at the meeting that Ms. Wightman and I had so therefore he cannot say what was or was not said. I had staff members with me.

**Hon. Mr. Cline:** — No, but Ms. Wightman was at that meeting. Ms. Wightman was at that meeting and she has

indicated to me that the statement made is completely false.

**Ms. Harpauer:** — Well that is very interesting because in the conversation there was concerns about Meadow Lake pulp mill and the fact that Victoria Park Capital quite frankly probably wouldn't want to manage Meadow Lake pulp mill because of all of the controversy and the losses that it has shown. And what private company would want to take that particular company on because of the difficulties and the challenges that it was facing? So I even understood what she was talking about.

Let's go back to this independent advisory or consultant committee that started this whole venture. Was Mr. Black one of the independent consultants?

**Hon. Mr. Cline:** — No, of course Mr. Black was not one of the independent consultants, Madam Chair. Mr. Black is a member of the board of Investment Saskatchewan and he chaired the committee. To suggest that Mr. Black would hire himself as a consultant is frankly just an insult to Mr. Black, and an insult to the intelligence of everyone in this room, if I may say.

But I want to add that now Ms. Harpauer has mischaracterized, if I can say so, the remarks that were made by Mr. Black this morning, and which he's made on other occasions as well. Ms. Harpauer just said that there was a preconceived notion all along to set up this committee and so why did they go through the RFP process and so on. Mr. Black has already explained to this committee this morning . . . And it is true what he said and it is a matter of fact that the board of Investment Saskatchewan decided that they should look at a private sector manager for the funds. That's already been described. He has indicated and it is a matter of fact that that not only was what they did but it was announced, Madam Chair, in the fall of 2003 that that is what would be done. It was announced four years ago, or three and a half years ago anyway.

Then they did not at that time have the idea that they would set up Victoria Park Capital. To suggest that they had some preconceived notion that they would do so is simply false. It's false. Mr. Black has told this committee, and unless somebody has some evidence that this isn't true — and there's no reason why it wouldn't be true — then I think we should accept what Mr. Black says. Because it is the truth that they put out an RFP and they asked if there was some private sector entity out there that would manage the funds.

And they had some criteria like employing people within the province of Saskatchewan instead of having them employed in Toronto or somewhere else, and that they would charge a reasonable fee that would not increase costs. They found that of the people that responded to their request for proposals, that that criteria and some other criteria was not met. They then decided that therefore they should create a new Saskatchewan entity, and that's what they did. The reason for that has already been described, the rationale.

But to suggest that they always had the preconceived notion they would do that and that the process they went through therefore was some kind of sham is, quite frankly, an insult to them. And if I may say so, I do believe it's an insult to the intelligence of everyone sitting in this room.

**Ms. Harpauer:** — Well, Mr. Minister, let's just backtrack to where you began, where you said I was insulting Mr. Black by suggesting that he was on a board that hired himself or an advisory . . . that he, on a board, had hired himself for an advisory committee.

The advisory committee was put together by CIC or commissioned by CIC. There was no Investment Saskatchewan at that point in time. Part of their advice was the formation of Investment Saskatchewan. So Mr. Black was hardly on a board for an entity that didn't exist.

So perhaps the minister should listen a little more carefully, because I did not . . .

**Hon. Mr. Cline:** — Madam Chair, the record will show that Ms. Harpauer asked whether Investment Saskatchewan hired Mr. Black as a consultant. The record will show that she asked that question.

**The Chair:** — Mr. Cline, Ms. Harpauer has the floor. I'll ask her to pose the question and then we'll proceed with the answer.

**Ms. Harpauer:** — I asked if Mr. Black was one of the independent consultants that did the report that is being referenced to a number of times in this room. I simply asked if he was one of the independent consultants and who were the other independent consultants that made the report or presented the report to CIC that gives the recommendation of this entire scenario that's unfolding.

**Mr. Black:** — I was never hired as a consultant to do anything. I chaired the advisory committee. The document was made public. The government subsequently made a decision and created Investment Saskatchewan. I and others were asked to join the board of Investment Saskatchewan.

**Ms. Harpauer:** — Who would have been the consultants used for that particular report?

**Hon. Mr. Cline:** — Well I can tell the committee and Ms. Harpauer, Madam Chair, that in the decision making that the board of Investment Saskatchewan was engaged, which ultimately led to the creation of Victoria Park Capital, that they employed several outside experts including T. Bakkeli Consultants of Regina, KPMG Corporate Finance of Calgary, Ernst & Young of Toronto, MacPherson, Leslie & Tyerman of Regina, McKercher McKercher & Whitmore of Regina, Ernst & Young Corporate Finance of Winnipeg, and Caledon Capital Partners — it doesn't say here where they're from.

