

Public Hearing: Department of Finance

Mr. Chairman: — Good morning. I think we can come to order and begin our proceedings. I will ask Mr. Vicq, the acting deputy minister to introduce his staff. I notice that a list has gone around, and I'm not sure I'm connecting all the faces with all the names here.

Mr. Vicq: — On my left is Elizabeth Smith, director of financial services branch; on my immediate right, Bill Van Sickle, executive director of administration division; next to him Brian Smith, executive director of the Public Employees Benefit Agency; on my left David McCaslin, investment services branch, investment financial services; next to him Bill Jones, assistant deputy minister, investment financial services; and Dan Baldwin, associate director, finance and administration branch, investment and financial services.

Mr. Chairman: — Thank you, and welcome. Let me begin by outlining the requirements of the committee. You may be aware that as witnesses before the Public Accounts Committee you are, shall I say, immune from any kind of prosecution for anything you might say here and any evidence you provide. You cannot be . . . you're not subject to civil action of any kind or otherwise by anyone. So you're protected by that immunity, I guess, much in the same way as members are protected in the Assembly during the debate and related events that take place in there — provided they're not physical, of course. So I think it's important for you to know that, and I indicate that to you this morning.

Out of that comes a requirement that you have to answer all questions. Ministers have, I guess, the luxury at their own political risk of not answering questions in the House. That's a choice they make, but witnesses in this committee don't have that choice. You're required to provide the answers to the questions. And I think that's all I want to say on that.

We're going to begin this morning by looking through the *Report of the Provincial Auditor* of 1984-85, year ended March 31, 1985, one of the outstanding pieces of business left over from the last Public Accounts Committee, and I'm sure some members will have some questions.

If I may, I would like to ask some. And I'm going to begin right at the beginning on page 23 of the report. I'll wait till you have it available to you. I think that's the wrong one.

Now some of the items that have been raised here I would imagine have been dealt with since, but I would still like to ask the questions for some clarification, and if they have been dealt with by the department and rectified or in some way disposed of, please so indicate. And that may shorten the questioning.

The first item I want to raise is: number 1, on page 23 under the Department of Finance in which the Provincial Auditor says that:

(in his) . . . examination of the financial statements of the Consolidated Fund and . . . (the) Heritage

Fund for the year ended March 31, 1985 . . . (there did not seem to be any) format approval as required by treasury board . . .

And the auditor raises some concern about that. Can you comment on that and indicate what has happened since?

Mr. Kraus: — That's going back in time, Mr. Chairman, and right off the bat I might have to check my notes, but if I recall correctly, I believe that at the point that Mr. Lutz wrote this report in 1986 he was indicating he had not yet signed off on the March 31, 1985 financial statements, but he subsequently did and they were tabled in the House in 1986. I think that's what we're talking about here.

Mr. Chairman: — Can you help us, Mr. Lutz?

Mr. Lutz: — Yes, I believe that's right, Mr. Chairman. Yes.

Mr. Chairman: — So in your opinion this is no longer a problem.

Mr. Kraus: — No.

Mr. Chairman: — Okay, thank you very much. I'm just going to run along here. If somebody wants to interject, please so indicate.

I'm now on page 24, second last paragraph, and this is an item which we may want to deal with separately at some time during the proceedings. But I simply want to bring to your attention that the auditor indicates that:

(He) . . . was advised on August 2, 1984 by the comptroller, the Department of Revenue and Financial Services, that a study is underway on the most appropriate method to present financial statement that will fully disclose the revenues, expenditures and financial position of the Government of Saskatchewan in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

We had a discussion on this earlier, and there was some indication, I believe, that that study was almost complete. Can you give us a report on it?

Mr. Vicq: — Yes, a study done by a Dr. Hopkins of the University of Regina. I believe one of Gerry's staff has a copy of the summary of the study which will be handed out.

Mr. Chairman: — Do we have it? I just want a . . . Did you say a copy of the summary of the study, or the study?

Mr. Vicq: — It's the copy of the study.

Mr. Chairman: — So this is the study itself?

Mr. Vicq: — No, this is a summary of it. This is the summary of the study on summary financial statements done by Wayne Hopkins.

Mr. Chairman: — Okay. Just to make this clear, this is

then just the summary of the study.

Mr. Vicq: — That's correct.

Mr. Chairman: — Do you have with you the study that was done?

Mr. Vicq: — No, I don't.

Mr. Chairman: — Is it possible for the committee to have a copy of the study provided, since it seems to be a very significant document which is important to the functioning of the committee.

Mr. Vicq: — Yes, I will provide that to the committee.

Mr. Chairman: — Thank you. Can you tell me — and I don't say this because I question this individual, but I don't know him. Dr. Hopkins, U. of R., what is his qualifications?

Mr. Vicq: — His background?

Mr. Chairman: — Yes.

Mr. Vicq: — He is a graduate of the University of Saskatchewan in a B. Comm. program. Subsequent to that he articulated with Coopers & Lybrand in Manitoba. He, after obtaining his chartered accountancy designation, received his Ph.D. in accountancy from Colorado, I believe, and then returned to the University of Manitoba to teach, has since then moved to Regina where he became for a while in charge of the Saskatchewan chartered accountants education committee. And as a result of the work that he did on that committee, he was made a fellow chartered accountant. He is a full professor of accounting at the University of Regina currently.

Mr. Chairman: — Thank you. In this kind of arrangement who would have Mr. Hopkins been selected and appointed by?

Mr. Vicq: — By Mr. Heron, the former deputy minister.

Mr. Chairman: — Do you know if the department sought other individuals who may have been able to do the job, or was it just a simple selection by Mr. Heron of someone he knew?

Mr. Vicq: — I believe it was on the recommendation partly of the past president of The Institute of Chartered Accountants, Mr. Pat Pitka.

Mr. Chairman: — What was the cost of this study?

Mr. Vicq: — Mr. Hopkins was on a secondment from the University of Regina for a 12-month period. Mr. Hopkins's monthly fee paid to the University of Regina was 4,877.89 per month. I think I should point out because the question was, what was the cost of the study.

Mr. Chairman: — Well yes, I would have asked this one too, but can you also give me that?

Mr. Vicq: — Mr. Hopkins, as we got into this, became more involved with pension fund accounting as he

developed one of the issues, as the unfunded liability of that became a concern to the department, and some ways in which the department might deal with unfunded liabilities in two of the major pension plans. So I guess what I am saying, Mr. Chairman, is that this was not a cost of the study but what Mr. Hopkins was paid for the 12-month period.

Mr. Chairman: — The \$4,877?

Mr. Vicq: — A month.

Mr. Chairman: — Is that all that was the cost of the study, or were there other costs?

Mr. Vicq: — Well there were other fringe benefits and the use of the typing pools and things at the Department of Finance, but all indirect costs. There were no other direct costs. There may have been a trip to Toronto to discuss this with the CICA.

Mr. Rolfes: — Rick, could you tell me, first of all, the two major pension plans that caused the most concern; which ones were they?

Mr. Vicq: — They are the defined benefit plan of the teachers and of the Public Service Commission.

Mr. Rolfes: — Secondly, what decision has been made as far as reporting the pension plan liabilities? Have you changed your method of reporting?

Mr. Vicq: — To date we have not changed the method; we are still using a footnote on the *Public Accounts*. However, I believe — and Gerry can correct me if I'm wrong — that we have changed the . . . or the actuary has changed the valuation method of the Public Service Commission.

Mr. Rolfes: — Could you tell me what the total liabilities are of those? I know it will certainly depend on a particular actuarial report that you have, but what is the latest on those two?

Mr. Vicq: — For the public service superannuation plan at March 31, 1986, the method we are currently using is 646,615,000. Under the previous method that the actuary had suggested and we had been using, it was 1,063,420,000.

Mr. Rolfes: — Could you tell me what has changed to . . .

Mr. Vicq: — The particular assumption as to what discount rate you use when you are taking the present value, whether you use just the inflation rate or the nominal interest rate, the larger the number you use to discount future cash outflows, the smaller the present value.

Mr. Rolfes: — All right. What about the teachers?

Mr. Vicq: — For the teachers, the last report we have is a November '86 report, and that's the same . . . I'm sorry, that's the same, Mr. Rolfes, for the public service superannuation.

Mr. Rolfes: — That was November?

Mr. Vicq: — November 1986. The estimated liability at June 30, 1986 — and these aren't published numbers because of *Public Accounts* — \$1,278,942,000.

Mr. Rolfes: — What was it previous?

Mr. Vicq: — Would you give me a particular year that you want there?

Mr. Rolfes: — Well, what did you give me for the public service?

Mr. Vicq: — The method of calculating the teachers' superannuation plan hadn't changed; it's been consistent,

Mr. Rolfes: — So has it increased considerably from the year before?

Mr. Vicq: — Two hundred million dollars. No, I'm sorry, if I could give you exactly the last date that we have was a September 1984 actuary study for the liability as of June 30, 1983: \$1,079,549,000.

Mr. Rolfes: — So in three years it has gone up approximately \$200 million?

Mr. Vicq: — That's correct.

Mr. Rolfes: — Is this . . . well you wouldn't know. I was just going to ask if this is a trend that has happened over a number of years.

Mr. Vicq: — It really depends. As you are aware, there are no new members to this particular plan, so it really depends on what the contributions are earning in the plan and the rate, for lack of a better word, the mortality rate in the plan. Those are the two particular variables that are dependent.

For example, as a result of yesterday and Friday, depending on the mix that these assets were held in the teachers' fund, because the other fund doesn't have any assets, this unfunded liability could have gone up substantially.

Mr. Rolfes: — That was just . . . That was the question I was going to ask, and I know it was a question that probably would be out of order, but I'd like to ask it if I could. In what . . . Have you done any estimate at all, what effect Friday, yesterday, may have had on the plans?

Mr. Vicq: — We haven't done any estimate. As of this morning, what we were finding yesterday — and we have a particular mix in each of the pension plans, some equity, but heavy in particular kinds of bonds yesterday morning we found both markets were going down.

However, this morning the bond market has strengthened considerably, so we are more optimistic than we were yesterday at this time. But we have not made an estimate of the actual decline in the value of pension assets.

Mr. Rolfes: — Our year under review, if I'm not out of order, were most of the investments in bonds or were they in equity?

Mr. Vicq: — If I could get David McCaslin to . . .

Mr. Rolfes: — Sure. I want from '84-85, '85-86. If you could just give me your, you know . . .

Mr. Chairman: — Mr. Vicq, if it's helpful, feel free to have your other officials speak into the mike on your behalf. You don't have to respond to them all.

Mr. Vicq: — Thank you,

Mr. McCaslin: — I don't have the exact statistics for the year that's under review, but as an approximation I have the asset distribution for the aggregate of our pension funds at June 30 of this year. And although this would have changed somewhat over the period, it's still very close to what the mix would have been at the time you're referring.

