

STANDING COMMITTEE ON PUBLIC ACCOUNTS
June 5, 1985

Chairman's Statement

MR. CHAIRMAN: — At its meeting of May 2, 1985, the Public Accounts Committee instructed the Clerk to report on the established practice of allowing ministerial assistants to appear as witnesses during a public hearing of this committee.

It has been a long-standing tradition in this committee that ministerial, executive, or other assistants to a minister, and legislative secretaries, are not permitted to attend this committee as a witness on behalf of the Crown agency under scrutiny. Since ministers are not directly exposed to the questioning of the Public Accounts Committee, it is also by extension implied that their staff falls under the umbrella of the minister category.

However, the Public Accounts Committee will recognize that during their public deliberations, anyone who wishes to observe the proceedings (and this includes a minister and his staff) can avail themselves of the opportunity by appearing as a guest as one would in the public galleries in the House.

So I guess that establishes what . . .

A MEMBER: — May I make a point?

MR. CHAIRMAN: — Excuse me, just a minute. Mr. James, I think, would like to make a point.

MR. JAMES: — This is very similar to the same kind of practice in the Assembly where ministerial assistants are not allowed during committee of finance to be in the House at all, certainly not next to the minister.

Now part of the problem has arisen in this session, in that many ministerial assistants have been in the House and gone undetected. So I just want to make that comparison, that the same kind of situation is equivalent in the House.

MR. KATZMAN: — Mr. Chairman — oh, I hate to do this to the Clerk, but I've been here, as I say, since '75, and they've always been coming into the House with their ministers. They may not sit beside them, but they usually sit behind them or something, and they've always been there, because they're always there to run for things when the minister needs them. So I hate to hope that's not your strength or your precedent. I hope that's not your precedent, because precedents . . . The rule book and the precedent don't gibe. Let's put it that way.

As far as this committee's report, witness, I totally agree with, but if they come along for other purposes, that's no problem.

MR. MULLER: — Well, that's the public gallery back there.

MR. KATZMAN: — No, no. As long as they're not a witness answering questions. If they happen to be here because there's only a one-man department, a small one, and he happens to come and help him go through the book or something, that's been allowed. But he's not allowed to answer or speak or any of those things. I agree with you. But he can come along with a book, you know, or pages . . . (inaudible) . . . and so forth.

MR. JAMES: — Well, I think an important distinction ought to be made in that civil servants are legally bound to their minister. Ministerial and other assistants are not legally bound to their minister; they are simply employees of the minister and the minister's office.

And according to rule 19, which deals with strangers, certainly the case can and probably will be made that ministerial and other assistants who either appear in committee or in the House could

be, at the discretion of the Chair, ordered to withdraw.

MR. MULLER: — I certainly go along with the ruling, as I read it, that that is the public gallery back here and they don't appear at the table as a witness.

A MEMBER: — Essentially that is what that is.

MR. MULLER: — And I have to agree with the Clerk because I depend on his knowledge all the time to make rulings in the House.

MR. CHAIRMAN: — After we are through with Finance we will go off camera and we will go through those items. We may not select all of those which the chairman may want, but at least we'll get a start on it and list those items which we are going to deal with in the report. And that should be it for today.

MR. KATZMAN: — Mr. Chairman, before we go off the tape for a moment, we've agreed to accept the statement of the chairman, Mr. Shillington's statement, that you delivered. Is that correct?

MR. CHAIRMAN: — Is everybody agreed to accept that statement — the chairman's statement?

MR. KATZMAN: — Do you want to come off the tape — in committee?

MR. CHAIRMAN: — No, we'll have the Finance in.

MR. KATZMAN: — Are you ready, Duane?

MR. WEIMAN: — Yes. The ruling of the Clerk . . .

MR. KATZMAN: — The Clerk doesn't make rulings.

Mr. Chairman, I'd like to go off camera for a few minutes.

Public Hearing: Department of Finance

MR. CHAIRMAN: — I would ask you, Mr. Costello, if you would mind introducing your officials for the sake of the record, please.

MR. COSTELLO: — Yes. Good morning, Mr. Chairman. On my left is Morley Meiklejohn, the assistant deputy minister of Finance; on my right is Keith Mackrill, director of administration; on Morley's left is Dan Baldwin, the manager of corporate services branch in the Department of Finance; and over to his left, Barry Petursson is the manager of mortgages and real estate.

MR. CHAIRMAN: — Thank you very much. As you know, everything that is said in here before the committee is privileged in the sense that it can't be used as libel or slander outside the committee. On the other hand, it's taken down verbatim and thus readily available for use elsewhere, the media and so on.

