

LIBRARY OF PARLIAMENT

Canada. Parl. H.of C. *
Standing Comm.on J
Public Accounts,1959. 103
Minutes of H7
proceedings & evidence. 1959
P8

DATE

NAME - NOM

A1

Canada. Parliament. House of
Commons. Standing Comm.on Public
Accounts, 1959.

J
103
H7
1959
P8
A1

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament
1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

(including First Report)

Public Accounts (1958) Volume I and II and
Auditor General's Report Thereon

Tuesday, March 3, 1959
Wednesday, March 11, 1959

WITNESS:

Mr. Watson Sellar, C.M.G., Auditor General



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),

and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS

TUESDAY, February 10, 1959.

Resolved,—That the following Members do compose the Standing Committee on Public Accounts:

Messrs.

Badanai,	Grenier,	Pickersgill,
Bell (<i>Carleton</i>),	Hales,	Pratt,
Benidickson,	Hanbidge,	Regier,
Bissonnette,	Johnson,	Robichaud,
Broome,	Keays,	Smith (<i>Calgary</i>
Bourget,	Lahaye,	<i>South</i>),
Bruchési,	Lambert,	Smith (<i>Simcoe North</i>),
Campbell (<i>Lambton-</i>	Macdonald (<i>Kings</i>),	Smith (<i>Winnipeg North</i>),
<i>Kent</i>),	Macnaughton,	Spencer,
Campeau,	Martin (<i>Essex East</i>),	Stefanson,
Charlton,	McGee,	Stewart,
Chown,	McGrath,	Valade,
Crestohl,	McGregor,	Villeneuve,
Denis,	McMillan,	Walker,
Dorion,	Morissette,	Winch,
Drysdale,	Morris,	Wratten—50.
Fraser,	Morton,	
Godin,	Murphy,	

(Quorum 15)

MONDAY, February 9, 1959.

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to it by the House, and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, February 10, 1959.

Ordered,—That the name of Mr. Hellyer be substituted for that of Mr. Badanai on the Standing Committee on Public Accounts.

TUESDAY, March 3, 1959.

Ordered,—That the Standing Committee on Public Accounts be empowered to print such papers and evidence as may be ordered by it, and that Standing Order 66 be suspended in relation thereto; and that the quorum of the said Committee be reduced from 15 to 10 Members, and that Standing Order 65(1)(e) be suspended in relation thereto.

TUESDAY, March 10, 1959.

Ordered,—That the report of the Canada Council for the year ended March 31, 1958, laid before the House on July 10, 1958, be referred to the Standing Committee on Public Accounts in order to provide a review thereof pursuant to Section 23 of the Canada Council Act.

Ordered,—That the Public Accounts Volumes I and II and the Report of the Auditor General for the fiscal year ended March 31, 1958, and the financial statements of the Canada Council and the Report of the Auditor General thereon for the fiscal year ended March 31, 1958, be referred to the Standing Committee on Public Accounts.

Attest

LÉON J. RAYMOND,
Clerk of the House.

REPORT TO HOUSE

TUESDAY, March 3, 1959.

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

Your Committee recommends

(1) That it be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto.

(2) That is quorum be reduced from 15 to 10 members and Standing Order 65 (1) (e) be suspended in relation thereto.

Respectfully submitted,
ALAN MACNAUGHTON,
Chairman.

(Concurred in—March 3)

MINUTES OF PROCEEDINGS

TUESDAY, March 3, 1959.

(1)

The Standing Committee on Public Accounts held its organization meeting at 9.30 o'clock, pursuant to notice.

Members present: Messrs. Bell (*Carleton*), Benidickson, Broome, Campbell (*Lambton-Kent*), Campeau, Charlton, Chown, Denis, Fraser, Lahaye, Macdonald (*Kings*), Macnaughton, Martin (*Essex East*), McGee, McGrath, McGregor, McMillan, Morris, Murphy, Pickersgill, Pratt, Robichaud, Smith (*Calgary South*), Smith (*Simcoe North*), Stefanson, Walker, Winch and Wratten. (28)

In attendance: Mr. R. G. Batt, Assistant Law Clerk, House of Commons.

The Clerk of the Committee attending and having called for nominations, Mr. Bell (*Carleton*), seconded by Mr. Smith (*Simcoe North*), moved that Mr. Alan Macnaughton, Q.C., M.P., be elected Chairman.

In making his motion, Mr. Bell referred to the dignity, objectivity, fairness and skill of Mr. Macnaughton who presided over the deliberations of the Committee in the course of last session.

On motion of Mr. Murphy, seconded by Mr. Fraser,

Resolved,—That nominations be closed.

The question being put on Mr. Bell's motion, it was unanimously resolved in the affirmative.

Mr. Macnaughton thereupon took the Chair and expressed his thanks for the honour just conferred on him for the second time in this Parliament, realizing, he said, that he was a Member of the Opposition.

He referred to the Order of Reference dealing with the membership of the Committee and its powers.

Vice-Chairman

On motion of Mr. Benidickson, seconded by Mr. Walker,

Resolved (unanimously),—That Mr. Richard A. Bell, Q.C., M.P. be elected Vice-Chairman of the Committee.

Printing

On motion of Mr. Fraser, seconded by Mr. Campeau,

Resolved,—That the Committee be empowered to print such papers and evidence as may be ordered by the Committee.

Agenda Subcommittee

On motion of Mr. Bell (*Carleton*), seconded by Mr. Walker,

Resolved,—That a subcommittee on Agenda and Procedure, consisting of members designated by and including the Chairman, be appointed.

Quorum

On motion of Mr. Bell (*Carleton*), seconded, by Mr. Charlton, after a brief discussion,

Resolved (on division),—That the Committee recommend that its quorum be reduced from 15 to 10 members.

A discussion ensued on some aspects of the United Kingdom practice relating to Public Accounts.

At 9.45 o'clock, on motion of Mr. Bell, seconded by Mr. Fraser, the Committee adjourned to the call of the Chair.

WEDNESDAY, March 11, 1959.

(2)

The Standing Committee on Public Accounts met this day at 9.30 o'clock. The Chairman, Mr. Macnaughton, presided.

Members present: Messrs. Benidickson, Bissonnette, Broome, Campbell (*Lambton-Kent*), Charlton, Chown, Crestohl, Drysdale, Fraser, Hales, Hanbidge, Macdonald (*Kings*), Macnaughton, McGee, McGrath, McGregor, McMillan, Morton, Pickersgill, Pratt, Robichaud, Smith (*Calgary South*), Spencer, Stefanson, Stewart, Villeneuve, Walker, Winch and Wratten. (29)

In attendance: Mr. Watson Sellar, Auditor General for Canada.

The Clerk read the Orders of Reference dated March 3 and March 10.

The Committee being empowered to print its deliberations, it was necessary, said the Chairman, to fix the number of copies.

On motion of Mr. Fraser, seconded by Mr. Drysdale,

Resolved,—That the Committee print from day to day 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

The Chairman submitted orally the first report of the Sub-committee on Agenda and Procedure. (*See this day's Evidence*).

On motion of Mr. Smith (*Calgary South*), seconded by Mr. Winch, the above report was agreed to.

Mr. Watson Sellar was called and introduced by the Chairman.

The Committee commenced its consideration of the Auditor General's Report to the House of Commons on Public Accounts for the year ended March 31, 1958.

Mr. Sellar made a statement on the general organization of his office, and was questioned on paragraphs 1, 2 and 3 of his Report.

Copies of a paper entitled "Audit Report Sequence" were distributed.

A suggestion relating to a visit by the Committee to military stores was referred to the Sub-committee on Agenda and Procedure.

At 11 o'clock the Committee adjourned until Wednesday, March 18 next at 9.30 a.m.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

WEDNESDAY, March 11, 1959.

The CHAIRMAN: Gentlemen, we now have a quorum. In view of the fact that the notices were sent out after four o'clock yesterday and particularly because it is our first meeting, I think we are to be congratulated upon starting at 9.30. The notices were delayed because the reference had not been passed by the house and a meeting could not be called until this was done. I think also that you are to be congratulated upon the number of members attending this meeting.

Would the Clerk, Mr. Plouffe, please read the orders of reference?

The CLERK OF THE COMMITTEE:

TUESDAY, March 3, 1959.

Ordered: That the Standing Committee on Public Accounts be empowered to print such papers and evidence as may be ordered by it, and that standing order 66 be suspended in relation thereto; and that the quorum of the said committee be reduced from 15 to 10 members, and that standing order 65(1)(e) be suspended in relation thereto.

TUESDAY, March 10, 1959.

Ordered: That the report of the Canada council for the year ended March 31, 1958, laid before the house on July 10, 1958, be referred to the Standing Committee on Public Accounts in order to provide a review thereof pursuant to section 23 of the Canada Council Act.

Ordered: That the public accounts volumes I and II and the report of the Auditor General for the fiscal year ended March 31, 1958, and the financial statements of the Canada council and the report of the Auditor General thereon for the fiscal year ended March 31, 1958, be referred to the Standing Committee on Public Accounts.

The CHAIRMAN: In accordance with the motion of the committee of March 3, a steering committee has been appointed, consisting of Messrs. R. A. Bell (*Carleton*), vice chairman; David Walker; E. Morris; E. Morissette; Hon. J. W. Pickersgill; H. Winch and myself.

With your permission, I would like to make a short verbal report on the suggestions of the steering committee regarding what we might consider in this committee.

We met on Wednesday, March 4, and all the members of the steering committee were present. It was suggested for your acceptance that we meet on Wednesday from nine-thirty to eleven o'clock. As you know, the caucus meetings start at 11.

The reason for choosing Wednesday is that on Monday there are two committees meeting and on Tuesday and Thursday there are four meeting. Wednesday seemed to be a suitable day, and the time I have mentioned for the meeting is the only time available in the morning. We hope to secure room No. 112-N downstairs, which is the one we had last year. The use of this room is only a temporary arrangement.

The steering committee has suggested that we start with the Auditor General's report. When we have completed that and have called all the necessary witnesses we will then proceed with the Canada Council report, and financial statements.

With your permission, I think at this time we should either accept or reject the recommendations of the steering committee.

Moved by Mr. Smith (*Calgary South*), seconded by Mr. Winch.

Motion agreed to.

The CHAIRMAN: Copies of the Auditor General's report have already been distributed. However, we can have extra copies if members require them. The report of the Canada Council is available and if it is your wish, we will have them distributed to your boxes after this meeting.

Mr. Watson Sellar gave to me yesterday what he refers to as an audit report sequence. This sequence is an indication of the breakdown of his report. Extra copies have been made and I think it would be useful if these were distributed this morning.

There is a motion which should be passed at this time. As you know, we have the power to print; but the number of copies has not been determined. If someone would move and second that the committee print from day to day 750 copies in English and 250 copies in French of its minutes of proceedings and evidence, it would certainly be in order.