Mr. Rolfes: — June 30 of what year was that?

Mr. McCaslin: — The current year, 1987.

Mr. Rolfes: — Current. Okay.

Mr. McCaslin: — Short-term securities, 15.3 per cent; bonds, 54.4; mortgages, 7.8; common stocks and convertible securities, 20 per cent; and real estate investments, 2.5 per cent.

Mr. Rolfes: — I would assume that your common stock is the one that probably was most affected by Monday adversely affected, I should say — Friday and Monday?

Mr. McCaslin: — Yes, that's correct.

Mr. Rolfes: — Okay. I have no more questions in that area. If somebody else wants . . . any questions on that . . .

Mr. Chairman, I notice . . . I'm going to get away from the pensions. I notice that the . . . Mr. Hopkins . . . Dr. Hopkins, was it? Dr. Hopkins had recommended that there possibly should be a summary financial statement made — at least I feel that that was one of his conclusions that he came to — and that the Department of Finance felt that there was some merit in it, and yet you are not going to proceed with a summary financial statement. Why is this? If there's some merit and it was recommended, why would we not proceed with it?

Mr. Vicq: — We believe there are still a number of important issues that are outstanding, and I've identified that in the summary report. I identify them as the reporting entity itself, and if you look at your appendix you can get some idea of where the entity concept would take us, and there's some discussion of whether that is the appropriate number of agencies and entities.

The other particular problems are whether or not all of the debt, including the self-sustaining debt of the Crown corporations, should be included in summary financial statements. And a third one is the valuation of the

physical assets. And finally, the one which we didn't spend as much time on, the reporting aspects of the unfunded pension liability but rather the finance or economic aspects.

Just to bring you up to date, all of those four items that are identified are under discussion by The Institute of Chartered Accountants. They do have subcommittees both on the physical assets of government and the government financial reporting entity.

So what we thought, Mr. Rolfes, indirect response to your question, is that we would continue to watch and participate in the development of answering those particular areas of concern. And eventually, if all of those concerns are answered and there is an agreement among professional accountants of the way to treat those particular kinds of assets and liabilities, then the recommendation would be to go to summary financial statements. But there are still four significant outstanding concerns.

Mr. Rolfes: — I have some . . . I don't fully grasp it without having had a chance to look at the report, but it seems to me that a complete summary financial statement would disclose to the resident or to the individual concerned a more complete picture of the financial position of the government or Crown corporations, rather than not having that fully disclosed or having a complete summary statement.

And I'm wondering, doesn't a . . . maybe I have the wrong concept of a summary statement, but doesn't a summary statement make the government more accountable in each particular area in disclosing more of the assets and liabilities of each entity that is being reported on? Would it not do that?

Mr. Vicq: — If I could give an initial answer and then I'll ask perhaps Gerry to respond. I think it has the effect of including in one set of statements some of the things that are now in separate statements. I think it might be incorrect to say that it does more reporting because we are currently reporting on those entities as separate.

Mr. Rolfes: — What I meant was, for an amateur, for somebody that doesn't completely understand where to find all the information, it makes it much easier to know exactly what the financial liabilities and assets of the government are, and the Crown corporations are, if they're all reported in one summary statement — all inclusive statement.

I find it very difficult. I consider myself an amateur, but I've been around some time and reading some of these statements, and I still find it very difficult going through all the reports and trying to find out the balances of, you know, you take . . . you have to check this against that and against something else. By the time you get through with all of it, you really have to almost be an accountant to understand what the financial position is, and that's why I would like to see a summary statement, financial statement, made of all the agencies and the government so that we have — you know, you can look at it and say, yes, that's what it is, rather than searching all over the place to try and figure out what it is.

Mr. Vicq: — I don't disagree with you, but I also think that the four outstanding issues are significant enough and would have the effect of a, I'll use your word, an amateur user not really understanding what those reported numbers were, or being able to compare those reported numbers to other jurisdictions until there are a set of generally accepted accounting principles for government organizations.

Mr. Rolfes: — I don't disagree with that. My concern is more with Saskatchewan than it is with other jurisdictions really, and if I can understand Saskatchewan's financial picture maybe I could then understand the others although I'm not so concerned about the others, I'm more concerned here. And in any way that they, I think, that the government can help people to understand what our financial position is, I think we should take steps to move in that direction. That's the concern that I have.

Mr. Vicq: — We are taking steps and we are looking at these four major concerns . . .

Mr. Rolfes: — Okay.

Mr. Vicq: — . . . and participating in that discussion.

Mr. Rolfes: All right, one further question: when do you anticipate that you may come to grips with this and go to a summary statement?

Mr. Vicq: — Given that we're dependent on how these committees at the national level are working and the decisions that they will make, and assuming these decisions would be accepted by the profession, I hesitate to guess when that might be. It's out of, really, out of control of the Department of Finance.

Mr. Rolfes: — Yes, okay. I don't know who makes that decision then; that's the concern that I have. Who would make that decision as to when we would go to a summary financial statement?

Mr. Vicq: — The government would make the decision.

Mr. Rolfes: — Yes, you know, having the fear that I have of all governments not wanting to disclose any more than they have to, it might be a long time. Maybe the committee can make a recommendation to that effect in our report.

Mr. Chairman: — Okay. Thank you, Mr. Rolfes.

Mr. Martin: — Well, Mr. Vicq said that it was being monitored at a national level by the CICA (Canadian Institute of Chartered Accountants) and it's one of those things that's in a constant flow, I would think, until they come to a general agreement and understanding. You know there's only three provinces using it now but, you know, I think it's in the process.

Mr. Rolfes: — if I could just make a comment. I'm not being critical, Mr. Martin. What my concern is . . .

Mr. Martin: — No, I know you're not being; I'm not suggesting you're being critical.

Mr. Rolfes: — . . . if we leave it up to government, no matter who the governments are, they want to disclose as little as possible, I think, generally speaking. And I think we have an obligation to try and move this thing along, and I know the CICA would like to see it moved along as quickly as possible. But if we leave the final decision to governments, then I'm just afraid it's going to be a long, long time, regardless of who the governments are, and I think maybe this committee could help in making that thing move a little bit more rapidly if we made a recommendation to that effect.

Mr. Chairman: — Okay, at the end of this we may very well do that. I pick up on where the comment was that the Department of Finance . . . it's out of the hands of the Department of Finance. I question that approach and that judgement on the part of the department or the government, if it's the government that's made that judgement.

I really object, if I may put it that way, to the Saskatchewan Department of Finance saying it's going to turn over certain responsibilities to some national committees, particularly in light of the fact that three other provinces already are doing this and seem to be handling quite well. And the people who study the financial statements in those provinces don't concern themselves, or seems to have no trouble comparing to other jurisdictions.

I'm wondering why this overwhelming concern about some work of national committees when we already have examples and role models, if you wish, which we might look at so that we could provide to the taxpayers of Saskatchewan a better report on the financial affairs of the province. I would like to know: is this a decision of the department, or is this a decision of the government per se?

Mr. Vicq: — I think you misinterpreted. I hoped that I said that we as the department were going to take an active role in addressing ourselves to the four outstanding issues that are in the summer report. We are of the opinion that, until those issues are resolved, that the summary financial statements perhaps do not provide a better financial report than all of the information that is currently available.

Mr. Chairman: — But yet they do provide, in a spot, a better financial report in three other provinces,

Mr. Vicq: — Three other provinces are using it. I'm not going to make a judgement whether it's better or not.

Mr. Chairman: — No, I wouldn't expect you to. But they obviously think they do, so there is some models which could be looked at.

I wonder, then, since there are — did you say four outstanding issues?

Mr. Vicq: — There are four outstanding issues that we identified as significant.

Mr. Chairman: — Therefore one would have to conclude that the report provided by Dr. Hopkins was not the

complete report.

Mr. Vicq: — I'm sorry. I'm missing the . . .

Mr. Chairman: — If there are four outstanding issues, then this report which was provided, a summary of which was provided for us today, prepared by Dr. Hopkins therefore must not have been a complete report because there were some outstanding issues.

Mr. Vicq: — The report says that on the national level there are disagreements among professional accountants on the treatment of those four things. That was one of the conclusions of his report.

Mr. Kraus: — Mr. Chairman, I tried to give an example the other day of the differences that exist between what some people think and what others think.

As an example, our combined fund statements for '85-86 show debentures outstanding of \$5.9 billion. I believe if we followed the recommendation of . . . one of the recommendations that the CICA (Canadian Institute of Chartered Accountants) has put forward right now, and I believe it's a reporting approach that's taken by the Government of B.C., that those debentures on the summary financial statements would not be reported at 5.9 billion, and I'm prepared to take criticism if I'm not correct here. I believe it would be \$700 million rather than the 5.9 billion.

And that's the point I think we're trying to make, is that people are viewing it differently as just what should be reported on these summary financial statements. It isn't that the additional debt that I've talked about would disappear, but it would be reported in a different fashion. And just what is the best way of reporting debt, for example, that's one of the four issues that's being debated.

I know everyone has a different opinion, but certainly it would be, if it was my set of financial statements, which it's not, I might be inclined to say, I'll come up . . . I'd sooner report a \$700 million debt than a \$5.9 billion debt, but that wouldn't necessarily be in the reader's best interest. So I'll just leave it at that.

Mr. Chairman: — Okay. Just one final question. You therefore don't have a timetable. Everything is subject to what the national committees are doing. You have no Saskatchewan timetable.

Mr. Vicq: — I have a timetable with respect to Gerry's, the comptroller's shop, to continue to develop and put input into this decision, along with other things that the comptroller's shop is doing.

Mr. Chairman: — Thank you.

Mr. Van Mulligen: — . . . (inaudible) . . . what three provinces are currently publishing these summary financial statements?

Mr. Kraus: — British Columbia, Alberta, and P.E.I.

Mr. Van Mulligen: — Is there nothing in their experience

that . . . They seem to be publishing these statements notwithstanding the lack of a so-called national consensus. Is there nothing that we can learn from their experience?

Mr. Vicq: — I think there is something, Mr. Van Mulligen, that we can learn from all experiences. I've just . . . Again from a perspective where I come from, we have to be concerned of whether or not they are better, and I haven't, with those four outstanding issues, I haven't been convinced that they are better.

Mr. Chairman: — Thank you.

Mr. Lyons: — Yes, just as a point of interest. Are those three, the accounting standards of those three provinces, the same? Do they use the same accounting standards for the publication of their summary?