I think I will begin . . . We do not have very much, I don't think, for you this morning, but I think I would like to begin. I haven't studied it that well, but I read something about some changes that have been made to the way pension funds may be treated in the future. I don't think it is law. I think it's a white paper only, and perhaps you have studied that. And I'm thinking as it relates to what has happened in the past year and what the auditor has reported on in regards to SaskPen, is there something new there, and have you studied it, and what are its implications?

MR. MEIKLEJOHN: — Well, there are some proposals, Mr. Chairman, that are being discussed at this point in time. You recall that recently the Minister of State for Finance has issued a discussion paper with regard to financial institutions. In that paper it talks about proposals that have been made by both pension fund groups and insurance companies about the way in which legislation is crafted for directing how the funds should be invested. And most of the legislation these days is drafted in a qualitative fashion, that is to say there are many tests in the legislation that determine whether an investment vehicle is eligible or not.

And some of the suggestions that are being put forward, particularly by the insurance industry talk about a more quantitative approach, and that the guide for investment be what they call or what is termed as the "prudent man rule," and this is a principle that guides a lot of the investment in the United States: that is to say that professional investors must be guided in the making of prudent investments, that is they must presumably analyse and do everything that we can reasonably be expected to be done in order to determine whether it is a good investment for a pension fund or an insurance company.

And it puts no test . . . it doesn't determine any tests as to whether it's a good investment or not. If they've done a reasonable job in analysing the investment, then presumably it will qualify. They do put some quantitative limit or . . . Some quantitative limits have been proposed that say for instance, that only so much of a portfolio can be in real estate; only so much of a portfolio can be in foreign securities; only so much of a portfolio might be in equities — those kinds of rules. But having said that, then the prudent man rule would govern the rest — that is to say, what specifically you buy, the specific investment, itself.

That's one of the areas that's being talked about at this point in time.

MR. CHAIRMAN: — Okay, you talk about the prudent man rule, and that was the argument that you made that I recall when here in the first instance, in support of your argument as to the investment that was made through SaskPen.

MR. MEIKLEJOHN: — Well, Mr. Chairman, I think in addition to the legal requirements that exist now on pension funds, and which you will realize . . . It's easy enough to make a bad investment under existing rules so that prudent investing at any point in time even under existing rules, you know, for the professional manager, just has to exist, and hopefully that's a rule that has always guided us in our investments, notwithstanding that it may be a legal investment.

MR. CHAIRMAN: — How do you see that coming down as there being some satisfaction as to providing the mechanism that would be satisfactory to — that the auditors can deal with this? Or does there, in effect, have to be changes in legislation?

MR. MEIKLEJOHN: — Well, you know, it's difficult to speculate at this point in time, Mr. Chairman, on what ultimately may be the changes with regard to the pensions standards Act or to the Canadian and British insurance Act. I think it will probably be a compromise, and there will be some changes, and they may go. And hopefully they'll go along to maybe satisfying some of the questions raised by the Provincial Auditor as well.

In other words, what's happening, of course, is that new investment vehicles, new ways of investing are being developed all the time, and the legislation is not changed, you know, on a regular basis. While legally there's many different ways of doing things, I think it may be well to have the legislation updated to take care of some of these special ways of investing the way in which business is done these days.

And so the legislation is probably behind, but I don't know whether it will go to the prudent man rule. I would be surprised, maybe, if it went all the way, but I suspect they'll make it. It'll go some way along that line.

MR. CHAIRMAN: — I was just wondering, I was asking earlier if you people had looked at this again, or anything new that might be coming down.

MR. WENDEL: — We're not aware of anything new at this time, other than what was in the budget speech, and we don't know what the details of that are.

MR. CHAIRMAN: — Has anyone else got any question on this? Mr. Katzman, did you . . .

MR. KATZMAN: — I think that basically my concerns have been answered, Mr. Chairman. I think the whole pension issue in all the different departments or Crowns are . . . all the different Crowns or investments, or whoever is getting into this, I assume you have become the lead agency. And maybe it's time that we get expertise in the lead agency — I'm not saying that you don't have it; don't get me wrong — and get the other departments that are involved in this thing, sort of getting whatever expertise they have and sort of putting that sort of grouped together. Maybe it would be from every other department, but sort of to help each other along.

I don't know if that's what you're attempting to do, I believe.

MR. MEIKLEJOHN: — Mr. Chairman, we do have a fairly substantial exercise taking place at this point in time with regard to the management of pension funds in the province. And it's aimed primarily, at this point in time, to the funds that . . . to the defined benefit funds which at this point in time, of course, comprise the largest segment of the pension funds that are managed.