In any event there were outside experts who were engaged by the board of Investment Saskatchewan to make sure that the contract was appropriate, that the evaluation of the company was appropriate, and so on and so forth.

**Ms. Harpauer:** — Thank you, Mr. Minister. Who will do the investing going forward? Does Investment Saskatchewan source what investments they want to get involved in because they own the assets, and then once they have purchased an asset or invested in an asset, then do they give the management to Victoria Park Capital? Or does Victoria Park Capital source the investments?

**Hon. Mr. Cline:** — The management contract is such that Victoria Park Capital will make the decisions as to investments to be made within the limit of their authority, which limit is \$30 million.

**Ms. Harpauer:** — So they have a limit of \$30 million which then differs from the prior ceiling that was given by the government which was \$50 million.

**Hon. Mr. Cline:** — No. The \$50 million is the capital that has been provided in the past by government for investment. But there's no change in terms of the limit of investment that can be made by the managers which was \$30 million and remains \$30 million with respect to any one single investment. In other words, the \$50 million is the amount of money available each year, or has been in the past, to be invested. But that could be invested in five investments of \$10 million each and so on, or it could be one investment. But in any event the authority to invest up to \$30 million and to have the authority to do that existed within Investment Saskatchewan before, and it is the same now that the management is at Victoria Park Capital.

**Ms. Harpauer:** — So I'll go back to the original question. In total can Victoria Park Capital on behalf of the government, utilizing profits from government assets, invest up to \$50 million?

**Hon. Mr. Cline:** — In any one year I suppose that might be the case. It is anticipated that the money that will be allocated to Victoria Park Capital for investment, which money will be the money of the people of the province, in which investment will be owned by the people of the province, will come not from government but from the proceeds of the assets of Investment Saskatchewan. And I believe for the time being the plan is that it's an amount of \$25 million per year that will be made available for investment purposes.

**Ms. Harpauer:** — Okay. That \$25 million, is it from the profits?

**Hon. Mr. Cline:** — Well it's the . . . I believe the funds are expected to come from cash flow from the Investment Saskatchewan portfolio for new investments . . . [inaudible interjection] . . . Okay. And \$25 million additionally from CIC. But I believe that would have to be allocated each and every year by CIC . . . [inaudible interjection] . . . Yes.

So there's two components. The cash of \$25 million expected to come from cash flow from the Investment Saskatchewan portfolio — have I got that right? . . . [inaudible interjection] . . . All the cash comes from the cash flow but it has to be approved by the Crown Investments Corporation which is a board made up of several cabinet ministers.

**Ms. Harpauer:** — Okay. There's two questions that I have in there, or a concern. A concern is if they have the authority to reinvest, be it in, you know, adding onto their existing investments or . . . Investment Saskatchewan's existing investments or in a new investment from the cash flow rather than from the profit, that would be a concern. Because non-profitable entities can have a cash flow — can have quite a large cash flow, quite frankly — but at the end of the day they may not show a profit.

The other is they're saying okay, it has to be approved by CIC. When it was Investment Saskatchewan, any investments had to be approved by the Board of Investment Saskatchewan. Are we now no longer having that requirement? Now the approval for future investments have to go through to CIC, which again goes back to what is the purpose of Investment Saskatchewan?

**Hon. Mr. Cline:** — I should say that it's a bit confusing to talk about whether money comes from the cash flow or as opposed to profits. But the money that we're talking about comes from money that is generated by the investments of Investment Saskatchewan. In other words the Government of Saskatchewan doesn't write them a cheque for \$25 million. It comes out of funds that they generate through the companies that they've invested in. And I think it's important to know that.

In answer to the question, it is anticipated by the contract with Victoria Park Capital that, yes, they will have the authority to make investments of up to \$30 million. I think it's important to point out that their target range for investing is 3 to \$10 million, so not larger than that. And also that the Board of Investment Saskatchewan maintains the right to override investment decisions made by the managers. In other words they may say on behalf of the people of the province who appoint them that they don't agree with that investment. But as with any other arrangement of this sort, it is anticipated that the management company will make the management decisions and that they will have the expertise to make the best decisions. And that's why they've been employed under contract to do that.