Mr. Kraus: — We believe . . . And it's difficult if you don't get in and examine . . . It's not easy, even as accountants, to understand sometimes how people are reporting at a distance. We believe Alberta and B.C. are using a slightly different approach. And without being specific, I'm sure there are some significant differences. That's part of our problem. Which way do we jump — B.C. way, Alberta way, or something in between?

Mr. Lyons: — Without getting overly technical, where are those differences?

Mr. Kraus: — I believe it's basically the way they're reporting the debt. I think they're taking a slightly different approach on how they report their debt.

Mr. Chairman: — Thank you. I'd like to make a recommendation on which way we jump. I would suggest we determine that we jump the Saskatchewan way after you've figured out all of the questions that you have. That's the only way to do it. I mean . . . A good Saskatchewan way.

And I say that sincerely; I'm not trying to be facetious. There will always be, among chartered accountants, disagreements, as there are among lawyers and people similar to that. Only teachers don't disagree because they go by curriculums. Right, Mr. Rolfes? . . . (inaudible interjection) . . . And I say, in the end, that's what you may have to decide to do.

Finally just, once again, I want to confirm that we will be getting the study because I think a summary is a summary, but it really doesn't provide the arguments and the supporting comments. So we appreciate that. I hope we can get it soon.

Anybody else on this? I'm going to move on.

Mr. Rolfes: — Mr. Vicq, in the auditor's 1984-85 report he spends a fair amount of time on management control systems and the lack thereof and makes some recommendations. I'm just wondering, have you addressed the problems of the 1984-85 concerns of the auditor?

Mr. Vicq: — I'm going to ask Mr. Kraus to reply.

Mr. Kraus: — You're referring to . . .

Mr. Rolfes: — I'm referring to page 25 to begin with:

A study and evaluation of the management control systems of the Department disclosed the following conditions which, in my opinion, resulted in a more than relatively low risk that errors or fraud in amounts that would be material in relation to the Department may occur and not be detected within a timely period:

Mr. Kraus: — Yes, this issue is an issue that stems from the auditor's concerns that investment and financial services may not have been checking . . . doing some audit work to make sure that the investments that they were making were legal in accordance with the laws of the land. As a result of that, I did do some work down there and we issued a report, and I think I gave the committee a copy on September 21 if you recall.

And we were satisfied in our opinion that the controls that exist are adequate to ensure that investments conform to legislative restrictions. I didn't feel that any corrective action needs to be taken, but that was the opinion that I formed. I guess investment and financial services feels that it does an adequate job. They do the kind of activities that are similar to the other investment managers in western Canada, so we were satisfied.

Mr. Rolfes: — Are you also satisfied then that the comments made on page 29 of the '84-85 report, you would address them in a similar manner where the auditor is concerned about not having an independent audit being done of joint venture accounts, wherein he says that he is concerned about:

. . . management controls (are) not adequate to ensure that (1) public money is safeguarded, (2) that all public money has been fully accounted for, and (3) all expenditures are properly supported and authorized.

What you're saying to me is that you are satisfied that we should not be too concerned about those concerns of the auditor?

Mr. Kraus: — That is a separate issue from the previous one and again relates to . . .

Mr. Rolfes: — This relates I believe to SaskPen.

Mr. Kraus: — SaskPen, yes.

Mr. Rolfes: — Yes.

Mr. Kraus: — It's reported as well in Mr. Lutz's report of March 31, 1986.

Mr. Rolfes: — So it has not been addressed.

Mr. Kraus: — It wasn't addressed, I don't think satisfactorily from Mr. Lutz's concern, or position rather. These are the . . . The auditor's concern is that there should be an independent audit of these joint venture

accounts and the records of these joint venture accounts for the purpose of expressing an opinion on compliance with the terms of management agreements.

Now from Finance's perspective there's an audit opinion on the financial statements of each joint venture, and that audit is done by a CA firm. And it's obtained, they get that audit opinion and those audited financial statements, and they use that as a basis to assess whether or not there's been compliance with the terms of the management agreement. They also receive interim financial statements periodically, and invoices and things. They feel that they don't have to do another audit on top of the audit that's done by the CA firms.

And we checked around, as a matter of fact, and we found that there was some agreement that it probably wouldn't be necessary to do another audit; that if these audits are already being done, the financial statements of these joint ventures, that that was adequate. And so on that basis we don't see any concern.

Mr. Rolfes: — Okay. I can't make any further statement on it.

Let me turn to page 30 of the '84-85 report, and it says there that The Department of Finance Act does not allow any Crown corporation to borrow any moneys without the approval of the minister, and yet several millions of dollars in the form of bonds and mortgages were borrowed. There seems to be no evidence that such borrowings received the approval of the Minister of Finance, Now has that been corrected?

Mr. Baldwin: — In relation to the . . . this again relates to SaskPen?

Mr. Rolfes: — That's correct.

Mr. Baldwin: — Okay. The view of the Department of Finance, when you look at section 41, is that the intent and the meaning of section 41 is modified to some extent by section 40 of The Department of Finance Act, which provides that this part applies to every borrowing made on the credit of the Government of Saskatchewan.

The view of the Department of Finance is that the borrowings, so-called borrowings, of SaskPen were not made on the credit of the Government of Saskatchewan; that is to say, the Government of Saskatchewan was not liable for that debt. And it was our view, and it was the view we took last year, that section 41 did not apply in this particular circumstance to SaskPen.

I might point out in relation to most of the SaskPen items which appear in the '84-85 statement of the Provincial Auditor that most of them have been addressed. In relation to the authorization for borrowings, in late 1986 there was a restructuring of SaskPen, and the debt which was the subject of this particular comment was converted into equity, so that SaskPen at the present time does not have any material debt.

Mr. Rolfes: — Let's say that SaskPen takes a substantial loss. Who would be responsible for that loss?

Mr. Baldwin: — If SaskPen were to incur a substantial loss, it would be the shareholders of SaskPen at this time that would realize the loss.

Mr. Rolfes: — Who are those shareholders?

Mr. Baldwin: — Shareholders are seven pension plans.

Mr. Rolfes: — Do you mind telling me who they are?

Mr. Baldwin: — Municipal employees' superannuation fund; public employees' superannuation plan; teachers' superannuation plan; the Saskatchewan Government Insurance superannuation plan; CIC (Crown investments corporation of Saskatchewan) pension plan; Sask Power pension plan, and SaskTel pension plan.

Mr. Rolfes: — I just have a question here. That's . . . I thought, were some of the ones. It was always my impression that the government, the teachers' pension plan was guaranteed by the government.

Mr. Baldwin: — Benefits to the pension beneficiaries is guaranteed. The investments are not guaranteed in that in the defined benefit plan — the teachers' is a defined benefit plan, largely — and those benefits are guaranteed by . . . well not guaranteed, but they're payable out of the Consolidated Fund. The investments are not . . . The investments of all the pension plans are not guaranteed.

Mr. Rolfes: — The investments may not be, but the payment to superannuate teachers certainly is guaranteed by the government.

Mr. Vicq: — To the extent that we're talking about defined benefit plan.

Mr. Rolfes: — Well, yes, that's what I'm talking about, defined benefit plan. So I mean, in a sense we can argue that the government doesn't guarantee it, but if the investments go haywire, the government still has to guarantee the payments of the pensions.

Mr. Baldwin: — In the defined benefit plans, that's correct. To the extent that the investments are not sufficient to meet the obligations to the pensioners, the payments have to be made out of the Consolidated Fund.

Mr. Rolfes: — So you know, we can talk, but the government then does back the assets.

Mr. Baldwin: — In the defined benefit plan those pension rights are backed.

Mr. Rolfes: — Are guaranteed.

Mr. Baldwin: — Right.

Mr. Rolfes: — So would you not say — and you don't have to draw a long bow on it — the government really is backing the assets?

Mr. Vicq: — I don't make that connection.

Mr. Rolfes: — Well, let's say that all the assets are lost. Let's say that on Friday, Monday, and today were kaput as

far as the pension plans are concerned. Are you telling me that there's no pensions for superannuated teachers?

Mr. Vicq: — No, I'm telling you that under that particular plan that is a defined benefit plan, the pension would come out of the Consolidated Fund.

Mr. Rolfes: — Exactly. So regardless of what happens to those assets the government guarantees the pensions of those teachers that are in the defined benefit plan? Correct?

Mr. Vicq: — Yes.

Mr. Rolfes: — Well am I so wrong then in saying that, you know, the government is backing the assets of the defined benefit plan. If it goes broke, the government still backs it.

Mr. Baldwin: — The government certainly has a vested interest in seeing that those investments are prudent.

Mr. Rolfes: — Yes. Well I'm not going to . . . I'm not going to argue it. I want to assure my friends out there that suddenly the government hasn't given up its guarantee of the pension plans. And whether we want to argue semantics here, you know, that we don't back the assets, I just find that rather difficult to accept.

But let me . . . Tell me, SaskPen, is it a corporation?

Mr. Baldwin: — Yes. It's a corporation incorporated under The Saskatchewan Business Corporations Act.

Mr. Rolfes: — It's not a Crown corporation?

Mr. Baldwin: — No.

Mr. Rolfes: — Okay. I have no more questions in that area. If somebody else wishes to pursue, okay.

Mr. Chairman: — I'd just like to pursue this a little further. It seems to me that there is some loose and easy playing of the concept of liability here, and I really question the interpretation of the department as to whether the province is liable for anything under this SaskPen situation as it applies. And I'm not taking this one for any particular reason, other than that's the one that's . . . I think the one that's being discussed, the teachers' superannuation plan. How, in Heaven's name, can you possibly say that there is no liability on the part of the province if the investments of the teachers' superannuation plan take a bath when the government has to make good on the payments to superannuates when they retire?

Will you please explain how you can possibly define that as not making the government, and therefore the taxpayer, liable?

Mr. Baldwin: — Well we're talking . . . if we're going back to the borrowings and we're talking about the liability of the province for the borrowings of SaskPen, not all of the pension plans that are investors in SaskPen are defined benefit plans. Some of the major pension plans that . . . you know, there's a mix. Some are defined benefit and, for instance, public employees superannuation is a

defined benefit plan where, if money is lost in this investment, it's the plan holders that take the loss, because the size of their pension will be smaller.

What we're taking is a legalistic view that this borrowing was not made on the credit of the province of Saskatchewan. There was no undertaking given to the creditors that the province would bail out the loans if something went wrong. And it was our view that there was no legal obligation of the province to bail out these loans in the event that the investments went sour.

And I believe that the Provincial Auditor, to some extent, accepted that when he says that although the government may not be legally bound there's, you know, the broader moral issues. And then of course there's the issue of what happens to pension benefits in the defined benefit plan.