Mr. FRASER: Is that the number which was printed last year?

The CHAIRMAN: Yes.

Moved by Mr. Fraser and seconded by Mr. Drysdale.

Motion agreed to.

The CHAIRMAN: Gentlemen, in accordance with your wishes, we will now proceed with the examination of the Auditor General's report.

I am very happy once more to have the privilege of introducing to you—if that is necessary—Mr. Watson Sellar, the Auditor General of Canada. Mr. Sellar, as you know, joined the government service in 1924 and has been Auditor General since 1940. He is well informed and fearless. In effect, Mr. Sellar is our witness. By his presence here he is reporting to the House of Commons through this committee, and as an officer of the House of Commons, he is here to answer any questions members may ask arising from his own report or which may arise by way of implication. I think it is needless for me to continue to outline his long, active and useful service to the government of Canada.

Without further ado I will ask Mr. Sellar to commence on page 2 of his report and we will proceed from there. Can we start at page 2, Mr. Sellar?

Mr. WATSON SELLAR (*Auditor General of Canada*): Mr. Chairman, you may be interested in what we do and the form of the audit. The audit office consists of approximately 140 persons and that figure includes the stenographers and messengers. At the moment we are a little below our normal quota but that will be adjusted in due course.

In the public accounts there are two accounts in connection with the consolidated revenue fund that we do not audit. One of them is the receipts and disbursements of the audit office. By legislation, our accounts quite properly are examined by an officer of the public service who is appointed by the treasury board.

In the public accounts before you the report on the audit office is signed by Mr. N. R. MacLean. He qualifies his certificate because we blundered and retained a man who was over 70 years of age. That particular matter is referred to in my report. The reference in my report was read by Mr. MacLean to ensure that it was a satisfactory statement of the facts from his viewpoint, and he accepted the text.

The other account which we do not audit is the public debt payments. The Bank of Canada Act provides that if and when the government so desires, the Bank of Canada will service the public debt. Twenty years ago the government decided that the Bank of Canada should pay interest and settle the principal, when it matured.

As a result of this, the auditors of the Bank of Canada are responsible for the audit of the interest payments. My responsibility is limited in making certain that the Department of Finance does not pay over to the Bank of Canada more money than it should for interest and principal payments, also that any money which is not paid out by the Bank of Canada is returned to the Receiver General of Canada. Our working arrangements with the auditors of the Bank of Canada are excellent and everything is in good shape; there is no cause for your being disturbed. Those are the two accounts in the consolidated revenue fund that we do not audit.

Of course, there are also a few crown corporations we do not audit, and one or two corporations not so defined. I will give you the names of those corporations in anticipation of possible questions. They are the Bank of Canada; the Industrial Development Bank; the Canadian National Railways; Trans-Canada Air Lines; Central Mortgage and Housing Corporation and the Canadian Wheat Board. Those are the corporations for which we have no responsibility.

In addition, we do some audits that we are not required by law to do. By arrangement, we audit the accounts of the R.C.A.F. benevolent fund and the R.C.N. benevolent fund. They are corporate bodies independent of the government. A number of years ago we assumed those audits because by law, we are required, to examine accounts of the army benevolent fund. It seemed only fair for us to do the other two, particularly because they requested us to do so.

The parliamentary restaurant is not an official account; but by an arrangement made over 20 years ago we audit that account annually and report it to Mr. Speaker. I assume Mr. Speaker passes that on to the restaurant committee.

We are required to audit the Yukon territorial reports; but those, of course, do not appear in the public accounts. Because there is no chartered accountant in Dawson city, we audit the municipal accounts there, as a matter of courtesy. However, the Whitehorse accounts are audited by a practising chartered accountant in that city.

We audit certain accounts of the international fisheries commission, particularly in respect of fish caught in the Pacific for experimental purposes. We perform a like service in connection with a commission operating in the North Atlantic.

We have the audit of the Canada Council; that is statutory. However, the Canada Council does not appear in the public accounts.

That, Mr. Chairman, completes the general scope of my work. I am very pleased to be able to report to you again that I think the staff of the audit office is doing a good and thorough job. Naturally there is some discontent because we load a little more work on them than the staff would like; but we base our assumption that it is better to have too much to do than to have slack time. Our audit is up to date, and we have received whole-hearted cooperation throughout the public service and from the officers of crown corporations.

The CHAIRMAN: Mr. Sellar, how many do you have on your staff at the moment?

Mr. SELLAR: At the present time, 135.

The CHAIRMAN: Is that an increase from last year?

Mr. SELLAR: No, that is a decrease. Our establishment provides for 142 positions for the new fiscal year. We always have a few vacancies, due to the turnover of staff, or for one reason or another.

Mr. WINCH: I have one question to ask arising from Mr. Sellar's remarks. When your department audits either branches, corporations or benevolent funds, which you are not required to do by law, is any charge made for that; or is it directly on a voluntary basis?

Mr. SELLAR: There is one that I forgot to mention, and it so happens that it is the only one. We make a charge to ICAO, the international civil aviation organization in Montreal. It refunds our expenses—all expenses we incur. We make no charge for the others.

Mr. FRASER: May I ask how they charge; do they charge any overhead at all on that?

Mr. SELLAR: No; it is billed for salaries and expenses actually incurred. There is this exception, Mr. Fraser. In charging ICAO, there is no charge for my salary; but ICAO allows a \$25-a-day living allowance to me when I am in Montreal on their audit. I am down there about five days a year. But the salaries of all the members of the staff are recovered and, of course, deposited to the credit of the Receiver General.

Mr. FRASER: Your staff has to go to Montreal to do the audit?

Mr. SELLAR: No. We have a branch office in Montreal and they do that audit.

The CHAIRMAN: Mr. Sellar, at this stage it might be useful to the committee if you were to report briefly on the audit report sequence you gave me yesterday, and which the members now have.

Mr. SELLAR: Mr. Chairman, in this sequence I state, "Paragraphs 1 to 4 treat with the nature of audits performed". That is so that you can ask questions, and to explain what we do in a general way.

Then I list: "Paragraphs 5 to 25 summarize the revenues and expenditures of the year". There is no audit reason why paragraphs 5 to 25 should be included, except that a number of years ago some members of the House of Commons indicated to me that it would be of use to them if I were to include in my report a brief summary of revenues and expenditures so that they could grasp all that was involved without going through hundreds of pages of material to get that information. That is the sole reason for paragraphs 5 to 25; it is to give you a quick over-all picture of the revenues and expenditures.

The CHAIRMAN: That summarizes about 80 pages, does it?

Mr. SELLAR: That amount, anyway. Paragraph 26 is in because by law the old age security fund has to be treated as an account independent of the consolidated revenue fund. In that regard I thought you might like a comparison of five years' operations. It has no audit significance; it is there for information.

Paragraphs 27 to 107 are what you might call observations, criticisms and so on, that I am required to make in accordance with section 70 of the Financial Administration Act. That section says that I am to report any over-expenditure, any moneys improperly used, any revenues not deposited to the credit of the Receiver General, and so on. Finally the section ends by saying that I am to bring to the notice of the House of Commons any other matter that I think merits the consideration of the House. That is the reason for those paragraphs.

Paragraphs 108 to 132 treat with the statement of assets and liabilities. I make that separate because the figures are so big that they are hard for anyone to follow. Therefore we try to give some explanatory material. There are two or three accounts in the report which we think merit your consideration. But that is a matter for you to decide.

Paragraphs 133 to 139 list the crown corporations. That is so they are all before you in case you want to inquire into any one. It is to give them status for the purposes of this committee.

Then I include the few observations we had to put in our report in connection with a few corporations. None of them is of major significance and most of them have already been disposed of. But they are in there.

What might be called the essence of the report required by parliament is in paragraphs 1 to 4 and 27 to 132.

The CHAIRMAN: Shall we proceed with paragraph 2?

2. The examinations were made by means of tests as in previous years, with the extent of the tests being determined by the types of activities and the nature of transactions, and by the statutory directions in section 67 of the Financial Administration Act to ascertain whether

- (i) the accounts were faithfully and properly kept,
- (ii) all public money was fully accounted for, with administrative practices effectively regulating assessments, collections and allocations of the revenue,
- (iii) expenditures were for the purposes for which appropriations were made, and
- (iv) records maintained and rules regulating use of public property adequately protected the public interest.

These, together with the reporting directions in section 70 of the act (listed in paragraph 27 below), necessitate that, in addition to an accountancy audit, examinations be made to determine whether any branch of the public service failed to maintain satisfactory accounting procedures or neglected to observe the statutory directions and financial conventions and practices designed to preserve parliament's control of the public purse.

Is there any particular significance in the words, "The examinations were made by means of tests"; and then the last line, "... and practices designed to preserve parliament's control of the public purse"?

Mr. SELLAR: No, sir. The reason is, we have to make them by test. In the first place, the volume would require a tremendous staff. Secondly, it would be a waste of public money if we tried to cover every transaction.

Let me illustrate first by revenues and then by expenditures. In the case of revenues, the big revenue collecting departments are National Revenue and Post Office. Both have large and efficient internal audit staffs. These staffs tour the country inspecting accounts and reporting on them. Their reports are available to us. We make a certain number of spot tests to satisfy ourselves that the work is being well done. That covers revenues.

In the case of expenditures, the departments first of all minutely examine the claims before they recommend to treasury that a payment be made. Then the comptroller of the treasury has to examine for authority, the availability of an appropriation, and so on. Therefore, by the time expenditures reach us they have already been examined at least twice, and sometimes three times. If we were to go through them 100 per cent again it would be just wasting public money. That is why we proceed by tests, sir.

Mr. WINCH: Mr. Chairman, could I ask this question so as to get the point clear? The question is on the most important subject of parliament's control of the public purse.

Mr. Sellar, if you find in the course of your examination that something is not being done, can you take immediate steps, or is your power only to report that you are not satisfied with what is being done? My point is, can you stop it right then and there?

Mr. SELLAR: My sole power is to make a report. In practice, of course, I immediately take it up with the people involved and say, "I think you should take a second look at this. I think you are wrong. If you proceed in this manner I think I will have to bring it to the attention of the House of Commons". Sometimes that has a good moral effect. But bear in mind, Mr. Winch, that I am not infallible; I can be just as wrong as the department. Therefore, it would be unwise to give me the power to stop a payment.

The CHAIRMAN: But the inference is that you are wrong less frequently than they are?

Mr. SELLAR: Well, I have less time pressure on me. I can take a more disinterested look at them.

There have been cases of men coming in to see me with blood in the eye because they said I blocked a payment to them. In fact, I had never heard about the matter. In that case I would go out of the room, telephone the department and say, "What is all this about?" They would say, "That fellow is a nuisance; we got rid of him by saying that the auditor general would not stand for it". So I get credit for having powers that I do not have.