So yes, the management will make those decisions as to investment. But also the Investment Saskatchewan Board has the right to override the decisions of Victoria Park Capital. I think the committee will understand that if you had a situation where that was regularly done, then you'd have to question whether you wanted to continue the contract with these managers. Thank you.

**Ms. Harpauer:** — So the minister's saying prior when it was Investment Saskatchewan, the board would scrutinize every new investment or add-on investment that was made, but now that it will be managed by Victoria Park Capital, that no longer may be the case.

**Hon. Mr. Cline:** — No. I'm certainly not saying that because there's a difference between day-to-day management and investment decisions and the concept of scrutiny. I believe that it will still be the responsibility of Investment Saskatchewan through their management, which is headed up by Mr. Baylak, and the board of which Mr. Black is a member, to scrutinize what is being done. That's their responsibility, and that's why they exist. But the day-to-day management is contracted to Victoria Park management, or Victoria Park Capital, I'm sorry,

But the management, the fact that a private company has the management function does not remove from Investment Saskatchewan its responsibility to scrutinize what is happening any more than, as we've discussed, the Legislative Assembly through this committee has the responsibility also to scrutinize what is happening. And that's what we're doing.

**Ms. Harpauer:** — So what happens when an asset is sold or disbursed? The profit or loss of the sale of that asset then would

be contained entirely within Investment Saskatchewan?

**Hon. Mr. Cline:** — Yes. If cash comes in from the sale of an asset, that would be cash that belongs to Investment Saskatchewan not to Victoria Park Capital. So if cash is coming in or there's a payment being made, that will go through Investment Saskatchewan. Because again, Victoria Park Capital is not the owner of the assets. It is simply a management company that provides management services pursuant to a contract of management. But the ownership is in the people of Saskatchewan through Investment Saskatchewan.

**Ms. Harpauer:** — Would they get a management fee for that sale?

**Hon. Mr. Cline:** — It would be possible that they would get a performance fee for the sale. I believe that Victoria Park Capital will be paid under the management contract two things. One is a management fee, a basic management fee that as has been said we expect to be equal to or less than the cost that government was already paying for management through the staff of Investment Saskatchewan that has now gone over to the private entity. It is possible under the contract also that a performance fee would be paid to Victoria Park Capital for the sale of an asset. But what is important to understand is that that performance fee would only be earned if a certain hurdle was surpassed that is not expected to be surpassed.

I would explain it this way. That many of the investments, as the committee knows, existed before the creation of Victoria Park Capital. So that if we take for example Saskferco as a valuable asset, if that was sold tomorrow by Victoria Park Capital on behalf of Investment Saskatchewan and the province — and by the way I think that would be large enough that additional scrutiny would automatically happen, but to use that as an example — if they had the authority to do that and they sold it at the book value that it already has, that they didn't create, they would not be paid a performance fee for acquiring what would be something I think in the hundreds of millions of dollars. But if they achieved something that was unexpected, some unexpected bonus to the people of Saskatchewan over and above the book value as a result of, you know, management and expertise that they provided, then with respect to that additional proportion they might be paid a performance fee. But they would not be paid a performance fee for the sale of an asset that they did not create.

**Mr. Black:** — It's also important to note that when you sell an asset you stop getting paid a management fee on that asset. So the reason for performance fees is twofold. One is to incent management to create more value over and above what you were expecting to get. Number two is so that they are not disincented from realizing on that value at the appropriate time. Because obviously you've got an inherent conflict — if you're selling an asset you're going to lose an ongoing management fee on that, but if you get a performance fee then so much the better. You're not disincented to sell. So there's a reason for the structuring of fees in the way they are.

**Mr. Duncan:** — Thank you, Madam Chair. Good morning, Mr. Minister, and to your officials. I'm wondering if the . . . Mr. Minister, if you're prepared to disclose the management agreement with Victoria Park Capital to the committee today.

**Hon. Mr. Cline:** — Certainly the investment management agreement will be tabled with this committee if requested, but it will not contain commercially sensitive information that would be harmful to either the commercial interests of Victoria Park Capital or the investee companies of Investment Saskatchewan.

I should explain that the management agreement between Investment Saskatchewan and Victoria Park Capital has information in it that concerns the ability of some of the companies that have been invested in, to operate. It has private commercial information about some of those private companies. That should not be disclosed either to the committee, I would argue, or the public. I think it's important to understand that in this sense what we would propose is no different than any other management agreement across the piece.