Mr. Chairman: — Well I guess . . . I'm sorry if maybe I'm not in tune here, but I think governments have some obligation to consider the moral issues as well. But let me address the legalistic point here, Section 41 of The Department of Finance Act states very clearly, and I quote:

Notwithstanding the provisions of any other Act, no department, board, commission, or agent of the Government of Saskatchewan and no Crown corporation, shall borrow any moneys without the approval of the minister.

Now I am not a lawyer, but that tells me one thing clearly. Now . . .

A Member: — We, we . . .

Mr. Chairman: — I'm not finished, sorry. This SaskPen is either a department, which it's not, a board or a commission or an agent of the Government of Saskatchewan in some form, because you are a partner. All of these superannuation plans are administered by the Department of Finance. Therefore why does not section 41 of The Department of Finance Act apply to the Department of Finance?

Mr. Baldwin: — Oh, it applies to the Department of Finance.

Mr. Chairman: — Okay.

Mr. Baldwin: — We have a separate legal entity, SaskPen Properties, which did the borrowing. Section 40 of our Act says that this part, including section 41, applies to every borrowing made on the credit of the Government of Saskatchewan. And what we're saying is that this borrowing by SaskPen was not made on the credit of the Government of Saskatchewan. There is no implicit backing of the government for these loans.

Mr. Chairman: — That may be so, but section 41 is also very clear, and it overrides section 40.

Mr. Baldwin: — With respect, I believe that section 40 probably overrides section 41.

Mr. Chairman: — Well I don't know how you read that.

Nobody seems to agree with you, including the Provincial Auditor. Now either somebody is not interpreting . . . Did you get an interpretation through the Department of Justice for this?

Mr. Baldwin: — We got a legal opinion from outside counsel . . .

Mr. Chairman: — Oh, isn't that interesting.

Mr. Baldwin: — . . . that said that no agency relationship existed between SaskPen and the Government of Saskatchewan at law or in fact.

Mr. Chairman: — Who was the outside counsel?

Mr. Baldwin: — MacPherson Leslie & Tyerman.

Mr. Chairman: — How come I'm not surprised? Who chose this counsel? Was it on the direction of the minister, and if so . . . or was it the direction of the Department of Finance, and if so, what is the documentation that will show that to us?

Mr. Baldwin: — Counsel to SaskPen has always been MacPherson Leslie & Tyerman. I have no personal facts as to when and how they were chosen in 1983 to be counsel to SaskPen, but if it followed our usual practice, it would be at the direction of officials within the department.

Mr. Chairman: — Which department?

Mr. Baldwin: — Department of Finance. Mr. Meiklejohn and Mr. Owen would have been involved in the selection of counsel.

Mr. Chairman: — No doubt as recommended by the minister. I mean, let's not kid ourselves, most of us know how it works. Don't put the onus on some defenceless official who's no longer with the department.

Mr. Baldwin: — As I say, I have no knowledge. I wasn't here.

Mr. Chairman: — I'm not taking a shot at you. I'm sure you wouldn't have knowledge. I don't think you've been around that long. But I still question the interpretation of the Act here which is done by someone for the convenience of some new arrangement set up by the Government of Saskatchewan.

Mr. Baldwin: — Right. Well to put this in perspective, there is no more debt. The debt was converted to equity. This issue is not an issue any longer. In some respects, since the deputy minister of Finance was on the board of SaskPen at the time it was incorporated and these initial borrowings were made, to some extent it may have been assumed that when he signed the resolutions authorizing the borrowing, that there was in fact approval.

Mr. Rolfes: — Mr. Chairman, I'm not so concerned about the debt, I'm concerned about the principle involved here, and it concerns me greatly that some day a government may simply say, well, SaskPen is not an agency of government. We have no responsibility for it. And it would be very easy in the future to some time for a

government to say that, well, we're sorry, but that section 40 of The Finance Act overrides any other section of the Acts or other Acts, and therefore we won't be responsible for the pensions of teachers or other people.

I'm not a lawyer, but I just can't see how anybody could put an interpretation on . . . other than what 41 says. It says, it says, "notwithstanding." And that phrase "notwithstanding" means in legal terms, I am told, regardless of what is written anywhere else, this shall take precedence. That's my interpretation. How can we then say that, as you said before, sir, that 40, in your opinion, probably overrides 41 ?

Mr. Baldwin: — Well 41 . . . The Department of Finance Act is divided up into separate parts, and section 40 is the first section of the borrowing authorization section of the Department of Finance, and you know, this part . . . it says:

This Part (of the Act) applies to every borrowing made on the credit of the Government of Saskatchewan authorized under this or any other Act before or after coming into force of this Act.

Now section 41 was inserted, and it was a new provision of The Department of Finance Act, 1983, and it was inserted so as to provide some . . . Finance with some mechanism to ensure that borrowings by Crown Corporations were somehow monitored and kept under some control, and to provide the department with the means to exercise its role as fiscal agent of the province.

Mr. Rolfes: — Well, that's what I would have thought. And yet when it's convenient, we try and find an exception to that and get a legal interpretation which says that . . .

Mr. Baldwin: — Well, to put this, you know, to make it quite clear, we did not seek out an exception. The view of the department at the time was that 41 did not apply, and no approval was obtained, although all of the . . . Mr. Meiklejohn, the deputy minister of Finance, were on the board and approved the borrowing, which follows what would happen in the normal course if a Crown corporation came to us and said they wished to borrow money.

Mr. Rolfes: — Which minister then would be held responsible for answering to the public on the borrowings?

Mr. Baldwin: — Oh, it's the Minister of Finance, under this section.

Mr. Rolfes: — But it doesn't apply.

Mr. Baldwin: — Oh well, I believe that the Minister of Finance has . . . since it is run by the Department of Finance, has taken the obligation of speaking, I guess, in the House and the public in respect of SaskPen.

Mr. Rolfes: — And if the Minister of Finance then feels that it is his obligation and responsibility to speak, to answer to the public, do you not think, as the Minister of Finance then, that the Department of Finance, and

therefore the government, should be held responsible? I mean, it just follows.

Mr. Baldwin: — If we were going to do the borrowing again, say if SaskPen was going to borrow \$5 million tomorrow, we would probably get the approval.

Mr. Rolfes: — Well I'm concerned about the precedent that may be set, and if . . .

Mr. Baldwin: — We don't consider this a precedent, and there was no intent on the department to try and fall between the cracks of the legislation.

Mr. Rolfes: — Well, okay. I don't want to pursue it any further. I don't see the logic.

Mr. Baldwin: — I might point out that this section 41 turned out to be an issue across the board with a large number of other government agencies which had not been receiving approval of the Minister of Finance and we had thought did not fall within the parameters of section 41. For instance, some hospital boards were borrowing money. We did not think . . . it was not the intent that they would fall within section 41. The Provincial Auditor's view was that they did. Now we've implemented an administrative process for formalizing the approval of the Minister of Finance to all of these types of borrowings, and SaskPen would be included in that process at this time.

Mr. Rolfes: — I guess my concern is that somebody's got to take responsibility for it. We can't just simply say, section 41 doesn't apply; the government has no ultimate responsibility or liability for it. Somebody's got to answer for it.

I mean, if the minister says, when the interpretation of section 41 is such, I am not responsible, don't ask me, who does the public ask? Who does the public ask whether that borrowing was done on a credible financial basis or whether it was simply done because of someone's hare-brained idea. I'm not saying that happened, but what I'm saying is the governments have got to be held responsible — somebody, some minister. And therefore the government has to be held responsible.

Mr. Baldwin: — I believe that the Minister of Finance, under section 41, is responsible, and under section 8 of The Department of Finance Act is responsible to maintain the fiscal position in the province.

Mr. Rolfes: — And therefore I say liable.

Mr. Baldwin: — And he would be primarily responsible to answer any question as would, in some case, the ministers responsible for the various pension plans have answered questions over the years on SaskPen.

Mr. Chairman: — Can I ask, who is the president of SaskPen?

Mr. Baldwin: — At the present time it's David McCaslin.

Mr. Chairman: — Okay, an official of the Department of Finance.

Mr. Baldwin: — Yes, all the officers are officials of the Department of Finance. All the directors are officials of the Department of Finance at this time.

Mr. Chairman: — All the officers, all the directors are officials of the Department of Finance. Has that always been the case?

Mr. Baldwin: — Yes.

Mr. Chairman: — That's always been the case?

Mr. Baldwin: — Yes.

Mr. Chairman: — That's rather interesting. Who borrows on behalf of SaskPen?

Mr. Baldwin: — The board of directors authorized the corporation to borrow funds in the way that any other private corporation would operate, and SaskPen would then enter into a loan agreement or something else. But at the present time that borrowing would receive approval of the Minister of Finance.

Mr. Chairman: — I know at the present time. Obviously somebody has decided, although greatly defending the previous practice, has decided that maybe it's not appropriate and now the practice has to change.

Mr. Baldwin: — Well, you know, to put it in context, section 41 in the year under review was the subject of some controversy because it was being interpreted by the Provincial Auditor in a way that was not intended by the Department of Finance.

Mr. Chairman: — But may have been intended by the legislature?

Mr. Baldwin: — Well the authors of the section, who are my colleagues, certainly did not intend this section to apply to the South Saskatchewan Hospital Board.

Mr. Chairman: — How does this borrowing take place? Does the board decide SaskPen should borrow money and SaskPen goes out and borrows the money, or is it borrowed through the Department of Finance under the auspices of the Department of Finance? Can you explain the scenario here? I mean prior to now, I mean in the year we're talking about.

Mr. Baldwin: — Oh, okay. Well borrowings of SaskPen, there were two types. And I think, one, there were some mortgages on property which would be put on the property in conjunction with our joint venture partners. Or when we bought the property, there would have been a mortgage on the property, so that when we bought the property we would receive some credit for the mortgage which existed on the property, or if a mortgage was put on the property at the agreement of the joint venture partners, we would receive a credit for our share of that mortgage.

The other type of borrowing was from the shareholders of SaskPen, and it was through participation bonds. And in the bulk, although it's classified as debt, it was an

investment by the pension plans in these properties in downtown Regina.

Mr. Chairman: — What do you mean when you say shareholders?

Mr. Baldwin: — Well the seven pension plans. What has happened, although the board of directors of SaskPen at the present time and in the past were all officials of the Department of Finance, when a decision to borrow was made, or if there was a requirement for cash, or if we needed more money from the shareholders, we would approach the shareholders, advise them what the funds were required for, and they would advance the funds.

Mr. Chairman: — When you say you would approach shareholders, who would you approach — people in finance who administer the funds?

Mr. Baldwin: — No, we would approach the officers of the pension plans who are outside entities. Sask Power, SaskTel have officials.

Mr. Chairman: — Okay, let me then use this example. Let's say you were going to the shareholders of CIC (Crown investments corporation). Who would you approach?

Mr. Baldwin: — Greg Mrazek.