Mr. WINCH: I have heard of such a case; that is why I asked whether you had that power.

The CHAIRMAN: That is why I asked you, Mr. Sellar, to comment on the control of the public purse. With expenditures increasing every year, what control have we outside this committee and the committee on estimates?

Mr. SELLAR: You have the ministers, who are sincerely interested in good administration. You have, generally speaking, the whole of the civil service behind you, and you have the comptroller of the treasury. The comptroller of the treasury is directly responsible if he makes mistakes in overcharging appropriations and so on. So you are reasonably protected.

I would say that our weakness—if we have a weakness—is in our control of public property. It is scattered all over the country. Up to 1951 there were hardly any directives in connection with the control of property. Then provision was put into the act and the departments have made a real effort to bring their property accounts together. But I am still far from satisfied that we have complete control over all public property.

Mr. WINCH: What do you mean by "control"; do you mean knowledge of the property you have, where it is and how it is registered?

Mr. SELLAR: That is correct. In the case of what we call "attractive" items—brief cases, cameras, rifles and so on—some member of the staff may be using them for his own personal use. That can happen. But the big thing is this: is equipment being properly stored? Is it taken off a project when it is no longer in use? Is it brought in, properly fixed up and stored, and then is every record kept of it? That is the big point.

We would like to do more on that, and gradually we are; but I would be dishonest were I not to say that that is where we are weak.

Mr. BROOME: Mr. Chairman, in that regard I would bring to the attention of the committee a criticism I have heard. It is one that I think I would make myself. In some cases we are too careful of property. We are spending more money in storing obsolete articles and dilapidated equipment; we do not scrap equipment soon enough and get rid of our storage costs. We are keeping a record of certain equipment that is almost useless, and yet it stays there year after year because it is such a complicated procedure to actually junk it.

Mr. SELLAR: That argument, sir, could not be answered prior to 1951. Before then we had no means of getting rid of that sort of equipment and clearing our accounts. Now we have. The minister is now expected to set up surveys boards and clean up equipment records.

I am not contesting your statement; I know it is a fact. It is like the records we keep around offices; we keep far too many filing cabinets filled with dead records. I am not contesting your argument, but I do not think we are improving.

Mr. MACDONALD (*Kings*): Mr. Chairman, I wonder if Mr. Sellar would like to say whether there are any particular departments in which that is prevalent—or is it general?

Mr. SELLAR: That I am objecting to?

Mr. MACDONALD (*Kings*): No. Are there any particular departments in which property is not being as well looked after as it should be, generally?

Mr. SELLAR: No. A few years ago—let us be frank—I was critical of Public Works here in Ottawa. At the time we went to Public Works and talked to them. If you write a letter, immediately they have to contest that for file purposes; but if you go and talk over a desk you are able to achieve something.

We told them the things we did not like, and they told us they were aware of some of those things and were taking action. I think today Public Works have an excellent system in Ottawa. That is the reason I am using them as an example, and it is not by way of criticism.

I am never sure of the tremendous holdings of the service forces. Naturally, we do not see the physical stores. There is a regular inspection made of them by the internal audit of National Defence. I know this audit is quite efficient, because the man who heads it was trained in the audit office and he is a first-class fellow. There is a colossal quantity of stores there, and some of those stores may be obsolete for all I know.

I do not like taking up your time, but I might refer to an experience I had during the last war. I went to the office of the deputy minister of national defence and he said, "Do you know, Mr. Sellar, I have had a queer request today. We have just started the invasion of Italy and they need harness for pack animals. It so happens that we have harness in store from the South African war and World War I that we can ship over to Italy". That is the ridiculous type of thing that can happen. It is like our attics. They are cluttered with things, but we are always afraid that they may be wanted one day.

Mr. BROOME: But the cost of recording year after year undoubtedly puts up the value of it a dozen times over?

Mr. SELLAR: I will not contest that for a moment. I would not say "a dozen times over", but it does add to it.

Mr. SPENCER: How do we dispose of these obsolete supplies?

Mr. SELLAR: They are turned over to the crown agents disposal corporation.

Mr. CHARLTON: Who has the authority to decide what is to be disposed of and what is to be kept? Is it ministerial authority?

Mr. SELLAR: The minister has the authority, but in certain cases he must consult treasury board.

Mr. CHARLTON: I have particular reference to cameras. What is supposed to be the ordinary life of a camera?

Mr. SELLAR: I do not know. I shall try to find out. Have you any particular type of camera in mind?

Mr. CHARLTON: No. In certain departments there are a number of cameras.

Mr. SELLAR: Yes.

Mr. CHARLTON: It appeared to me a few years ago that there was a considerable number of cameras being purchased, and I wondered how often those cameras are replaced, and what would be the disposal date.

Mr. SELLAR: It may take me a few days to do it, but I shall look at two or three departments which do buy cameras and give you the information as soon as I get it. Would that be satisfactory?

Mr. CHARLTON: That would be fine.

Mr. SELLAR: Thank you.

Mr. WINCH: Before we leave paragraph two, there is a question I would like to ask Mr. Sellar. Last year time after time he emphasized this matter of parliament's control of the public purse; and again this year on page two of his report he brings up this question.

In view of what he said a few moments ago, that all he can do is to make a report to parliament on the past year's investigation, examination and operation, and as parliament refers his report in its entirety to this committee, might I ask, if it is not too difficult a question, if Mr. Sellar has any ideas on how this committee might properly fulfil its function with regard to effective control of the public purse?

Mr. SELLAR: Your most efficient weapon is publicity. Every civil servant lives in fear of this committee. And when you go into any matter, even if you decide that you are not going to report on it, it has an effect on the civil servants.

Likewise, there is material in my report you might not regard of importance at all, and you may not bother your heads over it, yet every department has read that material, and where it is of particular concern to them, it has an effect on them.

Let me go one step further: in this country we have never had what you might call rulings by the public accounts committee on what practices you want observed in certain matters. They do have that in England. They started it in 1858, and have built up what you would call a precis of law which is published periodically in a heavy volume, setting out their important rulings on particular points. That volume is referred to constantly by spending officers and also by revenue officers.

We do not have that procedure in this country. It happens that this year the situation is a little unusual in Ottawa, because you legislated last September with respect to expenditures which are now recorded. Therefore, from a legal point of view, the expenditures have been ratified.

The Minister of Finance, when introducing the bill, said that as in the past the expenditures themselves were to be reviewed by the public accounts committee. It so happens that in this past year there were quite a number—possibly a dozen transactions of some significance—which can repeat themselves in future.

If this committee were disposed to give directions in its report, then we as civil servants would have something we would respect in the future, and that would increase your public control.

Mr. WINCH: I take it also from what you just said, that in view of the peculiar situation this past year, there may have been established what, in your estimation, would be a dangerous precedent, that this committee should take cognizance of it and that perhaps, on the most serious matters drawn to our attention, the committee should call before it the officers of the department and others responsible, to have the matter thoroughly discussed, so that the committee could make recommendations on it.

Mr. SELLAR: I would like to have your understanding of the expression "dangerous precedent".

Mr. WINCH: Well, let us say, unusual precedent.

Mr. SELLAR: No; everything that is in there has happened before. But it so happens that this year it happened twice: once under one government, and once under another government. Therefore you have a non-political matter before you.

The CHAIRMAN: I take it you are referring to special warrants?

Mr. SELLAR: No; I am referring to various things. There is nothing which I would say was a dangerous precedent or an abuse of power; but there are things you could tidy up and which would strengthen the position of the House of Commons.

Mr. WINCH: And the public control of moneys.

Mr. SELLAR: Yes.

Mr. ROBICHAUD: In paragraph three you mentioned that where practicable any irregularities observed were brought forthwith to the notice of the treasury or the department concerned. In paragraph three were there any cases which could not be brought to the notice of treasury?

The CHAIRMAN: Are there any more questions on paragraph two? If not, let us proceed to consider paragraph three.

3. Examinations disclosed that the accounts had, in general, been faithfully and properly kept. It is long-established practice to review departmental accounts continuously throughout the year; therefore, any irregularities observed were, where practicable, brought forthwith to the notice of the Treasury or the department concerned. Whenever appropriate action was taken in the year under review, no audit reference is now made. An unusual feature was that the Public Service was financed during the year, first by means of interim Supply Acts, and then by special warrants issued by the Governor General on the advice of the Governor in Council, with some 1957-58 charges ultimately receiving sanction by law by the Special Appropriation Act, 1958, which received assent on 6th September 1958.

Mr. SELLAR: It could happen in a variety of ways. I shall give you one simple illustration. After the fiscal year ended we were auditing payments which had already been made, and a department then could not do anything about it. It is not practical to do anything then. We can only put it in our report.

Mr. DRYSDALE: Would you please expand a little on your words when you said "Examinations disclosed that the accounts had, in general, been faithfully and properly kept"? I think under section 67 of the act we should examine, and we usually do examine, only matters which are deemed necessary, and accounts related to the consolidated revenue fund. So your words "in general" seem rather broad.

Mr. SELLAR: I put in the expression "in general" because ours is a test audit. We do not examine all accounts throughout the country. For all I know there may be some rotten accounts some place. Therefore I did not want to give 100 per cent clearance. I wanted to say that in general they were in good shape; but I could not say "all", because I do not know.

Mr. DRYSDALE: Do you feel that these words fulfil your task?

Mr. SELLAR: I agree that I could have worded things better; but I do not want you to think that there are bad accounts any place, because to the best of my knowledge there are not.

Mr. DRYSDALE: Those words might give a certain impression to the public.

Mr. SELLAR: I am sorry, I shall note that for the future. There was no particular significance in putting in the expression "in general", except that I was qualifying to the extent that we covered by audit.

Mr. DRYSDALE: I think it would be more positive to report on the cases that you particularly discovered than, perhaps, to say that these were all that were discovered—rather than to leave the general impression that there may have been cases throughout the system.

Mr. SELLAR: That is correct.

Mr. ROBICHAUD: You mentioned earlier that you had a branch office in Montreal. What other offices do you have throughout the country?

Mr. SELLAR: Strictly speaking, the Montreal office is the only one. We have a number of crown corporations with headquarters in Montreal. That is why we have a branch office there. It is to save money and staff time.

We have a man in Toronto, working in connection with certain accounts. We have two men in Vancouver, working on certain accounts. We have one man in Winnipeg; and at the moment we have a man in Halifax. But it would be safe to say we have only one office with a number of people.

Mr. CHOWN: You do not do too much in the way of special auditing. These local audits are, presumably, fairly true. But in your system does it happen that you do quite a bit of inside checking and auditing in, let us say, smaller locations, which are completely unheralded or unexpected, in the same manner that bank inspectors will walk in unannounced?