For example there are . . . I've already I think listed about 11 private companies, at least six of them being investment managers on behalf of government, although there's another one that I didn't mention that CIC has contracted for the First Nations and Métis Fund. And my point is none of those contracts have been tabled with the committee of the legislature or with the legislature itself because to my knowledge they've never been requested.

Now if they were requested there is some information in them that should be disclosed to the committee in the Legislative Assembly. And there is some information in them which should remain confidential. And what I would suggest to the committee, if I may, is that what you may wish to adopt as your procedure is that if you want the contract between Investment Saskatchewan and the Victoria Park Capital to be tabled with the committee, I think that's a reasonable request and should be complied with. But it might be in order because this would affect all of the private entities and maybe others that they deal with — that government deals with who don't presently table their agreements — I would like to suggest to the committee that it might be in order to seek advice from the Information and Privacy Commissioner, who is an officer of the Legislative Assembly whose appointment is agreed to by both sides of the House, as to in what form that contract should be tabled.

And I'm aware that there is presently an application made to the information and privacy officer — I'm guessing on behalf of the opposition; I just forget right now — for the contract. And I don't believe the information and privacy officer has made a ruling as of yet if I have that right. But in any event I would suggest that we should get the advice of the information and privacy officer as to the form in which not only this contract but all the other contracts might be tabled because it's something we need to know.

And I would also suggest that our organization, Investment Saskatchewan, and this committee should take a principled position according to the rule of law by which I mean this: that whatever the rule is for Victoria Park Capital should be the same rule for Greystone management or TD Asset Management or AMI Partners and so on and so on. And whatever Victoria Park Capital should do, should be the same as what everybody else does and vice versa. And I think the best way to sort out how that is done is by obtaining the advice of an independent officer of the Legislative Assembly who is the Information and

Privacy Commissioner.

I'm sorry to be so long winded, but the last observation I would make is that the information and privacy Act has two purposes, both of which are important. One purpose is to enable the public through the legislature or on their own behalf, if they apply, to be informed of what is being done with their money. And the public is entitled to know that. The other part of the Act which is the privacy part of the Act says that it is okay to not disclose information which would harm the commercial interests of a private person or a private entity, which in this case could be some of the investee companies or Victoria Park Capital itself.

And we only ask that in tabling the document that we have the advice of the Information and Privacy Commissioner and we hope that the committee would be of the view that whatever applies in this case should apply across the piece.

**Mr. Duncan:** — Thank you for that, Mr. Minister. Just so I'm clear, you will be able to table the management agreement with certain sensitive issues will be not involved. How soon will you be able to table that?

**Hon. Mr. Cline:** — Well I hope quite soon. But I'm not able to answer the question exactly in the sense that really what we want is to have the opinion of the Information and Privacy Commissioner as to what is proper and what is not proper and basically just to comply with the law. Because, I mean, we could be in a position, for example, that we table an agreement with this committee and that it becomes public, where we — meaning myself and Investment Saskatchewan — would be in violation of the information privacy Act by disclosing something we're not supposed to under the legislation.

So basically, all I'm saying is an application has been made to the Information Privacy Commissioner. He has not ruled yet, is my understanding. He will rule. And then I think what we should do is have the benefit of his advice and proceed as appropriate.

And what I don't know therefore is . . . I mean, I would be quite happy to table the contract today if I had that opinion from the Information Privacy Commissioner, but I don't have it. But I mean, I think he proceeds in as expeditious a manner as he can because he wants to get information to people. So I'm assuming that he will make a ruling quite soon and that then we will proceed as appropriate according to his ruling.

**Mr. Duncan:** — Are you prepared to say today whether or not you will accept what his ruling is?

**Hon. Mr. Cline:** — Well I think that this is why I say we should proceed appropriately. I assume that we will accept his ruling. But I would never say, even if it was a judge, that, well, whatever the judge says we'll accept it, because you might . . . you could have a decision of a judge and decide you want to appeal to a higher court. And I don't know what his decision is going to say.

But I'm assuming that his decision will be one we would comply with, but I would never, ever put myself in a situation where I would give a carte blanche to any authority and say,

whatever they say, I'll agree to. But I assume that he'll have a lawful and proper opinion that we'll, you know, comply with. But if some party says his opinion would violate my rights — and I'm talking about private parties — we would have to listen to that and proceed accordingly.

So we will proceed as appropriate and, at the end of the day, a ruling will be made according to the rule of law and in a way that complies with the legislation and in a way that treats each party the same way as every other party is treated so that there's an equality of treatment. And once that is determined, that is what we will do.