We have, at this point in time, we're talking about pooling these funds. We have engaged a consultant, a pension fund consultant — pension fund investment consultant — to assist in putting this together and in defining the way in which they should be managed, the investment policies, etc., etc., and establishing advisory boards to work with the investment managers with regard to these funds.

This comprises 11 superannuation funds in the province. It covers a number of Crown corporations; it covers a number of other agencies such as workmen's compensation superannuation fund, and so on. And all of these funds, all of these 11 participants are going to be actively involved in the total exercise in terms of how it's established for the future. So I think there is a fairly comprehensive study and review going on at this point in time, and it will probably set the standard for the way in which we manage pension funds in the future.

MR. KATZMAN: — I think I just have one other comment. It's more of a — probably a personal philosophy rather than a comment on the committee. But I believe that the committee should endorse the attempts of SaskPen because in Saskatchewan, for some strange reason, most of our pension plans have been invested in other places but Saskatchewan. And I think you have taken a direct approach to look at Saskatchewan in solid investments wherever possible first, rather than looking at the same type of solid investment in Ontario or somewhere else.

And I think that should be complemented, because if our own government pension plans are not prepared to invest in things in Saskatchewan, why do we have to expect other people to? And I think that's key. Over the past years we used to believe pension really we used, an Ontario-based company. And of course they would look all across Canada for investments, not necessarily look at Saskatchewan first. And I believe your plan is now to, wherever possible, look at Saskatchewan first, as long as it's safe and equitable and all those other normal rules and measures.

Mr. Chairman, I think the committee, my own personal opinion, I'd like to compliment, and I would be prepared to suggest that the committee in its report would carry that feeling that everybody has given lip-service for that idea for years but finally somebody's done it. And I think you should be complimented for it.

MR. CHAIRMAN: — I wonder if you do have any breakdown as to outside investment as opposed to internal.

MR. MEIKLEJOHN: — Mr. Chairman, we do have some figures here. Some of the figures, it's always difficult to identify specifically what is a Saskatchewan investment and what isn't, because a lot of the companies of course that were invested, have investments in, have offices in Saskatchewan and have a part of their operation in Saskatchewan, but their head office may be in Ontario or B.C. or Quebec.

But I have some things here, for example, that we can use. We have pension funds, or we have funds that we manage that are over \$2 billion. Of this amount we can identify roughly \$600 million that we think are truly Saskatchewan investments. Now this includes bonds of the province of Saskatchewan; that is, bonds that we've issued for purposes of the government — Crown corporations and so on — and those total at this point in time about 400 millions.

We also have, of course, in Saskatchewan the municipal financing corporation which invests which purchases the debentures of local governments in Saskatchewan, and we have financed \$61 million of those kinds of investments; that is, that pension funds, in effect, have been used to finance local governments in Saskatchewan.

We have also, in addition to that, we've bought directly Sask municipals, and this would be the city of Regina, city of Saskatoon, and other areas in Saskatchewan — school districts, hospital districts, etc. — a total of 14 million. There's not as many of those debentures at this point in time, and most of it is done through the municipal financing corporation. But we've done 14 million.

In addition to that, we hold approximately \$140 million in mortgages of one sort or another in Saskatchewan. That includes residential, it includes institutional, and it includes commercial mortgages of one sort or another. We have purchased, at this point in time, and I think I've indicated earlier that we're relatively small, but in the real estate, directly in real estate, through SaskPen or some other vehicle, we have about \$13 million in real estate in Saskatchewan. And this is some in Regina, some in Saskatoon, some in some other areas — Prince Albert and so on.

We have about 8.5 million invested in equity of Saskatchewan companies. Now there's a limited number of Saskatchewan companies that are registered on the Toronto Stock Exchange — Ipsco is the biggest one, and our biggest holding is Ipsco. But we have 8.5 million.

But we have a lot of difficulty investing in companies in Saskatchewan because they have to meet the tests, obviously, of the legislation. And there's only two or three at this point in time — I think Agra Industries and Ipsco, and I'll have to think to think of another one that is actually listed on the Toronto Stock Exchange.

A MEMBER: — Is Develcon?

MR. MEIKLEJOHN: — Develcon is listed on the Toronto Stock Exchange. So that is a very . . . you know, that's a very tricky area because we just do not have the opportunity to invest in listed equities.

But that's the total, and that comes to roughly something over six, just over 600 millions that we can identify directly.