Mr. Chairman: — And he's an official of?

Mr. Baldwin: — CIC.

Mr. Chairman: — CIC official. If you were going to approach the shareholders of Sask government superannuation, is that what it is? Who would you approach?

Mr. Baldwin: — Probably Brian Smith.

Mr. Chairman: — An official of the department?

Mr. Baldwin: — Right.

Mr. Chairman: — If you were going to approach the Municipal Employees' Superannuation, would there no longer then be an official of the department?

Mr. McCaslin: — In all cases it would not necessarily be an individual but would rather be the board or commission who's responsible for the respective pension plan. And the municipal employees, it would be the Municipal Employees' Superannuation Commission, the chairman of which is Roy Parkinson.

Mr. Chairman: — An official of the government.

Mr. McCaslin: — No.

Mr. Chairman: — He's not, in this case?

Mr. McCaslin: — No.

Mr. Chairman: — But by and large these are basically involving people who are in the government?

Mr. McCaslin: — Yes, but they have specific responsibilities with regard to the administration of their particular pension.

Mr. Chairman: — Of course, I don't question that; I'm sure they do. The point I'm trying to make here is here we have a very peculiar arrangement. I'm not questioning the concept of SaskPen; maybe that's a perfectly good way to make investments of superannuation funds. I'm not into that at this point in time.

I'm questioning the administration and the initial arrangements that were made which, quite frankly, and you may disagree — this is no reflection on any individuals — was a botch-up. In every step of the way it involved the government, which is ultimately responsible for the superannuation plans. The board of directors were government; the ministers in charge were government; by and large the shareholders were representatives who were government. But you then set up a private company by the government. In the end result, somehow you can say, well now we've got to set up a private company and we're no longer responsible — government. It's now going to be their responsibility and torpedoes be damned. If something goes wrong, we're not liable. They made all those decisions, and therefore somehow the minister is not responsible.

Mr. Baldwin: — Well I think you're raising a broader question here which is the responsibility of the investment and financial services branch of the Department of Finance. As the investment managers to date of the various pension plans, we do have obligations, and in many cases contractual obligations with the pension plans with the way that we operate and invest their funds. And those provisions of most of those contracts provide that, one, we will invest only in investments that are authorized by statute, and that, you know, there are certain reporting requirements that we have to report back to. So we do have a contractual obligation for the way we invest and manage those funds.

Mr. Chairman: — Yes, you do, and that's why my colleague who was raising this, and I, still can't accept the concept that in the early stages — you've changed that now, and we're glad to hear that — the borrowing that was done was in contravention of section 41 of The Department of Finance Act. You obviously disagree. The auditor doesn't agree with you, and neither do I.

Mr. Baldwin: — With respect, when we're talking about the borrowings, I don't believe the Provincial Auditor says per se that the borrowing was illegal.

I think if you look at the third paragraph:

Although the government may not be legally bound should the corporation become insolvent . . .

And that was the view that we took when the issue was first raised. This issue was raised in respect of SaskPen in conjunction with a large number of other entities which raised the problem with the way section 41 was being interpreted. As a result of the revised interpretations, we

formalized the process for receiving approvals under section 41 and at the present time, and subsequent to the '84-85 report, SaskPen, we would receive approval of the Minister of Finance.

Mr. Chairman: — I have a couple of more points, and then I'll let other members who have indicated they want to get into it.

The section you read . . . you didn't read the whole section, regretfully. You said: "Although the government may not be legally bound," you didn't complete the rest which said: " . . . should the corporation become insolvent, government officials are administering SaskPen in an official capacity, and as a result, there could be pressure on the government to retire such debt."

Now please . . .

Mr. Baldwin: — Right. But this is the moral, this is the moral question, and that's not, you know, that's not to say that in the event that SaskPen became totally insolvent, the province would not say, you know, we're going to make good on this because this was a bad investment for whatever.

Mr. Chairman: — " . . . there could be pressure on the government to retire such debt" is far more than a moral question; it's also a political question.

Mr. Baldwin: — Right. Well it's a political-moral question, depending on which terminology you want to put on it.

Mr. Chairman: — Then if you go on further, if I may complete my comment here:

In my opinion, (says the auditor) sections 40 and 41 of The Department of Finance Act, 1983, were intended to protect against Crown agencies encumbering the Government of Saskatchewan without the approval of the Minister of Finance. Accordingly, in my (view), SaskPen's borrowings should also be authorized by the Minister of Finance.

And I would suggest that if you looked at *Hansard* in the debate on this Act, you will find those arguments will have been made by the legislators. And that's why I earlier said, officials may like to interpret things to suit them, but officials should not interpret things to suit them contrary to what was the intent of the legislature. And maybe at times it would be useful to consider what the legislature said.

I submit to the committee that what happened in this period of time that we're talking about was contrary to what was the intent of the legislators, and I think it was wrong. And I repeat again, I appreciate the fact that you're saying, it won't happen again because now SaskPen is going to ask for the authorization or the approval of the minister for borrowings that might be made. That's a good and positive move, but I think it's also an admission that earlier it may have not been a correct thing to do.

Now I want to ask you one more question. These

investments for SaskPen, who handles them? You may have answered it, and I may have missed it.

Mr. Baldwin: — SaskPen is a holding vehicle for the investment branch of the investment and financial services branch of the Department of Finance. It's a corporate vehicle that is used to hold certain real estate investments on behalf of various pension plans.

Mr. Chairman: — Thank you. I have Mr. Martin, Lyons, and Rolfes. Or do you want to take a quick break now?

The committee recessed for a short break.

Mr. Chairman: — Okay, let us resume. I have Mr. Martin.

Mr. Martin: — I really wanted to just talk for a moment and get some answers concerning the investments in the real estate, which has been a subject of some discussion. The auditor, his concern was the pension plan should not be able to invest in real estate through investment vehicles like SaskPen Properties Ltd. and the Pension Fund Realty Ltd., if the various pension plans would not be permitted to directly purchase the underlying property securing the investments. And as I understand it, the capitalization and agreements governing SaskPen Properties Ltd. were changed and now indicate that SaskPen is a real estate corporation. And I understand that the auditor was quite satisfied with that change which really came at his direction. I'm wondering if we could . . . Is that not the case?

Mr. Lutz: — Mr. Chairman, Mr. Martin, yes. On page 74 of my 1986 report I do indeed state on 13.09: I report that I no longer have a concern with respect to the authority of the various pension plans to invest in SaskPen Properties.

Yes, my concern in that area has indeed been alleviated and allayed and gone away, yes.

Mr. Martin: — I wonder if I could just follow up with a question over here. Mr. Vicq, or whoever he may designate: what is the value of all this now? I mean, are the SaskPen Properties doing well? I mean, the good value and that? Are you satisfied that they're being taken care of in the best interests of . . .

Mr. Vicq: — I think I'll ask David McCaslin to answer that question, who is our investment specialist in real estate.

Mr. McCaslin: — Mr. Martin, in answer to your question, yes, we are very pleased with the underlying assets in SaskPen. Just for clarification, you know, some of the assets that are in SaskPen, we believe, are some of the best income-producing pieces of real estate in Saskatchewan. Specifically I refer to the Bank of Montreal building and the Lloyds Bank building which, in our opinion, are the two premier office building towers in Saskatchewan. And they are exceeding our initial expectations when we went into these investments in terms of the rate of returns that they are producing, and we're very happy with them.

Mr. Martin: — That's really all I have. I just wanted to clarify that.

Mr. Lyons: — I have just one question, and that goes back

to the liability of who's and who isn't liable for SaskPen. And I just . . . My question is, basically: should there be legal action launched against SaskPen, who then is liable?

Mr. Baldwin: — If legal action were launched against SaskPen, SaskPen would be liable for any debt or judgement that might be rendered against it. SaskPen would be the defendant in any case launched against it.

Mr. Lyons: — Okay. In cases of insolvency, it is my understanding that the individual directors are, also.

Mr. Baldwin: — Yes, well subject to general creditors' rights legislation and insolvency laws with respect . . . SaskPen has no employees but, for instance, I think under The Labour Standards Act, directors are liable for unpaid wages of corporate entities.

Mr. Lyons: — So the directors themselves, who are salaried officials of the Department of . . .

Mr. Baldwin: — SaskPen has no employees and . . .

Mr. Lyons: — No, but it has directors. It has directors.

Mr. Baldwin: — It has directors, yes.

Mr. Lyons: — So technically the directors are the ones who are liable?

Mr. Baldwin: — Well it depends in what type of liability we're talking about. If it's just a suit against SaskPen because a piece of ice fell off the building, the directors would not have a liability in that respect, but SaskPen itself would, and would make a claim on its insurance policy.

Mr. Rolfes: — I'm not quite satisfied with the explanation that we received. The board of directors, are they all employees of the government?

Mr. Baldwin: — At the present time the . . . well throughout the history of SaskPen the directors have always been employees of the Department of Finance. The plan . . .

Mr. Rolfes: — Are any of the directors employees of the investment and financial services branch of the Department of Finance?

Mr. Baldwin: — Yes.

Mr. Rolfes: — Okay, I just want to follow up on this. You say . . . I think I heard you say earlier, sir, that it's the board of directors that authorize the borrowing of the loans. Right?

Mr. Baldwin: — Right.

Mr. Rolfes: — Yet the board of . . . some of the board of directors are employees of the investment and financial services branch of the Department of Finance. Right?

Mr. Baldwin: — Yes.

Mr. Rolfes: — I think I heard you say that it was the investment and financial services branch of the Department of Finance that did the investment.

Mr. Baldwin: — Yes.

Mr. Rolfes: — How can you say then to me, sir, that the Department of Finance would not be liable for those investments or for those loans?

Mr. Baldwin: — Well under our contracts with the various pension plans, the authority of the investment and financial services branch to make real estate investments is greatly restricted. In most cases we cannot make a real estate investment without the specific approval of the pension plan that will be involved in the investment.

Mr. Rolfes: — Well the logic really escapes me how you can have a board of directors who are all employees of the Department of Finance, the Department of Finance makes the investment, but the Department of Finance is not liable. I just find that so difficult to accept.

Mr. Baldwin: — Well it's . . . SaskPen is a separate corporate entity, not like a Crown corporation, and . . .

Mr. Rolfes: — Well I realize that, sir, but the board of directors . . .

Mr. Baldwin: — It is a legal nicety, but we believe that that is the formal legal opinion that SaskPen . . . Department of Finance would not be liable for, say, SaskPen's obligations. Now that's the legal advice that we've received . . . the formal legal advice we've received. Of course there's the broader political and moral question which has been raised earlier.

Mr. Rolfes: — Well I just don't buy it.

Mr. Van Mulligen: — Mr. Chairman, I'm just trying to get some further clarification of some of the debentures payable by SaskPen. You have a series A through E on some of these properties in downtown Regina.