And my hope is that we would be in a position to do that immediately, if there was such a ruling; that we would just table the document, agree with the ruling, and there you have it. But I don't know, (a) when the Information Privacy Commissioner will make that decision. And then (b), I'm not in a position to guarantee that I will do whatever he says.

But whatever a final authority says should be done — and that probably will be the Information Privacy Commissioner — that's what we will do.

**Mr. Duncan:** — Would it be right to assume that whether or not the management fee will be disclosed is something that the Information and Privacy Commissioner will be looking at?

**Hon. Mr. Cline:** — Yes, I believe that that is a safe assumption that the . . . We've already stated, just so there's no misunderstanding, that of course the total amount paid to Victoria Park Capital has to be disclosed in the annual report of Investment Saskatchewan. There's absolutely no question that anything paid to Victoria Park Capital in terms of the gross amount paid to them would not be public. I mean, it is public money and it will be revealed.

But there may be details as to how much of it is the basic management fee, how much is a performance fee, and some of that information may have a commercial impact on private entities. And yes, I think that the Information and Privacy Commissioner will have to make the decision of which components of the payment may impact on private third parties and which doesn't. So yes, he has to make a ruling in that regard.

**The Chair:** — Ms. Harpauer.

**Ms. Harpauer:** — I have one quick question before I return to Mr. Duncan. But why, if it's so sensitive now, was the basic management fee revealed before? It was public knowledge when we used PCF and WTC as our management outsource companies. There was no issue with publicizing their monthly base management fee.

**Hon. Mr. Cline:** — Well I'm not indicating, Madam Chair, that I have any issue with that or that I don't. What I am saying to Ms. Harpauer and the committee is, as I've already said, that we are required — not just me but all members of the legislature — to uphold the law. That's what we will do.

The law says that when we reveal information that deals with a contract with a private entity, that some of that information

should be public and some of it should not, if it will harm the commercial interests either of the party you're contracting with — which in this case is Victoria Park Capital — or its investee companies.

There are many, many contracts that the Government of Saskatchewan or any government has with private entities. And all I am saying to Ms. Harpauer and the committee is, we have not to my knowledge been requested in the past to reveal these management contracts. So this is in that sense, to my knowledge, a new request. Certainly it's a new request to me. And I am simply saying to the committee — and I think it's a perfectly reasonable thing to say — there are some things I'm allowed to say in law and some things I'm not. So I'm asking an independent officer of the Legislative Assembly, who is the Information and Privacy Commissioner, what should I table and what I should not. And then when we have that information we're going to comply with it. And in terms of what is revealed and what isn't, that will be determined on the basis of what the Information and Privacy Commissioner says, not what I say. So I'll leave it at that.

**The Chair:** — Ms. Harpauer.

**Ms. Harpauer:** — Then my question is, who decided it in the past? Because it was . . . The monthly base management fee in the past was revealed. It was public. It was in the annual reports.

**Hon. Mr. Cline:** — Well . . .

**Ms. Harpauer:** — So who determined that in the past?

**Hon. Mr. Cline:** — Well it will be in the annual reports I've already indicated. And the answer is whatever could properly be revealed in the past will be revealed in the future. And the contract, we don't have it in front of us. We'll have some information that is consistent with that, that therefore would be revealed, and some information that isn't, that wouldn't.

I'm simply saying that there's an officer of the Legislative Assembly, who's appointed with the agreement of both sides of the House, whose job it is to tell us what we should do under the law. And I'm simply saying we will get the advice of the Information and Privacy Commissioner, then we will follow that advice. It's no more complicated than that.

**The Chair:** — Mr. Duncan.

**Mr. Duncan:** — Thank you, Madam Chair. Mr. Minister, I appreciate your answers. And I'm sure you're being very clear in your answers. Just for my clarity . . . I'm fairly new at this. I just want to make sure that I'm clear that if the Information and Privacy Commissioner has no problem with disclosing the management fee, that you will commit that that will be done. I know you're probably aware that you were not quoted, but you're mentioned in an article from this past December saying that that figure would be disclosed. So just for my own clarity, if the Information and Privacy Commissioner has no problems with it, we can expect to see this information?

**Hon. Mr. Cline:** — Well as I've already indicated to the committee there is a process which involves the Information

and Privacy Commissioner. And at the end of the day someone will determine what should be disclosed. And when we have that final determination we of course will comply with that determination because that's the law, and we'll comply with the law.