Mr. SELLAR: Particularly in revenue, yes. As to expenditures, the comptroller of the treasury records in Ottawa provide us with most of our material. For example, we would go to an experimental farm, or to an unemployment insurance office, or to a post office, a customs office, or an income tax office. Our men may go from Ottawa or from field addresses.

One reason we have men in British Columbia and one in Winnipeg is the time factor and the expense of moving men. That is why they are there. We try to avoid relying on reports sent in to the audit office; we try to examine all accounts in the offices of the department in question.

Mr. MCMILLAN: Do you do any checking of equipment at all?

Mr. SELLAR: Yes, we do some, but we do not do as much as I would like to have done. We are hoping to expand that procedure.

Mr. HALES: Is there any physical inventory taken of equipment once a year? For example, would the post office in my riding take an inventory of their equipment each year?

Mr. SELLAR: I would have to confirm that before I said yes or no. Where there is a revolving fund account set up under the public stores section of the Financial Administration Act, there is. But whether there is in the case of equipment to which you refer, I am less certain, because in the post offices most of the equipment will belong to the Department of Public Works but some will belong to post office. I would have to check with the two departments before I could say whether they conduct such an inventory.

Mr. HALES: Would you agree that it would be a good principle if an inventory were taken each year?

Mr. SELLAR: Do you mean an inventory in respect to public property?

Mr. HALES: Yes.

Mr. SELLAR: No, I would not go along with you there, because you have material in the field the value of which would not warrant the taking of such an inventory. I suppose you have in mind an inventory of material which might be stolen or taken home and so on and so forth. But I am not so sure that, where you have something that nobody else would want, you should go to isolated places at great expense. Let me check your post office matter first, sir.

Mr. HALES: I think it would be just as proper for the government to do it as it would be for private business. In private business they usually take a yearly inventory.

Mr. SELLAR: Yes, but it is important to the businessman to know the value of his inventory for his balance sheet purposes. On the other hand we do not carry public property into our statement of assets and liabilities. There is that difference.

Mr. HALES: Is it not more important that we should know what we have than that a business, should know, because it is everybody's property and nobody's property. Therefore I think a yearly inventory would be of value.

Mr. SELLAR: Let me check, because I cannot tell you the answer. I do not know my facts.

Mr. DRYSDALE: Following up a check on the inventory, as a matter of fact I am interested to know the practice and how your auditors do it. Do they go into a particular department and make a sudden spot check on some inventory?

Mr. SELLAR: Yes sir.

Mr. DRYSDALE: A physical count?

Mr. SELLAR: Yes, sir.

Mr. DRYSDALE: Is there any advance notification?

Mr. SELLAR: We try to take them by surprise, but you know the grapevine.

Mr. DRYSDALE: Yes. You may not be able to take them by surprise as far as the spot audit is concerned, but on an established inventory do they know what particular items you will check?

Mr. SELLAR: No. We have had occasions on which there was great trouble over the fact that we would suddenly go in and find their accounts were not as tidy as they should be, and the bins did not have what they should have in them.

Mr. DRYSDALE: Do you visit each department at the same time every year or do you vary the visits?

Mr. SELLAR: We vary them. We attempt to take the departments in their slack periods. Take, for instance, the Department of Mines and Technical Surveys, or the Department of Northern Affairs. When they are getting ready to send parties up north they do not want us around when they are accumulating supplies for each party. We endeavour to go in at a different time and also when the stock is on the low side. We do attempt to preserve the element of surprise and I think we reasonably succeed.

Mr. DRYSDALE: And your auditor does the actual count of the items?

Mr. SELLAR: Very limited. We follow the rule established by the British public accounts committee a great many years ago, that the duty is on the department to take stock, and that our obligation is to establish that stock is properly taken, and so a few tests will suffice to discharge our obligation.

Mr. DRYSDALE: I realize that. I am trying to pin down the actual spot item which is checked. Would you say there are 100 items of X? Would one of your auditors do that?

Mr. SELLAR: If there were 100 bins we would make a selection of bins and check them right through, but we would not do all.

Mr. DRYSDALE: The auditor would take one bin and count the number of items in that bin?

Mr. SELLAR: He would take one he was suspicious about of course.

Mr. MCGEE: Coming back to the matter concerning the Boer war, is there any way in which we might find out what war we are carrying inventory from

at the present moment? You mentioned that at the latter stages of the second world war we had equipment from the Boer war.

Mr. SELLAR: Yes, sir.

Mr. MCGEE: How would we go about finding out if there are any similar types of stock, such as the horse collars, still kicking around somewhere.

Mr. SELLAR: Your quickest way of obtaining that information would be to call the Deputy Minister of National Defence. I do not have the information. The treasury would not have the information. The Deputy Minister of National Defence would have it through his audit section. He has a special internal audit section.

Mr. MCGEE: I am trying to sort out the method of approach to these things. I inferred from your comments that it is probably a function of this committee to inquire into such matters, and your suggestion implies that this is something which should be brought up in the estimates of the Department of National Defence.

Mr. SELLAR: Of course the case you use, Mr. McGee, is a little troublesome from the viewpoint of the House of Commons because the establishments of the service forces are a little different from anywhere else; in the public service, they are subject to the commander-in-chief, who is the sovereign, represented in Canada by the governor general. There are some prerogative powers still in force in respect of the army, navy and air force which do not exist with respect to the civil authorities.

The quantity of stores, ammunition and equipment, and so on, which the service forces keep on hand is a military matter. To determine to what extent stocks may be obsolescent might be a little difficult to do, because if the army people, for example, say they feel that this is necessary based on their experience and that potentially it may be required, then your hands are tied. It is pretty hard to get behind that. I would say if you wanted to go into that the Deputy Minister of National Defence is the man to call first, and move on from that.

Mr. WINCH: In view of what you have said, in principle the audit, or the records which have to do with the subject matters now mentioned, through you, are in the possession of this committee. Are they not? We could call anyone whom we wanted on our audit in order to get any specific information?

Mr. SELLAR: I regard all stores as public property. I am obligated to report to you whether or not the records in respect of public property are being reasonably and properly kept. I have done so. Therefore, I would say that anything and everything is before this committee. But again that is a matter of opinion.

Mr. DRYSDALE: If we do not know what equipment is obsolete, I think Mr. McGee's point is that perhaps in respect of national defence there is possibly obsolete equipment being carried; but I think what we would be interested in finding out is, although in the opinion of the army certain equipment may be obsolete, is there any way you would draw to our attention in your report that it was obsolete?

Mr. SELLAR: No, I would not try to. I am not a qualified person to have an opinion on that subject. All I can do is point out things listed in the accounts. Take the case of the service forces. Something which may have been purchased three years ago may be, from a technical standpoint, obsolete today. It might be aircraft; it might be a gun or anything. On the other hand, something which may have been in stock since 1940 may be just as useful now as it was then. That is why I say you have to depend on technical opinion within the department. Your better way to check is not to call the service people first, but the civil people.

Mr. WINCH: I believe Mr. Sellar has brought up an interesting point, that if this committee could find the time it might be able to do a good public service in its own discretion to choose one department and then ask the responsible officer to come and explain how he takes his inventory, and show us what his inventory is.

Mr. DRYSDALE: I would like to follow up the point I was attempting to make in connection with obsolete equipment. If something has been stored for fifteen or twenty years and not used, is there any way that is drawn to our attention, so that we make an inquiry? I am not particularly interested as to whether the equipment is obsolete in the sense there may be justification as to its obsolescence; but if we are not in a position to know there is this equipment being stored, we are not in a position to ask questions about it. I am wondering how items like that could be brought to our attention? I feel some of the departments might be guided in getting rid of some of the junk which is stored and the publicity we would give to it I am sure would provide the opportunity.

Mr. SELLAR: The length of storage does not mean anything. If blankets are properly mothproofed you could store them for many, many years and you would know that if you had use for them at any time you would have blankets. It is difficult for me to answer your question. I know there is a feeling throughout the public service, as one of the members has already mentioned this morning, that we have stored stuff which has served its need, and we should get rid of it. But a civil servant is a timid animal; he never wants to go out and do something which might leave him open to criticism, if he has to turn around the next day and buy something of the same sort.

I think the suggestion, as Mr. Winch says, is a very important one, and I brought it up because I am dissatisfied with my own coverage. I think if the committee concerned itself with some department it could be useful.

Mr. WINCH: You are not satisfied with your own coverage because you do not have sufficient staff to do it?

Mr. SELLAR: I do not have sufficient staff; but the fault is my own, not that of the civil service commission. I have not recruited people.

Mr. WRATTEN: Has it ever happened that any stores have been sold and bought back by the government for about eight times the amount for which they were sold?

Mr. SELLAR: I hope it has not. I know it did happen in England at the outbreak of World War II. They bought some bully beef that the government had purchased for the South African war. My opposite number told me about it.

Mr. WRATTEN: Did it ever happen here in Canada?

Mr. SELLAR: I cannot recall a case, and I hope not; but I will not say positively.

The CHAIRMAN: I have a note here which says: I understand nothing is destroyed—that is to say documents—unless it is approved by someone in the Privy Council or the Secretary of State. Do you know if that is so?

Mr. SELLAR: In connection with cheques and documents like that I am consulted. It is a treasury board matter. I am required to certify that in my opinion the documents are no longer needed for the purposes of the House of Commons audit.

As to the destruction of documents generally, I think the archives is also consulted. Again I would have to have that confirmed.

The CHAIRMAN: Would you know, Mr. Pickersgill?

Mr. PICKERSGILL: That is correct. That was a committee set up by the cabinet some time ago and there has to be approval by this committee on which the archives and each department is represented. There is a most careful check made to make sure that nothing is destroyed which is of historical value or which in all human probability will ever be needed for governmental or parliamentary purposes.

There was a mass of correspondence, and it was becoming apparent that we would have to build buildings for storage out of all proportion to any conceivable value, and much of it had to be destroyed. In fact, my own private opinion is it is not being done fast enough.

An hon. MEMBER: Would you explain yourself.

Mr. PICKERSGILL: I would be very happy to explain because I can see it could be easily misunderstood. I do not think, myself, that to build expensive real estate to store useless documents is a fair way to use the taxpayers' money.

The CHAIRMAN: Referring to paragraph 3, you use the words, "an unusual feature" and then you go on. Would you care to explain that sentence?

Mr. SELLAR: As we know, at the opening of the year, the session was quickly wound up for the holding of a general election. One half of the supply needed for the year was granted by interim supply. Subsequently, in October, December and January, further grants of interim supply were issued. Then the balance of the year was financed by special warrants under authority of section 28 of the Financial Administration Act.

The use of special warrants is a little unusual in our practice. At one time, governments used the governor general's warrants very frequently, but starting with Mr. King each Prime Minister since has been loath to use governor general's warrants except in great emergency. Governor general's warrants were used in 1926 during the period of the general election. They were used again in 1940 on account of a general election, and again in the general election in the period of the accounts to which you are referring. I used the word, "unusual", because in the present century three times only on account of a general election have they been used.