Mr. Baldwin: — Right.

Mr. Van Mulligen: — And it's indicated they were due on December 31, 2013. I assume those were 30-year debentures then?

Mr. Baldwin: — Yes, the bond series . . . the way SaskPen was structured is there's a separate bond series for each property or investment segment of a property that it owned. And the 30-year term that was put on these bonds was originally chosen, I think, to reflect the usable life of any assets that might be put on the real estate at some point in the future. Now in late '86 all of these bonds and debentures were redeemed by SaskPen. And essentially what happened was there was a share, a debt for equity swap, where the debentures and bonds of SaskPen that were held by the various pension plans were exchanged for shares in SaskPen.

Mr. Van Mulligen: — Okay. These debentures were secured by mortgages. Again, those are 30-year debentures issues in this case?

Mr. Baldwin: — Right, and they were secured by mortgages and a general pledge of all the corporation's assets.

Mr. Van Mulligen: — When were those mortgages picked up then by SaskPen?

Mr. Baldwin: — The mortgages securing the debentures are specific to those debenture issues, so that in addition to any other mortgage security that may be on the real estate, there would be a mortgage . . . there was a mortgage registered against each of the properties on behalf of the bond holders.

Mr. Van Mulligen: — When were those mortgages picked up? That is to say, when did you acquire an interest in these properties, then?

Mr. Baldwin: — The initial interests in the properties were acquired in June of '83.

Mr. Van Mulligen: — June of '83. I see. In addition to . . . The debentures initially guaranteed a base rate at 3 per cent, and it was suggested that there would be additional interest depending on adjusted earnings. There were no adjusted earnings or additional . . . adjusted earnings in '83. I'm wondering if there was any in '84?

Mr. Baldwin: — No. The properties which were purchased by SaskPen were primarily developmental properties when they were purchased. That is to say, there was raw land either with old buildings on them or no buildings on them. And the two towers that are now on the properties were commenced and actually launched operation after SaskPen made its acquisition.

So in the initial years, '83-84, we were involved in building buildings, and there was no income flow from those buildings. In '85 we made about 136,000 or thereabouts in operations, you know, from operations, but it still did not quite wipe out the operating deficit that had been run up in '83 and '84. I think when the '86 statements are finally audited, there will be . . . there would have been participating additional income that would have been calculated.

Mr. Van Mulligen: — These are long-term investments . . .

Mr. Baldwin: — These were long-term investments. We started with essentially no income-producing properties. We now have two major income-producing properties. On an annualized basis we would think that for the next few years we could make cash returns of up to \$1 million a year.

Mr. Van Mulligen: — I just want to return again . . . I want you to be clear on this. You indicated that the mortgages on these properties were picked up in June of 1983?

Mr. Baldwin: — Well that's when the initial investment was made by SaskPen in these properties. And the funds that SaskPen received to make the investment was derived through the sale of the participating bonds to the pension plans. One of the conditions of the sale of the bonds to the pension plans would be that they would be

fully secured by mortgages on the real estate.

Mr. Van Mulligen: — And those mortgages were picked up in June . . .

Mr. Baldwin: — Those mortgages were subsequently, or at the time, put on the property.

Mr. Van Mulligen: — Was this the information that was then provided to the minister? The minister took notice of questions in the House with respect to SaskPen and came back subsequently to report on these investments. Would that information have then been provided to the minister?

Mr. Baldwin: — I think that the history of SaskPen . . . there's a number of materials supplied to the minister relating to the history of SaskPen. I believe that the minister would have received this information when the investments were made. I believe other information was provided about the history of the transaction, which was when it initially started, and any approvals that preceded the actual 1983 purchase.

Mr. Van Mulligen: — Mr. Chairman, if I might be allowed a comment at this point. One can debate and argue extensively about the wisdom of investing in certain types of commercial real estate, given the volatility of that market. What I don't understand, Mr. Chairman, is the web of deceit and lies that the Minister of Finance seems intent on spinning.

I refer to *Hansard* . . . I'm not sure of the specific date. But in responding to questions — I think the questions which were put by yourself, and I also put questions — the minister indicated that the real estate properties that you call speculation, that you approved the investment and your government. And he seems to be implying that these were decisions that were made by you in . . . or prior to 1982.

Mr. Muirhead: — Mr. Chairman, is Mr. Van Mulligen saying that the Minister of Finance is a liar? Is that what you're saying?

Mr. Van Mulligen: — Well that's what I'm saying.

A Member: — Well, I'm not sure . . .

Mr. Muirhead: — No, I'm just saying . . . I'm just asking that question: is that what you're saying?

Mr. Van Mulligen: — That's what I'm saying because the Minister of Finance . . .

Mr. Chairman: — I think it is better if we do not get into it that way. You can use a different terminology if you wish, but continue with your statement.

A Member: — Mr. Chairman, he already said it.

Mr. Van Mulligen: — Call it prevarication, if you will.

Mr. Muirhead: — And I'm saying, Mr. Chairman, that I'd like you to ask him to withdraw that statement.

Mr. Chairman: — Well I'm not sure that this is like the

procedures in the House. I'm not sure I have the authority to do that, but I'm sure that the member would . . . I leave it to the member to make a judgement.

Mr. Muirhead: — Just remember, gentlemen, that you're saying these things at the House where you're not protected to say what you want inside. Just be careful what you're saying.

Mr. Rolfes: — I agree with the member from Arm River. I just wanted to second his . . .

Mr. Chairman: — I'm sorry, I've asked for some advice here, and the Clerk tells me that, yes, I do have the authority — I didn't think I did — and I would say to the member that it is better not to use words that would not be in the common parliamentary inside the House either because this is an extension of the House.

Mr. Van Mulligen: — Mr. Chairman, let me just then review the facts.

Mr. Chairman: — I have another point of order.

Mr. Lyons: — On the point of order, the member from Arm River questioned the privilege that the members have in this committee, and I want to . . . if you would ask the Clerk to clarify that, whether or not parliamentary privilege extends to members out of the Public Accounts Committee.

Mr. Chairman: — Yes, it does. I am told by the experts that it does. And I will watch for that more carefully in the future, and I would ask the member to continue without the use of that kind of particular wordage.

Mr. Neudorf: — In that case, Mr. Chairman, if we are going to be using the same rules and format as the House, then I would expect you to ask the hon. member to withdraw his remarks of deceit and lies.

Mr. Chairman: — I must say that the words . . .

Mr. Neudorf: — The minister is using deceit and lying,

Mr. Chairman: — The word deceit is appropriate according to parliamentary procedure, and I rule it that, but the word lie is not. And I'm sure that Mr. Van Mulligen will want to continue with the facts and sort of withdraw the reference of lie.

Mr. Van Mulligen: — Well, Mr. Chairman, I'm not prepared to withdraw that remark. I would withdraw that once the Minister of Finance apologizes to the Assembly and the people of Saskatchewan for his rather injudicious use of the facts.

We've had departmental officials here before us today confirm that the mortgages on these properties were acquired in 1983. This information, as we understand it, was communicated to the minister. The minister chooses to tell the House that the real estate properties that you call speculation, that you approved the investment in your government, that is to say in 1982 or prior to it in 1982, there is a direct contradiction of the facts here, and I leave it to the public to decide for themselves.

Mr. Neudorf: — Mr. Chairman, if I may continue on my point of order.

Mr. Chairman: — Point of order.

Mr. Neudorf: — The member from Regina Victoria has indicated that he is refusing to withdraw that remark. We are using parliamentary procedure here, and he has accused the Minister of Finance of being a liar. And he is refusing to withdraw that remark, and I expect you to take appropriate action at this time.

Mr. Chairman: — I think that's correct. The member can make his point; I would ask him to withdraw reference to the word lie.

Mr. Van Mulligen: — Well, Mr. Chairman, for the sake of decorum and respect for this committee, I'll withdraw the word lies; however, I want to go on to say that in doing so, that it in no way lessens this very drastic contradiction of the facts; that it in no way lessens the minister's attempt to spin a web of deceit; that it does not seem to lessen the overwhelming impression that the minister seems intent on prevarication; and that the minister is playing fast and loose with the truth and the facts. It's a sad day for Saskatchewan when a minister of the Crown can knowingly, willingly, stand up and tell things that are just simply not true.

I have no further questions, Mr. Chairman, of the officials in this matter. I appreciate the information which has been provided.

Mr. Chairman: — Thank you.

Mr. Vicq: — Could I ask Mr. Jones, who has been in the department for a number of years, to clarify how this transaction built up to the acceptance of a mortgage in '83?

Mr. Chairman: — Yes.

Mr. Jones: — Thank you, Mr. Chairman. There's two points I'd like to make. First, we've been talking about the vehicle, SaskPen, and that development . . . And it was created in 1983, as we've discussed, to purchase five properties in downtown Regina.

Now if you step back and you look at the process involved in the investment in those five properties, separate from the SaskPen vehicle, discussions and proposals were received by the Department of Finance in late 1981 for the purchase of those five properties in question.

I believe that early in 1982 the investment managers took forward to the investment board a recommendation to proceed with purchasing those five properties. At that time there was approval in principle granted to proceed with the purchase of those five properties.

Now I just make that . . . to help clarify the situation here. The two points are again, SaskPen, when that was developed, and when the properties were actually purchased — and that was 1983. However, the process to

purchase those properties was begun in 1981 with approval in principle in early 1982.

And I just offer that as information.

Mr. Van Mulligen: — The actual mortgages and the go-ahead on this one was in 1983.

Mr. Jones: — The actual go-ahead was in 1983. The approval in principle to purchase the properties was provided to the investment managers in early 1982.

A Member: — Just for the purposes . . .

Mr. Baldwin: — Just to clarify that, what Mr. Jones has said. The investment board of the Government of Saskatchewan considered these investments a number of times. The first time it was considered was in late '81, early '82, at which time approval in principle was given. Because of intervening events there were a review of the investment proposal and negotiations became protracted. There was a subsequent final approval given in '83 by the investment board.

Mr. Chairman: — That's the point. So the final approval for the investment was 1983, and the intervening events were the establishment of SaskPen.

Mr. Baldwin: — The establishment of SaskPen occurred after the '83 investment board approval.

Mr. Chairman: — But the issue here is the investment by SaskPen, or through the vehicle of SaskPen. The approval in principle in 1982 was principle made by . . . and under the normal course of events which had never been questioned by the auditor and as investment through the investment services branch of the Department of Finance. Am I correct in that, Mr. Jones?

Mr. Jones: — Yes.

Mr. Chairman: — So that was as by established practice, which seemed to . . . no one had questioned. I think no one on this side has questioned the value of the investment.