**Mr. Duncan:** — Okay. Thank you for that. I see we're coming close to the time but . . . And I know Mr. D'Autremont wants about 10 minutes, but I know with him that means about 15 or 20. So I will quickly finish up my questions.

This is quite a . . . I think this is a fairly unique situation if my memory serves correct. As I said, I'm fairly new at these committees but I don't recall ever seeing the director of a Crown corporation appearing before the committee. And I was wondering if Mr. Black would be able to maybe address a few short questions. I appreciate you being here and your candour in your earlier comments.

**Hon. Mr. Cline:** — Excuse me. I'm sorry. I want to raise a point of order with the Chair. And my point of order is this — not about these questions in particular, but in these committees, not just this committee but any committee . . .

**The Chair:** — I'm sorry, Mr. Cline. Apparently, as not being a member of the committee, you cannot raise a point of order. The point of order will have to come from within.

**Hon. Mr. Cline:** — Well then I'd like to ask this question. And thank you for that point of order directed at me. But I want to ask this question. Is it the process of the committee that questions are put directly in the first instance to officials appearing with ministers, or should the questions be addressed to ministers and then addressed to the designate of the minister? And I think it . . . The reason I raise it is it's important in terms of understanding the process at every committee, because my understanding was that it should be directed to the minister.

**The Chair:** — The process is that the questions are posed to the Chair and then it will go through the minister to decide as to which official will be answering the questions.

**Hon. Mr. Cline:** — But having said that, I'll say I'd like to be as co-operative as I can, but I just want the procedure to be as you've stated. Thank you.

**The Chair:** — Thank you. Well we'll cut Mr. Duncan some slack, given that he is new to the committee as well. So, Mr. Duncan, you can proceed.

**Mr. Duncan:** — Thank you, Madam Chair. I apologize for that. But, Mr. Black, feel free to jump in at any time. Madam Chair, and to the minister, I know that the list of companies that did respond to the RFP was provided. I'm wondering, Mr. Minister, if the board will be releasing, or if you as minister will be releasing further information as to how these companies were evaluated and how the board came up with their final decision.

**Hon. Mr. Cline:** — Yes. I'll ask Mr. Black to comment as well. And I think it's a very fair question. And certainly I think the board should be prepared to say, you know, it got these proposals. What was its problem with these proposals? It did have an established criteria against which it measured the

proposals, and the board determined that none of them met the criteria. And with that I'll ask Mr. Black to expand on that.

**Mr. Black:** — Oh sure, you wouldn't let me talk earlier, but now . . . Thank you, Minister. Madam Chair, and committee members, the process was established by the board to evaluate these proposals. And as the minister has indicated, there was, for the lack of a better word, a template developed of criteria against which we would measure the proposals.

I was not part of the process. We were trying to be as abundantly cautious as we could to avoid any perceptions of conflict of interest, and given that I'm in a related business, we wanted to keep me out of the process. Short of it being me, there was a committee of the board that did this. They had the benefit of Bakkeli consultants who took these voluminous proposals and distilled them down into summaries and, you know, put positives and negatives and whether they met criteria or not. And that's how they then developed the short list.

Again, the consultant didn't develop the short list per se, but provided the necessary information to the board committee to do so. Then a separate process was went through a little more in depth to evaluate the short list proposers, and then an even shorter list developed where oral presentations in front of the committee were made. And after that the board then made its . . . the committee made its decision, made its recommendation to the board, and the board made its decision.

Will we put together a description of that? Sure. Can we get a little more in depth in terms of the kind of criteria that were used? Sure. Again, though, these proposals contained a lot of proprietary information. They were all, quote, "confidential," and these proposers would not be happy to see any of that information get into the public domain.

So we will try to co-operate as fully as we can to give you more insight into how the process was conducted, but the process was conducted with great care and diligence by people who again were not conflicted. All they were interested in is discharging their fiduciary duty in the appropriate way to Investment Saskatchewan and the Government of Saskatchewan.

**Hon. Mr. Cline:** — And I think at this time I can add some additional detail, but Mr. Black indicated perhaps additional detail could be put together by Investment Saskatchewan.

They did have an established criteria to look at the people who proposed. And it included the factors of strong track record in venture capital and private equity in Canada, expertise with large investments and in the relevant sectors, access to deal flow in Saskatchewan, access to third party capital, strong mid-office and back office functions to adequately respond to reporting requirements, committed to mind and management permanently operating from Saskatchewan, and a cost-effective proposition.