Mr. CHAIRMAN: Before we get away from this subject of inventory, I recall several years ago there was a case where the government sold, I believe it was instruments for aircraft at a certain price, then found they needed them again, and bought them back for a tremendous amount of money—more than they received for them. This happened several years ago. Is that not a case in hand where inventory was disposed of and repurchased by the government for several times what it was sold for?

Mr. SELLAR: I cannot be precise in answering that, sir. Mr. Winch can correct me if I am wrong when I say that I think Mr. Coldwell brought up such matters in the House of Commons about the time of the Korean incident, and there were some questions and answers on the order paper. It runs in my mind that the subject was aired in the House of Commons and Mr. Coldwell was the person who brought it up. However, I cannot give you the answer. I can check, if you like, and try to obtain that information for you.

Mr. CHARLTON: Do you not think we should try to keep away from having that sort of thing happen again?

Mr. SELLAR: That is what make departments afraid to declare surpluses and to sell; the material may be wanted again.

Mr. MORTON: In respect to that, when these goods are transferred to the war surplus corporation, do you check or have you any method of checking when they were purchased, what was paid for them before they were transferred in, and any check on what they are sold for afterwards?

Mr. SELLAR: My recollection is that the departments concerned are required to place a value on them, for the guidance of the surplus crown assets people in disposing of them; but I do not think they are required to give the absolute figure.

Mr. MORTON: Not what they paid for it, for instance.

Mr. SELLAR: No. Take, for example, service forces materiel. It may have been bought under a variety of contracts and they do not know under which contract or which year that material was actually purchased. They know they have so many units purchased but they may not be definite as to the value or actual price paid for those. But I am guessing, sir; I am not positive and I would like an opportunity to verify my statement.

Mr. MORTON: What I was getting at is the possible abuse of equipment being purchased at a certain price and transferred to war surplus for a much lesser price. It is sold, and then the war surplus outlets across the country are able to make large profits. I am not saying this is done, but what protection have we against such a practice?

Mr. SELLAR: The Crown Assets Disposal Corporation is supposed to get the best possible price; it is not supposed to go by what the departments say the material costs them. They are supposed to take the material as is, look at it, and try to get the best price it can by calling for bids and so on; and if the bids are not satisfactory, reject them and try again. I cannot tell you what the formula is today in declaring surpluses; I will have to find that out.

Mr. HALES: Could Mr. Sellar advise us whether there is one of these government buildings in Ottawa where government stores are kept, either army or navy. Is there a depot here?

Mr. SELLAR: Yes, there is a big one just off Somerset street.

Mr. HALES: Well, following that further, would it not be of interest to this committee to pay a visit to that army stores headquarters depot to see how these things are handled, right from the grass roots up, as it were. In this way we could see for ourselves how government stores are handled. I throw that out as a suggestion.

The CHAIRMAN: Shall we refer that to the steering committee?

Mr. WRATTEN: They have had lots of warning now; they will be in good shape when you go down.

Mr. HALES: Maybe we should go this afternoon.

Mr. BROOME: Mr. Chairman, I would like to open up a little different area. One of the Auditor General's functions is to audit accounts, but it also says "other matters." I am wondering, in the auditing of accounts by the Auditor general's department, relative to the expenditure of public funds, whether a check is made in regard to old methods used in the various departments. I am referring to the use of machinery in office work which may reduce the staff or make for more efficient procedures, thereby reducing costs. Have any comparisons in regard to work loads been made with similar operations in different parts of the country? Is this beyond your scope, or does it enter into your field?

Mr. SELLAR: Mr. Chairman, we do not undertake what you might call "office management" work. The Civil Service Commission has a section for that and the comptroller of the treasury is always interested in implementing accounting procedures that are as good and up-to-date as possible. The audit office comes in only with respect to internal control. If we think it is lax, we "go to town," complain, and ask that it be tightened up. That may involve a change in the system of keeping accounts, and so on. In the broad field, we do nothing; in a specific case we may.

Mr. WRATTEN: Is it possible for this committee to delegate authority to two or three members of the committee—without anybody else knowing about it—to make inspections of some of these depots around the country? Could this be done with regard to some of the big military stores, just to see how they are carried on?

Mr. BROOME: Mr. Winch, in regard to Vancouver depot?

Mr. WRATTEN: One hears many rumours about what is going on in some of these military camps; one hears of equipment that is being taken away, and that sort of thing. Have we the power to delegate two or three members to go to some of these depots in order to see how they are being run? Could we do that unbeknown to anybody, so that we could catch them on an ordinary day?

The CHAIRMAN: In reply to that I would say that we got into the so-called "Bastille" last year, and therefore these depots should be comparatively easy to visit. But there are the ordinary courtesy procedures to be carried out. It seems to me that we should speak to the minister first and then the deputy minister.

Mr. WRATTEN: That was my reason for asking whether we could do that without telling anybody. The minute you tell the deputy minister, you might as well stay home.

The CHAIRMAN: How would you reply to that, Mr. Sellar?

Mr. SELLAR: Mr. Chairman, your question is of course referring to a matter of policy, which is outside my field. However, the first department to organize its stores system on sound grounds was the Department of Transport. It did that in 1937. Therefore, if you are wanting to look at a long-established, well-run system, you could look at the Transport system.

In the service forces you have a relatively large storehouse here in Ottawa. You have a much larger one in Montreal. Also, you have various ones at Cobourg, Barrie and other places, which are not great distances from Ottawa. You have the Public Works depots in the Ottawa area, and you have those of the Department of Agriculture, Post Office and so on. There are others elsewhere.

You might want to go further afield, or you might want to look at some in Ottawa. I am sure every department would welcome you. They might be a little fearful, but the staff concerned are conscientiously trying to do a good job. If you wanted to do that, you could do it. But you would be getting into a technical field and it would take a great amount of work if you wanted to do it thoroughly.

Mr. WRATTEN: We hear so many of these rumours around, and it was for that reason I was wondering whether members of parliament could go unannounced to some of these camps.

There is one camp near my home town. I have had people come to me and tell me that at one time in that camp they mixed up four or five big drums of paint which did not suit the commanding officer; then they dug a big hole and dumped it in there.

I believe in cases like that we should have the authority to go and look at some of these places when no one knows we are coming. In that way we could catch them on an ordinary day.

Mr. WALKER: No advance notice.

Mr. CRESTOHL: Under our terms of reference, have we authority to incur expenses?

The CHAIRMAN: No. We would have to go back and get authority. Why do you not leave that to the steering committee, and we will re-examine the matter and report at the next meeting?

Mr. DRYSDALE: I think it should be put in, because I would like in a sense to dissociate myself from the remarks made by Mr. Wratten. As a matter of courtesy I think we should let the deputy minister know that we want to look at his department. But, following Mr. Wratten's remarks, I would prefer to be able to go into the particular outfit at an unexpected time so that the normal routine on occasions of these visits is not carried out. For example, when we went on some of these military inspections everything was all "spit and polish" and, as Mr. Wratten says, I would like to have things done naturally. The object of doing that would not be to catch anyone, but just to see how they function under normal circumstances.

Mr. WRATTEN: What is the difference between your suggestion and mine? You want to go in and see how they are doing things under normal circumstances, and that is what I want. I am not trying to catch anybody.

Mr. DRYSDALE: The inference behind your remarks was that my notifying the deputy minister there would be the implication that something was going on with regard to his department. That information would circulate down to the bottom and therefore any difficulties would be fixed up before we got there.

I do not think that is the situation and I do not think that that inference should be left public. It is a reflection on the deputy ministers concerned.

Mr. FRASER: Everything is perfect now!

Mr. DRYSDALE: Not really; but I do not think they should be slandered unless there is some specific reason.

Mr. VILLENEUVE: Mr. Wratten meant that they should not have advance notice.

Mr. WRATTEN: I am not slandering anybody; I am simply saying that I want to do that without anybody knowing.

The CHAIRMAN: Perhaps we could leave it to the steering committee. We could have our internal fight upstairs.

Mr. ROBICHAUD: I would like to bring this matter to the attention of the department. A few years ago a group of parliamentarians visited the military depots in Montreal, one in connection with the army and one in connection with the navy. They went there at the busiest time of the year, because they were getting things ready for summer training. I noted at the time that members were impressed by the system used in storing equipment and keeping records of the goods that they had on hand.

Mr. BENIDICKSON: Each of us in his individual capacity could surely make an independent visit to any of these establishments, and if there was something for which he wanted to take the responsibility of bringing before this committee, something which he thought was not in the public interest, I think he should bring it to the attention of the committee. But I do not think any of us should just simply pass on a rumour or hearsay with respect to any expenditure.

I am not criticizing security at all, but I think we should be prepared, if we have something on our minds such as dumped paint, to be able to ask that this be investigated, and to have somebody from the depot, wherever it is, come here and tell the committee what happened.

We cannot just say that we heard of such and such a matter, and then not pursue it. I would be happy to have any of these things we have heard of pursued. Let us go to the unit concerned and find out what the situation is, and let us pursue it by having the officials come here to tell us what happened.

Mr. MCGEE: Is this not the proper function of your staff so that, armed with some information of this nature, it should be brought to your attention or

to the attention of your staff? As you suggested yourself, possibly in certain cases—even in many cases—they would be better equipped to uncover such a situation than perhaps the individual member of parliament might be, having regard to the fact that when these things come up, our job as members of parliament is to be here, while there is no restraint placed on the members of your staff.

Mr. BENEDICKSON: I think, as an alternative, that that idea has merit. The Auditor General usually starts off his statement by saying that his staff conducts a spot audit in the year under review. But there might be individual cases we would like to see investigated, and if they are technical matters, there are people on the staff of the Auditor General who are capable of coping with something that is technical. I think that is a good idea. If we have any good ideas, I think we should draw them to the attention of the Auditor General and get a report on them.

Mr. MCGEE: Let me return to the words used earlier when Mr. Sellar mentioned the fact that civil servants fear this committee. I wonder if that is not a reflection that might be too strongly worded? I feel there is a suggestion involved in this case which I would not like to see carried out. I wonder if perhaps it could not be better described as the effect of our great watchdog committee, and if that might be a little less strong than this implication?

Mr. SELLAR: That is a matter of opinion, but as a matter of fact I think you are under-rating your significance to the civil service. A civil servant dreads any adverse publicity or anything that might be regarded as adverse publicity, whether in fact it is or not.

The great strength of this committee is the publicity you can give to matters. You cannot disallow an expenditure. The House of Commons could, but your legal position is that you simply recommend an action. You know that rarely will the House of Commons do anything. It will say to the Minister of Finance: "straighten this out".

The fact that you have reported it really makes nothing necessary thereafter. You have accomplished your end, you have put the fear of God right across the board, for the civil service.