But the problem seems to have been created in 1983 with the strange scenario that established SaskPen properties and the following problems of financial statements not being provided for a number of years — from '83, '84, '85, and '86; now we have one for '83, I believe because there could not be an agreement between the auditor and SaskPen on the valuation of the property. That's where this issue comes from.

Mr. Vicq: — We have statements, audited statements, for '84-85.

Mr. Chairman: — Recently. I might add, three years, or two years late. That's the other point that has to be made.

I have Mr. Saxinger, Mr. Lyons. Are you on the same topic?

A Member: — Yes.

Mr. Chairman: — Okay.

Mr. Saxinger: — Thank you, Mr. Chairman. I just want to make a comment on the discussions, what's been happening this morning. I believe you. A discussion . . . (inaudible) . . . collapse or the downslide in the stock market.

And it's of some concern, especially through some investment of pensions, the way I can see it. And if the down trend continues on the stock market the way it has been, I think SaskPen . . . investment in SaskPen can be of some value. I happened to go through a money crash after the last war, and I know what can happen with all the interest. It's when you wake up in the morning, since everybody starts out at \$60. Investment is always . . . It's a good investment, in my opinion. It's always safer than money in the bank.

And I just want to comment on this because I feel that the crash of the stock market brought up some of this discussion. That's my comment.

Mr. Chairman: — Thank you, Mr. Saxinger.

Mr. Lyons: — My question's been answered, supplementary to the supplementary.

Mr. Rolfes: — Mr. Chairman, I just want to assure the minister . . . or the member opposite, because I started the questioning on it, that it really had nothing to do with it. That was not my intent.

I had gone through this last week already before I . . . If I could have anticipated what the stock market was, I'd be a hell of a lot better off today. But as I wasn't a good judge on that. I . . . It had nothing to do with the stock market. I wanted . . . Sure, subsequently I asked the question, but my concern was the principle and the precedent that was being set. And that was my concern.

I simply want to say that somebody has got to be held responsible ultimately, and somebody's got to answer for it. We can't simply set up a mechanism and then say no one is responsible. That was the point that I was trying to make. We have a right to ask somebody, and somebody's got to say, yes, I ultimately take responsibility for it, good or bad. That was my concern about SaskPen, and I make no allegations about anybody.

And I think on this side we're not saying this is a bad investment at all, simply the procedure that was involved in not following the finance Act, as I saw it. I got an explanation today; I don't agree with it but, I mean, that's the other side of it. That's fair enough. But that was the point that I wanted to make on this point.

I have nothing further to ask on SaskPen, but I do have another question, but I think there's somebody else.

Mr. Chairman: — I have two members who want to ask, I believe, on SaskPen.

Mr. Martin: — Well I really just want to express my concern about the member from Victoria's tirade against the Minister of Finance. I mean, really unfair. He

perceives it to be a certain thing and goes on at great length, getting on the public record of calling the man a liar, which he later retracted, fortunately.

But I think that also the member from Saskatoon mentioned as, he says, as you saw it, which is your perception of how events took place. As I mentioned earlier, the auditor had agreed with the changes that were made in SaskPen as it related to the real estate company, and he's satisfied with the changes.

You know, it just concerns me that the member from Victoria will go on at such great length. In addition to the fact that some of the men who are . . . and the gentlemen and the lady who are representing the Department of Finance here were not around when some of those decisions were made. And they seem to be being held responsible for many for those decisions, although I must say they're handling themselves extremely well. I'm not sure of all that, but we've been going back now as far as 1981.

Anyway I really just want to express my concern because I just think it's terribly unfair. And I'm sure the Minister of Finance is quite capable of accepting the responsibility that he has, as the Minister of Finance, and I think has done very well in that respect, despite what you and others on the other side may feel about the Minister of Finance.

Mr. Chairman: — Just so that it's clear what the purpose of the committee is — and I have to say this in light of Mr. Martin's comments. I did not see at any time, any one, in any way imputing anything on members of the Department of Finance who are here. I want to make it clear to the committee that the role of the committee is to ask the officials of the Department of Finance information, and whether the officials of the Department of Finance were here two or three years ago is irrelevant, they have to answer for the department. Because if the department, and I'm sure it does, is working appropriately, surely it must have kept records and documentation. So I don't think it's unfair to ask officials for information, Mr. Martin.

Mr. Martin: — No, as long as that information relates to information and not political decisions.

Mr. Chairman: — Well, I don't . . . I won't comment further.

Mr. Martin: — I'm not suggesting that you've come to that,

Mr. Martens: — I have a couple of questions. One is you've talked at some length about the difference between some of the pensions of the seven that you mentioned. One is — and it I'm not explaining it right then you can explain it altogether — one group is guaranteed by contract, the others are not?

Mr. Baldwin: — There are two types of pension plans involved in investments in SaskPen. One is the defined benefit type of plan which is teachers, and SGI, I believe, is a defined benefit plan. Under those plans the pensions of the people in the plans is payable out of the

Consolidated Fund whether there's any money in the pension plan or not.

The other type of plan is the money purchase plan, which a large part of the public service is involved in now, which is somewhat similar to an RRSP (registered retirement savings plan), where if a loss is realized on an investment, the value of your pension or the value of the amount in your account in the pension decreases, which in the end will result in you being able to purchase a smaller pension. And if there are windfall profits realized, you will be able to purchase a larger pension.

Mr. Martens: — Okay, the teachers' superannuation fund is guaranteed out of the Consolidated Fund by the contract that they hold with the . . .

Mr. Baldwin: — Well it's by statute, I believe. I believe the teachers also have a money purchase plan for a small segment of . . . I believe they've got a pension top-up.

Mr. Martens: — Okay, on pensions that generally relate to all the government agencies, does the Department of Finance handle all of those?

Mr. Baldwin: — We handle the investment management function for all of the public pension plans to my knowledge.

Mr. Martens: — Have you any idea of the volume of unfunded liability on pensions that there is?

Mr. Vicq: — I gave those to Mr. Rolfes earlier this morning. Approximately, in the case of the public service superannuation plan, at March 31, 1986, 646 million — I'm just going to round it off, and not the exact numbers that I gave Mr. Rolfes. And for the Saskatchewan teachers at June 30, 1986, a November '86 evaluation, 1.279 billion.

Mr. Martens: — The PSC, that's the Public Service Commission? And are there any others that are . . .

Mr. Vicq: — There would be smaller pension plans that may have a surplus or an unfunded liability.

Mr. Chairman: — Thank you. Mr. Martens, are you done?

Mr. Martens: — I haven't got an answer yet.

Mr. Kraus: — The other unfunded liabilities that we have reported in the financial statements for the year ended March 31, '86, total collectively, about another \$22 million. So it's relatively small. The rest of it's relatively small. In fact, I guess you could make that \$25 million.

Mr. Chairman: — Okay? I have Mr. Rolfes, Mr. Lyons, and Mr. Van Mulligen.

Mr. Rolfes: — My question came from questions asked by Mr. Martens. And that is — I hadn't thought of that before, but it's even a greater concern now — that I was only thinking of the defined pension plans which are guaranteed, of course, by the government. But the money purchase plans which are not, and therefore it's even more important that someone takes ultimate

responsibility for investments that are made, because that directly affects the pensions of individuals.

And I remember in the last number of years that I was out of politics and in the teaching profession, teachers were very concerned about the ups and downs in the stock markets, and so on, because it directly affects their pension. As you say, you have now . . . you are going to seek approval, I guess, from the Minister of Finance and from the Department of Finance, at least from the minister, for further borrowings and investments that are being made.

But it still concerns me that for those investments that no one is ultimately responsible. We could affect the lives and the pensions of thousands of people in this province, and the government is not held responsible.

Mr. Vicq: — Would it be useful, and I'm not sure that we're not going to cover old ground, for David to go over the process of investment in a particular plan?

Mr. Rolfes: — No. Well you see, that's not my concern. My concern is this: that if the government isn't held responsible for the ultimate results, adversely or positively, of investments, who is looking out for the benefits out there for the individual money purchase plan? If it isn't the Department of Finance . . . I mean if I go into the House and say to the Minister of Finance, now look, if you made some bad investments over the last four or five years which adversely affected teachers or other individuals — I'm using teachers right now — he'll say, tough, I'm not responsible for SaskPen; they make their investments apart from the Department of Finance, and as a Minister of Finance, therefore, I'm not responsible.

And that bothers me that we . . .

Mr. Vicq: — I think it would be useful if David talked about the role of the Minister of Finance.

Mr. Chairman: — Why don't you do that?

Mr. Rolfes: — And see if you can tie it in.

Mr. McCaslin: — Well I think it can be covered off in one sentence, and specifically with regard to the money purchase plans which I think is your concern, and that simply is that the Minister of Finance is trustee for those funds, and so he is very much accountable for the results.

Mr. Rolfes: — Well how does that fit in then with the statement made before that the government is not held liable?

Mr. Vicq: — That was specifically with respect to SaskPen, a private corporation.

Mr. Rolfes: — Well does SaskPen not invest money for the money purchase plan?

Mr. Vicq: — The money purchase plan invests in SaskPen.

Mr. Rolfes: Yes, I realize that, and then SaskPen invests.

Mr. Vicq: — The Minister of Finance, therefore, would be responsible as trustee for having made the investment in SaskPen, not the particular . . . and I know we're looking at a corporate veil here, and that's the difficulty.

Mr. Rolfes: — Well let's put it this way. Let's say that you invest 10 million. SaskPen invests \$10 million of moneys that belong to groups of money purchase plans and it goes down the drain. Who is held responsible for that? Who can I go to and say, you made a lousy investment, you jeopardized the plans of all of these individuals? Who can I, as an MLA, go to? Which minister?

Mr. McCaslin: — Well it would be the Minister of Finance, but specifically there's a public employees superannuation commission of which there are representatives appointed from the government and also from the various labour unions associated with the government. They are the ones that we, as investment managers, meet with and discuss investment strategy. And furthermore, the policy and guide-lines that we operate within on a broader context are approved by the investment board, which is a subcommittee of cabinet.

Mr. Rolfes: — Now, see, you . . . It always comes back to the executive branch, and that's where it should come back to, and yet I get the feeling that, you know, for particular investments you're saying SaskPen is responsible but not the government. But ultimately it comes back to the executive branch. How can, on the one hand, it all come back to the executive branch but government not be held accountable or liable?

Mr. McCaslin: — Well I think there's a distinction here. They're held accountable in terms of the management process, in terms of how decisions are made, what investment vehicles are used, but they can't guarantee the investments. I mean . . .

Mr. Rolfes: — No, no, I'm not . . . For the money purchase plan I'm not saying that they should . . . Who is ultimately, who ultimately, which minister ultimately has to answer for that? Or is there any minister?