And the board of directors of Investment Saskatchewan determined with the assistance of outside technical expertise, which Mr. Black mentioned, that none of the short-listed proponents presented a strong value proposition — in other words the costs were too high, due in part to the cost structure and the predominance of out-of-province mind and

management, that they felt that it wouldn't be directed out of Saskatchewan.

**The Chair:** — Ms. Harpauer.

**Ms. Harpauer:** — Thank you. I have one final question and that is, who can purchase the shares? Who has the opportunity to purchase the shares of Victoria Park Capital that are being held by Investment Saskatchewan?

**Hon. Mr. Cline:** — Okay. I will ask Mr. Black to answer that.

**Mr. Black:** — Only employees of Victoria Park Capital. No directors, no other third parties, or they stay in Investment Saskatchewan.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I'll try to rush my questions. My one question related to Victoria Park Capital was, I wonder if it would be possible for Investment Saskatchewan to table the contracts with the technical experts, the consultants for the recommendations for the process in developing the private management firm concept.

**Hon. Mr. Cline:** — Madam Chair, in answer to Mr. D'Autremont, I don't believe that Victoria Park Capital was involved in that process. They were the result of Investment . . .

**Mr. D'Autremont:** — I asked Investment Saskatchewan.

**Hon. Mr. Cline:** — Oh, okay. I'm sorry. I misunderstood. In terms of Investment Saskatchewan tabling those, again I would say that I can't agree that those would be tabled. They may be, they may not be public documents in that sense and we would take that question under advisement.

And I'm advised that there are the same confidentiality issues; that the consultants' report — for example, to use a concrete example I suppose — would contain a lot of description and analysis with respect to the private entities that applied to become the fund, the asset manager. So a lot of the information would be private information which probably could not be legally disclosed under the information and privacy Act. So I think the same sorts of issues arise.

Perhaps it might be possible for us to seek the advice of the information and privacy officer once again as to what would be appropriate and what would not be appropriate, and to proceed accordingly. But I'll ask Mr. Baylak if he has any additional comments to that.

**Mr. Baylak:** — No. I think, Minister, those are the issues of one of confidentiality. They contain a lot of different reports, have different information including financial information from the proponents, from Victoria Park Capital, on the evaluation of the contract. So those are all issues that we would have difficulty disclosing under The Freedom of Information and Protection of Privacy Act. And the minister has already said that we would like to parallel that with this committee.

**Mr. D'Autremont:** — Thank you. I may have perhaps not been clear in my question — although I'm certainly prepared to



accept the report if it's presented — but it was the contract with the consultants that I was interested in. I'd like to . . . So you can consider that for a second while I ask my other questions that I want to get in in the next three minutes.

Investment Saskatchewan has invested in Terra Grain Fuels, now being managed by Victoria Capital. In the opinion of the minister, would this project have happened without Investment Saskatchewan's involvement?

From my understanding of the project, the project by Terra Grain Fuels was announced publicly that the financing was already in place and that there was no public monies involved at that point in time when the initial announcement was made. So would this project have gone ahead without Investment Saskatchewan's money?

**Hon. Mr. Cline:** — Well first of all on the last question, the one about the contracts with the consultant, I'm sorry that we misunderstood the question perhaps but the answer would be the same in any event — that yes, we could table the contracts with the consultants but we would want to do so with the benefit of the advice of the Information and Privacy Commissioner.

I mean, to use an example, the contract with the consultants might have the hourly rate that the consultant retained charges. They may not want their competitors to know that hourly rate and it's just an example of something that maybe shouldn't be disclosed under the law. But as far as I'm concerned, if the committee wants these contracts with the consultants to be tabled, I don't have any trouble saying they should be tabled subject to the advice of the Information and Privacy Commissioner. So I don't mind undertaking to seek that advice and then on the basis of whatever final determination results from that process, then tabling the contracts with the committee.

Now in terms of the next question that Mr. D'Autremont just asked, Madam Chair, I'll ask Mr. Baylak to respond to that.

**Mr. Baylak:** — The proposals that Victoria Park Capital made to us regarding that investment would be that we be one of several lenders and not an owner in the Terra Grain investment. They believe it is a good investment as a lender. Whether or not the proposal would have gone ahead without the involvement of Investment Saskatchewan is one that only the proponents of the investment could properly answer.

**Mr. D'Autremont:** — Did Terra Grain Fuels apply to IS [Investment Saskatchewan] for financing or did IS approach Terra Grain Fuels?