Mr. WINCH: If you feel that way, do you think that that is the position of this committee? Could you tell us in the few minutes remaining—this would come, I imagine, under paragraph four—if you have found that those concerned are putting into effect or taking note of recommendations that were made by this committee last year?

Mr. SELLAR: Well, there were two recommendations made last year: one dealt with the style of the estimates; the other dealt with the form of the public accounts. In both cases you asked the Minister of Finance to consider making a report to this session of the public accounts committee.

While it is none of my business, I did inquire yesterday whether they had reports ready. I was told that they were still working on them, so I know they certainly did not ignore your report.

I cannot recall the other matters where there would be action. I think this committee is under-rating its own significance to the public service.

The CHAIRMAN: Would you say that the Department of Finance was giving serious consideration to the suggestions made by this committee last year?

Mr. SELLAR: I have not spoken to the minister or the deputy minister, but I know the Department of Finance well enough, having been in it, to know it will not think itself free to ignore any direction from the Public Accounts

committee, and that it is in their interests in every instance to implement and support the Public Accounts committee.

The CHAIRMAN: The next meeting of the committee will be on Wednesday morning, March 18, at 9:30, and I hope it will be in the room we were in last year.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

Wednesday, March 18, 1959



WITNESS:

Mr. Watson Sellar, C.M.G., Auditor General

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),

and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 18, 1959.

(3)

The Standing Committee on Public Accounts met this day at 9.30 o'clock a.m. Mr. Macnaughton, the Chairman, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Bruchési, Campbell (*Lambton-Kent*), Campeau, Charlton, Chown, Drysdale, Fraser, Grenier, Hales, Hellyer, Lambert, Macnaughton, McGregor, McMillan, Morissette, Morton, Robichaud, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Stefan-son, Villeneuve, Walker, Winch, and Wratten.—(27)

In attendance: Mr. Watson Sellar, Auditor General for Canada.

The Committee continued its consideration of the Report of the Auditor General for Canada.

Mr. Watson Sellar was called and examined on paragraphs 4 to 15 (both inclusive).

The witness supplied answers to questions of Messrs. Charlton and Hales respecting replacement of cameras and inventories.

On paragraph 9, the witness quoted from the Report of the Bank of Canada (1956).

At 10.55 a.m. Mr. Sellar's examination still continuing, on motion of Mr. Hellyer, seconded by Mr. Drysdale, the Committee adjourned until Wednesday, April 8, next.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

WEDNESDAY, March 18, 1959
9.30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. Due to the sad passing of the Secretary of State for External Affairs Hon. Sidney Smith, there was some discussion as to whether this meeting should be held this morning, but after consultation, we decided to proceed.

Questions were asked last meeting by Mr. Charlton and Mr. Hales. Mr. Sellar, who is our witness again this morning, is prepared to answer them.

Mr. WATSON SELLAR (*Auditor General of Canada*): Yes, Mr. Chairman. Mr. Charlton's question was, "What is the practice in the departments with respect to replacing cameras?" I promised to make a check with some of the departments.

I checked with the Department of Mines and Technical surveys and the Department of National Defence. I told both those departments that I was interested in a camera with a good lens, relatively fast, the pictures from which could be used for reproduction, and so on. I trust that is the type of camera in which Mr. Charlton is interested. Both departments told me that their practice is to assume that they will get new ones at the end of 10 years, not because the camera is necessarily worn out, but because in that time new models improve the instrument to such a degree that they think it is desirable to consider a replacement at the end of that period. That is for a camera that is carried outside and is used outside. One that is only used inside will be kept much longer.

I then checked with the National Film Board, because they are the big user. Their practice is to replace a camera of the type of which I am speaking at the end of five years. The still-picture studio camera used by the Film Board is expected by them to have a life of 15 years. The big movie studio camera in the \$20,000 price range is regarded as having a life of 15 years. A movie camera of the tripod type that is used outside is generally replaced at the end of 10 years, while the small movie type camera that is carried by hand is, as a rule, replaced at the end of five years.

If that is not the information desired, I would appreciate being told so that I can get more particulars.

Mr. CHARLTON: That is all right.

Mr. SELLAR: Mr. Hales asked what the practice was with respect to taking inventories in a post office in his constituency. Two departments are involved, Post Office and Public Works. For the purpose of getting a reply to his question I took the Guelph post office that is located in the public building.

An inventory is taken annually of all materials, equipment, supplies, etc. that are held in stock, subject to issue. That inventory is taken by value and by quantity. With respect to all articles in use owned by the post office, an annual inventory is taken by count, not by value. Likewise, an inventory is taken annually by count of all the post office boxes, and so on, that are scattered around the city.

So far as the furnishings owned by Public Works are concerned, the practice of the department is to take an inventory every second year. The last one was taken as of March 31, 1958. The result of that stocktaking is

sent to Public Works. They also take an inventory of the machines in use, typewriters, adding machines, and so on and so forth. A report on these is made to treasury board and also to the Queen's printer. The records of all inventories may be found in the post office district office in London.

I was also told that that practice is applicable to all other post offices in the district. In fact, that is the practice across Canada. Those are the answers to the two questions.

Mr. CHARLTON: Mr. Chairman, may I ask Mr. Sellar how these cameras are disposed of at the end of the period of their normal life? How are they disposed of, and who disposes of them?

Mr. SELLAR: That question crossed my mind as I was coming down this morning. I will have to get the answer for you. I do not know. I should have got the information, but I did not.

Mr. MCGREGOR: I would suggest, Mr. Chairman, that we should know how many of those cameras were disposed of, we will say in the last five years, and how much they received for them.

Mr. SELLAR: I do not know whether there are trade-ins, whether they are sold or who sells them. I will have to find that out for you, sir.

Mr. FRASER: Could you find out whether they are sold to a firm or individuals?

Mr. SELLAR: Yes, sir.

The CHAIRMAN: Gentlemen, we were discussing at our last meeting paragraph 4 of the Auditor General's report.

4. Ready access to all pertinent records, files and accounts was enjoyed in the audit, and supplementary explanations were promptly provided. The co-operation extended by Treasury and departmental officers having facilitated the performance of the audit, appreciation is now recorded.

Mr. Sellar, do you have anything further to add?

Mr. SELLAR: No, sir. That is just the conventional "thank you".

The CHAIRMAN: You had no trouble getting all the information you desired at any time from any department?

Mr. SELLAR: No trouble at all.

The CHAIRMAN: And you had full cooperation from the treasury and other officials?

Mr. SELLAR: Yes, sir.

The CHAIRMAN: Paragraph 5, Financial outcome of the year 1957-58.

5. Revenues of the year amounted to \$5,048,800,000 and expenditures to \$5,087,400,000, the deficit therefore being \$38,600,000. A comparison with previous years is now given, to the nearest \$100,000:

<u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Surplus</u>	<u>Deficit</u>
1954-55	\$ 4,123,500,000	\$ 4,275,400,000		\$ 151,900,000
1955-56	4,400,000,000	4,433,100,000		33,100,000
1956-57	5,106,500,000	4,849,000,000	\$ 257,500,000	
1957-58	5,048,800,000	5,087,400,000		38,600,000

The CHAIRMAN: You use the word "deficit" there, Mr. Sellar. You are speaking of 1957-58, of course. Is there anything in paragraph 5 to which our attention should be called?

Mr. SELLAR: No, there is nothing in particular. As we all know, that year was not as good a year as all of us would have liked.

Mr. McMILLAN: Mr. Sellar, in connection with the equipment account—is that the name of the account? There were certain sums taken out of that last year and the previous year. Where does that show here?

Mr. SELLAR: That is in the balance sheet. So far as this report is concerned, reference is made to it in the item on National Defence expenditures and also in the statement of assets and liabilities. Do you wish the paragraph numbers? I can give them after the meeting, if that will suit the member.

Mr. BELL (*Carleton*): The liquidation of that account is taking place in the fiscal year 1958-59, so that would not be covered in the statement.

Mr. SELLAR: No, but I qualified my certificate again with respect to it. I have qualified it for years.

The CHAIRMAN: Is there anything else on paragraph 5, gentlemen? We will now go on to paragraph 6, revenues.

6. *Revenues*. Income tax continued to be the major source of revenue, individuals paying approximately \$1,500 million and corporations about \$1,235 million, exclusive of collections for the purposes of the Old Age Security Act (listed in paragraph 26 below). Compared with the previous year, individuals paid \$99 million more income tax in 1957-58, and corporations \$33 million less.

The CHAIRMAN: Paragraphs 6 to 15 inclusive deal with revenues. Mr. Sellar, could you say something about the source of income tax? In paragraph 6, for example, you say that individuals are paying more than corporations. Have you any details on that?

Mr. SELLAR: Yes, sir. It is a fact that over the years individuals have paid more than the corporations in the way of tax. True, five years ago there was a slight difference the other way. But as a rule individuals pay more.

The curious thing to me is that in each year the amount of tax collected from individuals by deduction at the source increases, while the amount paid direct by, you might say, the self-employed remains stationary. For example, in the last five years deductions at the source have increased by \$316 million a year. It so happens that in 1958, which we are now discussing, the collections by direct payments were \$4 million less than they were five years ago. I do not know the explanation for that. It is one of those little curiosities showing, I presume, that general salary increases have come to the white-collared people and to the workers in factories who are paying taxes, while the self-employed have had more difficulty with the rising cost of doing business. That may not be the correct explanation, but it is the only explanation that occurs to me.

Mr. Chairman, I refer to the corporations really for the purpose of indicating—although I did not say so—that in 1956-57 we had a peak year in the recent decade for income for corporations. In that year it was \$1,268 million. This past year it was \$1,234 million, which was quite a substantial amount more than, let us say, two years ago. But it would seem that we hit a peak in 1957 and we dropped down in 1958. I hope we get back to the peak and pass it soon, but we have not to date.

The CHAIRMAN: Have you anything to add on the question of contributions of individuals collectively to the old age pensions fund?

Mr. SELLAR: Naturally, that amount is increasing in accordance with the amount of taxes paid. Five years ago—and that is as far back as I have before me—individuals contributed roughly \$91 million to the old age security fund. This past year they contributed \$135 million. Corporations, on the other hand,

have remained more or less stationary. Five years ago corporations contributed \$55½ million, and this year they contributed \$60,700,000. Individuals are putting up more money, collectively, than are the corporations.

The CHAIRMAN: Are there any questions, gentlemen?

Mr. McMILLAN: Mr. Chairman, what interest does the government pay on moneys held by sub-agencies—for instance, money held in the unemployment insurance fund? What interest is paid on that money?

Mr. SELLAR: The unemployment insurance fund is invested in securities purchased on the market, and they will fluctuate in accordance with the market value at the time the purchases are made. When the government holds money, the rate will vary. For example, if my memory serves me, on the public service Superannuation Act balances the rate is 4 per cent. I think the same rate is applicable for the service forces pension fund. Those funds are not invested. The act of parliament has always directed that the unemployment insurance moneys shall be invested and if they need the money they can either sell the securities or pledge them for a loan with the Minister of Finance or the Bank of Canada.