Mr. Vicq: — The Minister of Finance, as trustee of the plan.

Mr. Rolfes: — Okay, thank you.

Mr. Chairman: — If a Crown corporation pension plan says, no thanks, we don't want nothing to do with SaskPen, do they have that option?

Mr. McCaslin: — Yes, they do.

Mr. Chairman: — They can opt out and not do it?

Mr. McCaslin: — In fact that was one of the reasons that this original structure was chosen, to allow that flexibility.

Mr. Chairman: — Thank you. I have Lyons, Van Mulligen, Muirhead.

Mr. Lyons: — Getting into the question I want to ask, Mr. Chairman, thank you, is: why the reason for the corporate

veil, and why the reason for the structure outside the Department of Finance's legal purview, if you like. Why wouldn't it just be done through a pension body of the investment services?

Mr. McCaslin: — Well perhaps we're talking semantics, but that's what we believe was created. For legal reasons there should be a corporate entity between the pension plans and the properties, and administrative convenience in terms of what we envisioned here is not just the purchase of these properties but to create a corporate vehicle that would allow for a larger, more diversified portfolio of real estate investments, and one which would operate efficiently and serve the best interests of the pension funds.

Mr. Lyons: — Okay, why would it be set up as a . . . and I want the reasoning from the department why setting up as a private corporation as opposed to a Crown corporation; for example, wouldn't a Crown corporation give you that kind of flexibility?

Mr. Vicq: — If I could reply, there'd be some difficulty with respect to the ownership of shares in a Crown corporation. Right now the ownership of shares are particular pensioned, Mr. Lyons, so you do not have the government owning all the shares, you have the various commissions owning the shares.

Mr. Lyons: — Okay. And I understand there was some, well on that tangent for a second, that there was some problems with that in terms of the ownership, of those who were listed under the corporations Act, that there had to be individual partnership, association, body, corporate trustee, executor, administrator or legal representative, as opposed to a particular . . . you couldn't have a pension plan, you had to have another entity.

Mr. Vicq: — You had to have a corporate body which is the commission that administers the pension plan.

Mr. Lyons: — Okay. Well couldn't the commission — I'll approach it this way — couldn't the commission that administers these pension plans, couldn't they hire investment counsellors to do the same job that SaskPen is doing?

Mr. Vicq: — They could take their total fund and have it invested by investment counsellors in Toronto or Vancouver, where they are.

If I could get back to David. One of the things of pension fund planning is trying to spread the risk among various kinds of investments. And as David said, the thought with SaskPen is an attempt not just with the five properties that are currently there but other properties. In an attempt to spread risk it would be, I think, unwise for the teachers to have the Royal Bank building, municipal employees to have the Lloyd's Bank building; rather it would be better for risk to put them all in one and each have a little piece of that total pie. And it's easier done that — and this is the term David used for administrative convenience — it's easier done that through shares in a corporation rather than undivided partnership interests in five different pieces of land.

Mr. Lyons: — Okay, one of the other things that he said, that David said, and I guess I'll refer the question to him, is that there was the intention, there was the intention, when this originally was set up, to diversify beyond, or to increase the holdings beyond the five properties, and that there were certain sufficiencies attached to that. What are those efficiencies in sort of dollars and cents?

Mr. McCaslin: — Well, it's primarily the point that the chairman referred to a moment ago, and that is by relating each new property as it's acquired to a particular bond series, a participating bond series, a fund could choose either to participate in a new property acquisition or not to, as they felt fit for their fund. And so there was the intention, original intention was that this would be a one-time exercise in setting up this corporation and it would provide then the vehicle for future acquisitions as they came along. And at the same time individual funds who were participants in SaskPen could choose individually whether they wanted to participate in the new property or not.

Mr. Lyons: — Okay, In terms of the government representatives who sit on the boards of the other pension funds, of the different pension funds, are they the same individuals, and do they operate with the same instructions in the Department of Finance in terms of where they should urge those pension funds to put their money?

Mr. McCaslin: — Your first question, no, they're not the same individuals. They are different individuals depending on the fund representing their participants' interests. I would not use the word instructions, in terms of our role as investment counsellor, rather it's counsel and recommendations that we make to them. And they have the choice of either accepting our recommendations or not.

Mr. Lyons: — I'm speaking now primarily of those who are representatives from the government, the representatives of the Department of Finance who sit on those pension funds. Do they make those recommendations? Investment and financial services make certain recommendations as to where those funds should invest; isn't that correct?

Mr. Vicq: — If I can just clarify. They don't represent the Department of Finance. For example, Brian Smith happens to be an employee of the Department of Finance, but he represents employees generally. Now I expect that he was selected because of his expertise in pension plans.

Mr. Lyons: — Okay, you're talking about the employees' representatives. What about the other side of the representatives?

Mr. McCaslin: — Well it's very difficult to answer on their behalf. I have no reason to think that when they come into the room as members of an investment committee or commission, that they're there because of their expertise and backgrounds, that they're there to make decisions in the best interests of the pension plan. I have no reason or experience to think otherwise.

Mr. Lyons: — Okay, but basically when investment services wants to get a message out that we want . . . we think it's a good idea if those seven plans or the five pension plans invest in particular vehicles. You have some method of getting those recommendations.

Mr. McCaslin: — We meet on a regular basis with the plans, yes.

Mr. Van Mulligen: — Mr. Vicq, earlier you talked about some unfunded liabilities of two pension plans. If my memory serves me correct, the figure of 1.6 billion for the two plans was . . .

Mr. Vicq: — In total?

Mr. Van Mulligen: — Yes.

Mr. Vicq: — 1.9 is close.

Mr. Van Mulligen: — \$1.9 billion. Is this a static problem? Let's say, as this situation continued over the years, it's one that's growing or decreasing?

Mr. Vicq: — It's one that we believe will be decreasing because there has been a freeze on participants in the plan. One of them, there is no fund in the plan and we expect — correct me, Gerry, it I'm wrong — the public service superannuation fund should be paid out in 25 years, approximately . . . I'm sorry, 80 years. So you look at the people that are in the fund, and then at retirement you say, okay, you're going to live another 15 or 16 years, and that's the end of that fund. And after that last person has become deceased, there will not be an unfunded liability.

Mr. Van Mulligen: — So at this point, for those that are now entering the plan or entered the plan in the last three years, I gather since the mid-'70s or so, it's . . .

Mr. Vicq: — It's been a money purchase plan they've been entering.

Mr. Van Mulligen: — It's fully funded, as it were. These assumptions, if I might use that word, about unfunded liabilities, are these the assumptions of, say, one actuarial consultant?

Mr. Vicq: — Again I will give my answer in Brian Smith. We have used over the years a number of different actuaries. So there have been more than one consultant involved in the measurement of the unfunded liability.

Mr. Van Mulligen: — They generally agree, because I've served on pension funds, and I know that one's actuary surplus is another one's liability.

Mr. Smith: — To use the committee of the last evaluation for the public service plan, we used a committee with an economist, Ph.D. economist from the Department of Finance and tried to get as much input as possible to help the actuary determine the best numbers that he could.

Mr. Van Mulligen: — That's all a person would have to do.

Mr. Muirhead: — Thank you, Mr. Chairman. We seem to be always coming back to the . . . members opposite are always coming back to points pertaining to SaskPen and where the minister fits in here.

Am I right in asking this question and getting clarification here? Because I must say that I agree with the members a little bit this morning. I'm a little bit confused here too, and I would like to ask this question. Am I right in saying that the departments have no role in their investments of SaskPen, but the minister comes back afterwards to be responsible for some of the effects thereof, afterwards? is that what you're trying to say the Act says?

Mr. McCaslin: — Well, I'd rather put it in a more positive light. There are an extensive set of regulatory guide-lines within which we can make investments for the pension plans. In addition to that there's a more detailed investment policy which receives the approval of the investment board, and within that then we have some discretion to make investments. But ultimately we must be accountable back to the investment board.

Mr. Muirhead: — So what you're saying is that they're supposed to be hands off whatever they do in investments or whatever, but hands back on again if something goes wrong; that's what really you're referring to, is it, in layman's language?

Mr. McCaslin: — In a sense. And some of it is presumably and hopefully is proactive in the guide-lines that are laid out within which we can make investment decision. In other words there are limits to where we can go to make investments.

Mr. Muirhead: — It seems to me, Mr. Chairman, we're coming back, and I think there's a little feeling here that we're not quite satisfied, any of us here, just exactly what the role is there. You explain it, then we seem to come back on again. So maybe it's not — you people understand it — maybe it's not getting into our heads. But I think that explains it maybe a little better to me.

Mr. Chairman: — Thank you. I'm going to ask the committee if they would entertain an adjournment with the officials at this time before we start on something new. There's not much time left. Can I assume that we are done with the discussion on SaskPen?

Mr. Rolfes: — Unless someone wants to clarify better next time.

Mr. Chairman: — Unless that. But I'm going to assume that we can begin on something afresh so that we can not take too much more time.

Thank you to the officials for coming. I would like the members to stay for about two minutes in camera, if you wish.

I'm sorry. Mr. Vicq, Thursday. We won't call any other department. I think we'll need one more day on this at least. And Mr. Vicq, do you think on Thursday you might be able to have the Hopkins report for us?

Mr. Vicq: — That might be a little early, but I will.

Mr. Chairman: — But you will have it?

Mr. Vicq: — Well I'm not sure I will have it Thursday. As I said, I will have it.

Mr. Chairman: — But you will have it. Okay. Thank you. Mr. Rolfes has a question before we go.

Mr. Rolfes: — Mr. Chairman, I just want to ask a question. Did someone pick up my auditor's report? It's got my name in it, and it's all marked up—a number of questions which I wouldn't mind asking. I spent a fair amount of time on it, going through it.

Mr. Chairman: — Is that why Mr. Muirhead had such a good question at the end?

Mr. Rolfes: — It has my name on the inside cover, and it's marked with blue and yellow highlighter. Okay, it doesn't seem to be around.

Mr. Chairman: — Okay, you've given notice. Gentlemen, just before we leave, we will have Finance next week, and I'm not proposing to call any other department next day, Thursday, because I think it will take probably the full day, from the nature of the discussion that I gather going on here.

I want to make just one comment about the procedure of the committee in that we should try in our questioning to remember that we're questioning the officials for information, and I will leave to members to make some judgement about what is better handled in the estimates, which is more of the forum in which you can talk to the minister about government policy.

I mean, you can talk, I think, to officials about their administration of the policy and their interpretation of it. And I'm not saying that we were far off today, but I think we're getting to the point where we may be sort of getting into the conflict of the two. And I just raise that with the members and ask you to keep that in mind as we proceed in future days.

Thank you. Have a good day.

The committee adjourned at 10:25 a.m.