**Hon. Mr. Cline:** — Again I'll ask Mr. Baylak to respond to that and he may . . . Perhaps Ms. Wightman may respond to it because she was directly involved.

**Mr. Baylak:** — Yes, this is a question I think that the investment manager best speak to.

**Ms. Wightman:** — Thank you, Madam Chair, members of the committee. The proponents of Terra Grain did approach the individuals at Investment Saskatchewan with a request for funding. They had a lot of the funding in place already. In their

interest they wanted this to be a Saskatchewan-funded deal. The individual proponents had significant personal cash in the deal. They had a syndicate of bankers, local bankers, to do the senior debt but when it came to the equity financing, they came to us because we knew that we would have more resources than any other Saskatchewan fund manager.

So with that initial discussion we also involved Prairie Financial Management, who invested. We also invited in Golden Opportunities who also came in and invested as a piece of that. So collectively if the proponents had only used the other Saskatchewan funds and not any government funds, then the deal could not have gone forward the way that they envisioned it going forward. They asked us to participate because they knew that Investment Saskatchewan could take a larger position than some of the other smaller fund managers.

**Mr. D'Autremont:** — How does the . . . since they have a subordinated loan through IS managed by Victoria Capital, are the terms of that loan public or available to the public? You know, what kind of rate is charged? What's the repayment schedules? And who is a secured creditor on this?

**Ms. Wightman:** — Well in terms of the secured creditors, that's your senior lenders first. Of the subordinated debenture holders, which IS is, come in terms of the security, following the senior lenders. The terms of the loan particularly are not disclosed. It is a subordinated debenture with an opportunity to convert warrants at a certain point.

**Mr. D'Autremont:** — I'm not sure if you can answer that, or the minister, or perhaps we need people actually from Terra Grain to better answer this, but the original announcement that was made on this seemed to state they had their financing in place and that there was no government money involved. So they came to you after that point to request that financing be made available to them? Is that the case?

**Ms. Wightman:** — If it's all right with the minister, we had had a preliminary discussion with proponents of Terra Grain. Understanding that Investment Saskatchewan is set up at an arm's length, CIC or the minister or anyone in government for that matter would not know about all of the preliminary discussions that are held with, because there are hundreds of those types of discussions held. At the time that the comment was made, there was no contemplation that an investment was going to be confirmed. We had not yet — and when I say we, it's as Investment Saskatchewan — had not yet made a recommendation to the Investment Saskatchewan board to make any kind of a . . . to participate in the financing at all. So it was completely unknown at that point.

**Mr. D'Autremont:** — I think these announcements though were made by the people from Terra Grain Fuels initially. So they would have known if they were in negotiations with IS on this area, but yet they said at the time that there was no government money and there probably wasn't in that sense that they hadn't actually received the cash, a cheque from IS at that point in time.

**Ms. Wightman:** — Correct. And in follow-up, Mr. Drummond, who is the founder or one of the founders of Terra Grain, also clarified in follow-up that he was referring to the notion of a

subsidized government involvement that might have been questioned by people and that there was no notion of any kind of subsidized involvement at all.

**Mr. D'Autremont:** — Thank you very much on that. I believe we have reached the end of our allotted time. So we look forward to the minister and his officials returning to carry on in episode 2 of Investment Saskatchewan's review.

**The Chair:** — Thank you, Mr. D'Autremont. I want to thank Minister Eric Cline and his officials for appearing before the committee today. Thank you very much for your in-depth answers to the questions. And also the Provincial Auditor's office. I apologize. Not to leave you out by any means. And thank the committee for their questions. Minister Cline.

**Hon. Mr. Cline:** — Yes. Well thank you, Madam Chair. I'd like to thank you and members of your committee for very interesting questions and dialogue we've had. And I want to thank the officials from Investment Saskatchewan, the board, and Victoria Park Capital for their assistance here today, and the Provincial Auditor's office as well. Thank you.

**The Chair:** — Ms. Harpauer.

**Ms. Harpauer:** — Thank you, Madam Chair. I would like to thank the officials both from the Provincial Auditor's office and Investment Saskatchewan office. And I want to thank the minister, who had a few challenges to get here today, for coming.

**The Chair:** — Yes. Thank you for making it through that storm to appear before the committee today. That's very good for you. And I'm looking for a motion to adjourn now.

**Hon. Mr. Addley:** — I so move.

**The Chair:** —Mr. Addley. Thank you very much. All those in favour? Opposed? Carried. Thank you. This committee now stands adjourned.

[The committee adjourned at 12:05.]