Mr. McMILLAN: Are these investments generally in government bonds?

Mr. SELLAR: Yes. They must be in government of Canada bonds.

Mr. McMILLAN: In other words the unemployment insurance fund will get less interest than the other funds which you quoted; they received 4 per cent.

Mr. SELLAR: You are thinking of most of the bonds having a 3 per cent rate on them.

Mr. McMILLAN: Yes.

Mr. SELLAR: As you know, that is not the current market rate and, unfortunately, the unemployment insurance fund is not today in a position to buy. It is spending more than it is taking in. Technically, you are correct, sir; but it is a thing which the market and no one else controls.

Mr. McMILLAN: The unemployment insurance fund will not have as much in it as is shown, in that the bonds have depreciated in value. Is that right?

Mr. SELLAR: They do not present a satisfactory balance sheet. They just show securities at cost. I think they have a provision for amortizing the costs when they buy at a premium.

Mr. CHARLTON: When Mr. Sellar is discussing the unemployment insurance fund, could he tell us what proportion is paid by the employer, what proportion of the moneys is paid by the employees themselves and the proportion put up by the government.

Mr. SELLAR: I am not sure. I will have to refresh my memory. My recollection is that two-fifths is paid by the employee, two-fifths by the employer and one-fifth by the government; but I am not sure of my fractions.

Mr. CHARLTON: Have there been cases where the government had to add to that fund to make up the difference?

Mr. SELLAR: Those are cases in which you have had a special provision authorized by parliament when the person had exhausted his rights under the act. Is that the type of case you had in mind?

Mr. CHARLTON: Yes; but I wonder if we could have that information?

Mr. SELLAR: Yes, sir. I will get it.

7. The principal revenues, compared with the corresponding amounts in previous years, were:

Source	1954-55	1955-56	1956-57	1957-58
Income tax	\$ 2,265,300,000	\$ 2,279,500,000	\$ 2,745,200,000	\$ 2,798,900,000
Excise taxes	824,200,000	902,200,000	984,200,000	952,600,000
Customs duties	397,200,000	481,200,000	549,100,000	498,100,000
Excise duties	226,500,000	249,400,000	271,400,000	300,100,000
Other taxes	60,200,000	83,400,000	98,000,000	73,100,000
Return on investments	134,000,000	149,300,000	206,600,000	169,400,000
Post Office (net)	131,300,000	137,400,000	145,800,000	152,900,000
Other non-tax	84,800,000	117,600,000	106,200,000	103,700,000
	<u>\$ 4,123,500,000</u>	<u>\$ 4,400,000,000</u>	<u>\$ 5,106,500,000</u>	<u>\$ 5,048,800,000</u>

The CHAIRMAN: Could you give us a breakdown of some of these excise taxes?

Mr. SELLAR: The reference is really to paragraph 8. May I take it at the same time?

The CHAIRMAN: Certainly.

8. A relatively large number of taxes are grouped in the excise taxes totals, but sales tax continued to be the most important, producing over \$703 million in the year—about \$14 million less than in the previous year. Departmental opinion is that the repeal of excise taxes on candy, chewing gum and soft drinks early in 1957 affected revenues of the year to the extent of \$17 million, and that the December 1957 reduction in the rate of excise tax on automobiles decreased receipts from that tax by \$7 million. The tax on certain categories of insurance premiums (when paid subsequent to 31st December 1956) was repealed by c. 37, Statutes 1956. In 1956-57, the last year in which this tax was imposed, it produced \$16,700,000.

Mr. SELLAR: The excise taxes, of course, cover a great mass of things. The big one is sales tax. Out of the total of \$952 million it produced \$703 million.

The next largest is the excise tax on cigarettes, cigars and tobacco. It produced \$142 million that year. Of course, you have to bear in mind that the excise duty on cigars, cigarettes and tobacco produced \$131 million. Therefore you have really a smokers' share of \$273 million in the way of taxes.

Mr. WINCH: I contribute too much to that.

Mr. SELLAR: The next largest item is the tax on automobiles, tires and tubes. That tax of course was reduced last year. The next in size was the excise tax on television sets, radios, phonograph and tubes, and so on. You will recall that back in 1952-1953 it was decided by legislation that the equivalent of the proceeds of this tax be paid over to the broadcasting corporation. The receipts from that tax have been diminishing. It hit a high point of \$23 million three years ago, and has dropped to \$17 million. As you know, at the last session of parliament the Broadcasting Act was repealed so that money now remains with the Receiver General. The broadcasting corporation is financed in another way.

There are a number of small taxes which do not produce a great deal, but which do produce a few millions. Of all the taxes that are most consistent, in view of Mr. Winch's remark, he might be interested to know that matches and lighters can invariably be depended upon to produce about \$900,000 a year. Smokers pay that much every year.

Mr. WINCH: Pipe smokers.

Mr. SELLAR: As I say, the other taxes are relatively small and are insignificant in a budget of over \$5 billion.

The CHAIRMAN: I would like to ask what was the Fowler commission formula on rates and money for broadcasting?

Mr. SELLAR: That is something I read last night, thinking I might be asked a question on it. However, I forgot to put it in my binder. I will have to get that.

Mr. DRYSDALE: When you mentioned the amount involved for cigarettes and tobacco, in view of the recent cancer scare in respect of tobacco I was wondering if you have noticed any decrease in the revenues with reference to tobacco and related items?

Mr. SELLAR: There has been no significant change.

Mr. DRYSDALE: There has been no correlation in respect of cancer and a decrease in revenue?

Mr. SELLAR: No. As a matter of fact, the revenue from cigarettes, tobacco and cigars has gone up.

The CHAIRMAN: Mr. Sellar, are not these various other items discussed in detail in subsequent paragraphs?

Mr. SELLAR: Yes, sir.

Mr. DRYSDALE: I notice the excise tax between 1956, 1957 and 1958 has decreased about \$31 million. Could you say what the major decrease was?

Mr. SELLAR: Well, as I say in paragraph 8, the sales tax was down \$14 million, the repeal of the tax on candy, chewing gum and soft drinks reduced it \$17 million, the reduction of receipts on automobiles was \$7 million, and the repeal of the tax on insurance premiums was, roughly, \$16 million.

9. In making a comparison of receipts under the heading "Return on Investments", it is to be borne in mind that: (a) in 1956-57 there was a windfall to consolidated revenue fund when the Bank of Canada surrendered \$42,593,000, being the amount of inner reserves no longer required when it adopted amortized cost as the basis for valuing its holdings of government securities, and (b) in 1956-57 the Canadian National Railways paid a dividend of more than \$26 million, representing 1956 profits from operations, whereas in the next year the company had a deficit. A summarized classification of return on investments' sources, to the nearest \$100,000, is:

Source	1954-55	1955-56	1956-57	1957-58
Bank of Canada	\$ 41,500,000	\$ 38,300,000	\$ 89,900,000	\$ 68,700,000
Exchange Fund Account	10,900,000	10,800,000	17,400,000	22,900,000
Canadian National Railways	4,100,000	11,900,000	30,800,000	12,500,000
Central Mortgage and Housing Corporation	16,200,000	18,500,000	17,500,000	18,200,000
Polymer Corporation Limited	3,300,000	5,000,000	6,000,000	4,000,000
Eldorado Mining and Refining Limited		2,500,000		3,500,000
Other Crown corporations	12,300,000	8,800,000	8,900,000	7,600,000
Loans to national governments	34,800,000	33,500,000	10,300,000	10,100,000
Other investments, deposits, etc.	2,900,000	11,700,000	16,600,000	12,600,000
Miscellaneous .	8,000,000	8,300,000	9,200,000	9,300,000
	<u>\$ 134,000,000</u>	<u>\$ 149,300,000</u>	<u>\$ 206,600,000</u>	<u>\$ 169,400,000</u>

Mr. BELL (*Carleton*): I wonder if Mr. Sellar would outline the nature of the inner reserves of the Bank of Canada referred to here the date on which the amortized cost was valued for the holdings of government securities, and also what the previous basis was? He might also give us some idea of the significance to the Bank of Canada and also the government of Canada of this change in the basis of valuation.

Mr. SELLAR: May I answer Mr. Bell's question by reading a paragraph of the Bank of Canada report, using their own language. This is taken from the report of the Bank of Canada to the House of Commons for the year 1956. It is on page 78 of the report. The quotation is:

The previous practice of the bank was to carry government securities in its published statements at values not exceeding market prices. This was accomplished by setting aside out of profits certain amounts by way of inner reserves, which were deducted from the value of the securities as carried in the bank's basic account records; the resulting lower values were those published in the bank's weekly and monthly statements. Because of the possibility of fluctuations in market prices the inner reserves were, over the years, built up to large proportions, and consequently the bank's securities were carried at published values substantially below cost.

Mr. BELL (*Carleton*): What date was the actual change made in the method of valuation?

Mr. SELLAR: That change was made at the end of 1956.

Mr. BELL (*Carleton*): But it is reflected in the fiscal period 1956-1957.

Mr. SELLAR: Yes.

Mr. BELL (*Carleton*): That would be a windfall in Mr. Harris' budget of \$42½ million, which would inflate the surplus as of that period by \$42½ million?

Mr. SELLAR: You will see in paragraph 9 that the Bank of Canada is shown as paying over \$89,900,000.

Mr. BELL (*Carleton*): Yes. \$42 million of this fund is the liquidation of an account for inner reserves thought by the Bank of Canada no longer to be required.

Mr. SELLAR: Yes. It was done simultaneously with the chartered banks receiving like permission by legislation.

The CHAIRMAN: What is our capital investment in the Bank of Canada?

Mr. SELLAR: The Bank of Canada was originally a privately-owned business. It had five million dollars' worth of shares. The government purchased all of those shares at a small premium. The Bank of Canada statement shows it having outstanding stock of \$5 million, but in our public accounts the investment is shown as \$5,800,000. That is all we have invested. I must say it is a paying investment.

The CHAIRMAN: What have we collected in the last five years?

Mr. SELLAR: If you look at the first item of paragraph 9, we have \$41,500,000 in 1954-1955; \$38,300,000 in the following year, \$89,900,000 in the next, and \$68,700,000 in 1958. Last week the governor of the Bank of Canada tabled his statement for 1958—they work on a calendar year basis. In the statement they are surrendering \$88,631,000 to the government this year.

Mr. BELL (*Carleton*): It is a profitable investment.

Mr. SELLAR: Yes. I agree with you.

The CHAIRMAN: Would you explain the exchange fund account?