Now we obviously have invested in a lot of other companies in Canada that have offices in Saskatchewan, or some kind of an operation in Saskatchewan.

MR. YOUNG: — Mr. Chairman, I'd like to differ a little bit with Mr. Katzman. I think that, you know, you folks are all.. and everybody here is entitled to be as patriotic as they like with their

own money, but that's not what you're dealing with. You've got trust money, and I think that you should look for the best investment, period. And I wouldn't think that any two investments are exactly the same, and thus I cannot see any way to implement Mr. Katzman's very laudable, patriotic, pro-Saskatchewan feelings. I just don't think it would work.

I can't believe that two investments would be identical, such that an identical one in Alberta, an identical one in Saskatchewan. Certainly so, but it's my understanding things just aren't that pure out there, and that if you did have that as a factor, I don't think that . . . I think you may run the risk of crowding your investment in this direction, and it may not be in the very best interests of the trustee.

MR. MEIKLEJOHN: — Well you'll see, Mr. Chairman, from the breakdown that I've given, for instance, let's take mortgages — and we're trying to identify; we're investing money; we're investing X number of dollars just in mortgage generally. You know, we have a target in terms of what we want to put in mortgages. And you'll find, whether it's in Alberta or whether it's in B.C., or whether it's Ontario or whether it's Saskatchewan, that the market for mortgages and the rates are very, you know, are very similar.

That is to say, we don't have an opportunity, necessarily, to invest in Alberta, a mortgage in Alberta, that says that they will pay 11 per cent and we can only get 10.5 per cent in Saskatchewan. We don't have that. You know, that isn't the problem. The problem has always been that there didn't seem to be as much available in Saskatchewan as there was in Alberta or there was in B.C.

So I think, in terms of competing for quality of price, a lot of it is very similar, you know. We do give some . . . I think we have given some preference. If we had a choice between an Alberta mortgage and a Saskatchewan mortgage, we probably took the Saskatchewan mortgage.

At the same time, I don't think we're overweighted. I don't think we're overweighted in our portfolios in Saskatchewan mortgages or in Alberta mortgages or in B.C. mortgages or in Ontario.

MR. YOUNG: — You certainly did the right thing having regard to the shape of the Alberta economy, but the basis upon which you did it may not have been right. You so happened to be right in this case.

MR. MEIKLEJOHN: — Well when you're looking at competing investments — and we don't only consider, for instance, at any point in time if we're looking at mortgages . . . Mortgages are competing with every other type of investment people, too, which means they're competing with corporate bonds; they keep competing with government bonds; they're competing with equity and everything else, in terms of our investment strategy at any point in time.

MR. CHAIRMAN: — Well if there are no further questions, I don't think we have anything else to talk about. And we want to thank you very much for coming in and giving us . . . I find this additional information that you have provided. You talked originally about 2 billion, and so there's 636 in Saskatchewan, and the remainder is outside the province.

Thank you very much, gentlemen, for coming.

We're going to just . . . I think there's something we should get on the tape here, and I think that from the results of last week, our forever faithful Clerk keeping attendance here didn't realize that was going on, but anyway I think that perhaps we should at this point congratulate Mr. Weiman for his perfect attendance.

MR. WEIMAN: — This is on the record, right?

MR. CHAIRMAN: — Yes. But on the other hand, I think that we would be remiss if we didn't

mention Mr. Sveinson who has had the least perfect attendance, two out of 16 meetings.

MR. KATZMAN: — Those two meetings — I don't think he spent 20 minutes in total in the room.

MR. CHAIRMAN: — Now there's one other matter which we need to deal with, and that is where the Public Accounts Committee is going to meet in Saskatchewan in 1986, and where is that at now? What about the letters . . .

MR. JAMES: — I've been instructed not to reserve any rooms in Regina simply because the committee ought to be making the decision on where they would like to host this meeting in Saskatchewan. It was determined by the committee that they would host it in Saskatchewan.

If the members would like to decide now where they would like to hold it in Saskatchewan, then I can make the bookings. Time is rapidly drawing to a close in terms of trying to find accommodation.

MR. WEIMAN: — Mr. Chairman, the whole objective of this is to tie it in with the . . .

A MEMBER: — Where the auditors . . .

MR. JAMES: — They're having it in Regina.

MR. WEIMAN: — I see. So in a sense, you're hamstrung unless you say, well, we'll break with that.

MR. JAMES: — We do have the joint meeting which the legislative auditors graciously host and invite the chairman and vice-chairman of the public accounts committees to attend, and I believe that's quite valuable for the members, for the delegates . . .

MR. WEIMAN: — How long is that, Mr. James?

MR. JAMES: — Three days.

MR. WEIMAN: — No, the joint . . .

MR. JAMES: — Oh, the joint meeting?

MR. WEIMAN: — Yes.

MR. JAMES: — Is usually on the second day in the afternoon.

MR. WEIMAN: — On the second day?

MR. JAMES: — Yes.

MR. WEIMAN: — It can't be first or last day. You know what I'm getting at. If it's the first or the last day, then our location doesn't become that critical.

MR. JAMES: — I believe the auditors set their agenda. In their agenda they mention . . . they issue the invitation, and it's . . .

MR. KATZMAN: — I think, Mr. Chairman . . . (inaudible) . . . We have no choice.

MR. MULLER: — There are people that come from all over Canada then to this . . .

MR. JAMES: — That's right.

MR. MULLER: — I have to disagree with Mr. Katzman. I think we should show them probably the most picturesque part of Saskatchewan that we have, and of course that's the northern part, or the north central part around Waskesiu, which is very picturesque, has a beautiful golf course, and lovely lakes.

MR. CHAIRMAN: — Well, certainly the auditors are not going to change their venue.

MR. MULLER: — Oh, I see.

MR. CHAIRMAN: — I think that was pretty well established by Mr. Lutz. So I think that we are compelled to make those reservations in Regina.

MR. MULLER: — Through necessity we have to meet in Regina, not just because we want to. I mean, we'd rather go to a more picturesque place.

MR. CHAIRMAN: — I would agree with you.

MR. WEIMAN: — Okay. You said that the auditor's schedule is firm, and it's usually the second or the third day. That can't change. But can our schedule change so that our first day is the day of the joint meeting?

MR. YOUNG: — Trying to get a fishing trip out of this somehow, eh?

MR. WEIMAN: — Do you understand what I'm getting at?

MR. JAMES: — Oh yes, I see no reason why not. It's up to, basically, I suppose, this committee to set the agenda for the conference next year.

MR. WEIMAN: — Because the arrival point is not that critical.

MR. CHAIRMAN: — I think we are at the mercy of the auditors, and I don't think we can dictate to them when they're going to invite us.

MR. WEIMAN: — No, not dictating to them, but if we find that the agenda states that their joint meeting is on a particular day, that just so happens . . . that could so happen to be our first day of meeting also, which leaves the rest of the time.

A MEMBER: — We owe one on the summer games, you see.

A MEMBER: — I think we'd better have it here in Regina.

MR. JAMES: — I should point out that the committee did instruct me to write the legislative auditors for future years to collaborate on the location and agenda and all that sort of thing if they so wished.

MR. KATZMAN: — We're locked in for '86, and after '86 it has been suggested that we mutually agree on where they're going to be. Up until now they've always set them, and we've gone along with it. We're now saying, okay, you set '86, we'll live with '86, and from then on it should be mutually agreed. Therefore I'm prepared to say we've got to go with Regina. Being to one of these meetings as a fill-in, knowing how they operate, I think the two of them together is very important because of the interaction.

MR. WEIMAN: — Well, just so that it's part of the record that the members of the committee who are from Saskatoon argued ferociously that it didn't come to Regina.

MR. MULLER: — And so did the member from Prince Albert, or the member from Shellbrook-Torch River.

MR. WEIMAN: — Nothing to do with political . . . (inaudible) . . . Just hard work and bargaining and hard work.

MR. CHAIRMAN: — Would somebody please also make a motion.

MR. WEIMAN: — Is this one of those that I've got to write up, or you write up?

MR. JAMES: — I can write it up.

MR. WEIMAN: — What a guy! I'll sign it.

MR. KATZMAN: — There was every pressure put on by the Regina members . . .

A MEMBER: — Political lobbying on this one.

A MEMBER: — I think Billy wanted it up in Saskatoon or Waskesiu. It's just that because we just went to the wall on this one in Saskatoon . . . (inaudible) . . .

MR. WEIMAN: — Mr. Chairman, I move:

That the Canadian Council of Public Accounts Committee meeting in Saskatchewan for the year 1986 will be held in Regina.

AGREED

MR. KATZMAN: — What's the date on that?

MR. JAMES: — It'll be about July. It's usually the first week.

MR. KATZMAN: — That will be right in the middle of the '86 election.

MR. JAMES: — We will have an unusual meeting in Whitehorse this year in the sense that Anthony (Tony) Penikett, who is the president of the group, is now the Premier of the Yukon, and he'll also be leading the charge.

The committee adjourned at 9:48 a.m.