Mr. SELLAR: The exchange fund account originated at the outbreak of the second world war. It was created under the authority of the War Measures Act and continued in that form until after the war when, by legislation, the Minister of Finance took over the entire responsibility for the exchange fund account.

The minister uses the Bank of Canada to administer the fund, but the Bank of Canada takes instructions from the minister. The balance credit of the fund is represented by either gold, United States currency or securities. Generally, very little currency is held. It is in short-term securities and gold.

In recent years, due to the very high rate of interest paid on short-term securities in the New York market, the exchange fund has made a lot of money. Its statement has just been tabled. This year there is a reduction. It is approximately \$18,600,000 as compared to \$22,900,000 in the previous year. There is a little over \$1,900 million in the account; and by law I am required to audit that account.

The CHAIRMAN: Mr. Sellar, did you want to say anything in regard to the Canadian National Railways at this time? I think it is covered in paragraph 20, which comes later on.

Mr. SELLAR: No, sir. The money from the Canadian National Railways represents interest paid by the railway on borrowings from the government.

The CHAIRMAN: What about Polymer Corporation?

Mr. SELLAR: As you know, Polymer Corporation has always been a crown corporation. It was started from scratch and was operated as an ordinary crown activity until a few years ago when, by an item in the estimates, the property or the assets of the corporation was transferred over to it in

exchange for shares. Until that time there had been no shares. It was assumed that these shares had a value of \$30 million. The government took 2 million shares in exchange for that. In addition, the corporation was required to give debentures for \$8 million with one million to mature each year. The company has paid off all debentures. Currently it has assets in excess of \$60 million and liabilities of about \$8,600,000. It is a very profitable concern. We audit this account and it declares a dividend each year. In the year in question it was \$4 million.

Mr. CHAIRMAN: The public investment is \$30 million.

Mr. SELLAR: It is so rated. Actually the original investment of the crown was more than that, but after you have taken into calculation depreciation on assets and so forth at the time it was changed, \$30 million was fixed as the value for share purposes, plus \$8 million. The crown really estimated its worth at \$38 million.

Mr. SMITH (*Simcoe North*): Have you any record of the actual cost of the plan?

Mr. SELLAR: You cannot pin down original costs on anything, because the structure was continually being enlarged as we went along. For example, at the outset steam boilers had to be taken where you could find them. These were not economical; so when they could obtain boilers after the war, they scrapped the powerhouse and erected a new one which was more efficient. They kept enlarging and put in various other things. I do not have the statement with me, but I think something like \$70 million has gone in, either by ploughing back profits or government money, recovering some by way of dividends and so forth. If you were to try to sell Polymer today, I have no idea what the market price would be.

The CHAIRMAN: Why was the company started in the first place?

Mr. SELLAR: No one was prepared to take the risk. It was necessary because the Japanese were cutting off supplies of raw rubber and we had to get synthetic rubber somewhere, or build; it was established at Sarnia because operations are tied in with the petroleum industry.

The CHAIRMAN: Would you give us the background of Eldorado Mining and Refining Limited?

Mr. SELLAR: Eldorado Mining and Refining Limited was originally an Ontario incorporation. Shares were sold in the usual way; the government had no interest in it. The government's interest started as a result of a request. At this point I am guessing, but I think you could pin it on Mr. Churchill, as the person who indicated to the government of Canada that it was highly desirable to get control of Eldorado. At that time the atom bomb and the like were very hush, hush; but they placed such great emphasis on it that Mr. Howe arranged with Mr. Gilbert Labine, president of the company, to buy up by direct negotiation all the shares that he could obtain on the market. If my memory serves me, the market price of the shares at the time of that decision was around 60 cents; he was authorized to offer \$1.25. Mr. Labine sold all of his own shares at that price and obtained a large number of other shares. He did not get all; but once we got control it was decided to clean up everything by expropriating all outstanding shares, and for that purpose the price was increased to \$1.35, with the understanding that all who had already sold shares at \$1.25 would get the extra 10 cents. It was also provided that any shareholder who objected had the right to go to the Exchequer Court and have the price fixed.

There was some agitation at the time among some of the shareholders that the price was not fair; but none of them went to the Exchequer Court.

The result was that for a little over \$5 million the crown acquired Eldorado. It was then converted under a Canadian Companies Act charter. The government put in a great deal more money during the war because pitchblende became increasingly important; and they had to open new reserves. They opened a new plant at Great Bear lake. Moreover, they had a bad fire there.

If I am not taking up too much of your time, I would like to refer you to an incident that happened then which could happen again. I honestly believe it is something to which this committee should give consideration. In the Companies Act all companies have the ancillary power of borrowing on their own credit. As far as I know, there is nothing prohibiting a crown company incorporated under the Companies Act from borrowing on its own credit. In this case, after this big fire, Eldorado borrowed quite substantially from the bank to finance the reconstruction of its property; it has paid off all of those loans. Although it borrowed with the knowledge of the government, I do have a little reservation in my mind as to the propriety of a crown company incorporated under the Companies Act having the power to borrow in its own name. The government can only borrow with the consent of parliament and I am inclined to think a crown company should be in the same position.

The CHAIRMAN: Your point is if they want money, they should come back to parliament; is that correct?

Mr. SELLAR: Parliament should say it should borrow that way, if it wants to. There should be some direction and it should be subject to parliamentary control. As it is now, the Companies Act controls it.

Mr. BELL (*Carleton*): I think, Mr. Chairman, Mr. Sellar should be heard further on this subject before this committee winds up its work.

Mr. SELLAR: Eldorado originally had and still has 70,500 shares, the cost to the government. I was wrong a few minutes ago when I said 5,300,000; I see it is 6,586,000; and if you will allow me, I would like to make that correction for the record.

The CHAIRMAN: Permission granted.

Mr. SELLAR: Currently Eldorado's assets amount to a little over \$53 million and its current liabilities are roughly \$6,600,000. As you will notice in paragraph 12 the company paid a dividend of \$3,525,000 to the government in 1958.

Mr. HELLYER: Were all the shares collected by the government at the time the expropriation took place or were some held out by some groups or individuals?

Mr. SELLAR: If they were not turned in, they were not of any use to the holder because they were expropriated.

Mr. HELLYER: Were there people who just, out of spite or for other reasons, held on?

Mr. SELLAR: I am relying on memory. There was a group in Hamilton that felt very strongly about this subject and they held out for a while; but my information is that they all turned in their shares ultimately and took the \$1.35.

Mr. BELL (*Carleton*): This was a subject of a very major parliamentary controversy at the time. I do not want to thresh old straw, but I do not want it to be considered as approval of the techniques that were then adopted.

Mr. SPENCER: As one who is not familiar with the situation, I am curious to know why \$1.25 was offered when 60 cents was the market price.

Mr. SELLAR: As I was not consulted, I am unable to answer your question. I think it was due to the government's consideration that this was going to become very important and that they should try to play fair with the stockholders by offering them double the market value. That may be one

explanation. The other one might be that they thought the shareholders would sell faster at 100 per cent over the market price and in that way would be able to get control of the company more quickly; however, I do not know the reason.

The CHAIRMAN: There is another heading "loans to national governments". Could you tell us, Mr. Sellar, what loans are outstanding; what loans are in default; and what recent loans have been made?

Mr. SELLAR: Of course, the big loan is the United Kingdom loan made in 1946. The interest payments under it are \$22,545,000 annually. As you will recall, the United Kingdom government defaulted for a couple of years in respect of loans by Canada and the United States. More recently an agreement has been entered into limiting the number of defaults between now and the year 2000, and providing for interest payments on arrears. The total principal outstanding of the loan made in 1946 is \$1,096 million; in addition, there is about \$44 million of interest in default, which brings it up to \$1,140 million.

The next largest loan outstanding is that to France. The French government borrowed quite a substantial amount of money after the war. The loan now stands at \$169 million. The French government annually is paying the instalments as they fall due. In the year under review those amounted to approximately \$9 million.

The Netherlands have borrowed under the same legislation as did France. They now owe \$89,500,000, and are paying off at the rate of \$5 million a year. Norway had a small amount; Belgium had \$43,822,000. All loans are in good shape, that is, all foreign loans that have been made since the last war, with the exception of the loan to nationalist China which was for approximately \$49 million, and which has been in default for a number of years.

Some of the post-war loans have been paid off. Indonesia paid off its loan in full. Czechoslovakia paid off its loan in full; and there was a small loan to the U.S.S.R. which has been paid off in full.

As a rule, the rate for these loans is either three per cent or two and one half per cent. You asked about any new loans: the only new loan last year was the one authorized to be made to India to be used for the purchase of wheat. That loan was for \$16,173,000, I think.

Generally speaking, payments are received punctually in connection with these international loans, and we have a pretty good record. We have only one that was in default.

Mr. MCGREGOR: What date was the loan made to China?

Mr. SELLAR: It would have been made around 1948.

Mr. MCGREGOR: Was any interest ever paid on it?

Mr. SELLAR: Interest was paid for one or two years.

Mr. SPENCER: Are these amounts interest payments, or are they combined with principal payments, or what?

Mr. SELLAR: What I am showing you are interest payments. The principal payments are shown as a reduction in the assets side in the statement of assets and liabilities.

Mr. SPENCER: Why is there a tremendous drop in interest between 1955-56 and 1956-57?

Mr. SELLAR: Because the United Kingdom defaulted for two years on its \$22 million interest payment.

Mr. SPENCER: Are they still in default?

Mr. SELLAR: No.

Mr. SPENCER: Does it show in 1958-59?

Mr. SELLAR: They have made interest payments.

Mr. McMILLAN: Why is there a variation in the return of investments, and do interest payments from foreign governments have anything to do with the variation? Evidently they are down in 1957-58, but the return from investments is the highest in 1956-57 of any year. Why is that?

Mr. SELLAR: Because of the large amount received from the Bank of Canada on account of their changing their method of valuing their securities. You will also notice that the Canadian National Railways that year had a surplus of \$30,800,000.

Mr. HELLYER: What were the terms of the loan made to India last year?

Mr. SELLAR: I do not have them with me. I would have to get them for you.

Mr. DRYSDALE: Might I have some assistance from Mr. Sellar on the matter of revenues, as to the extent they are deducted monthly on a cash basis?

When we look at the income tax statement and see that figure, does it represent the amount that has actually been collected, or does it include bills sent out to people for their income tax? And if not, where is the amount shown that is not collected yearly on income tax? Being a practical man, I recognize that everybody does not pay his bills. So how is that shown?

Mr. SELLAR: The amount shown is the cash actually received.

Mr. DRYSDALE: Are all the subsidiary corporations computed on a cash or on an accrual basis?

Mr. SELLAR: On an accrual basis. The federal government, however, is on a cash basis. We go on the accrual basis in expenditures so far as interest on the public debt is concerned. We accrue interest to March 31 on the expenditure side.

Mr. DRYSDALE: Having regard to that specific item of \$2,798,900,000 for income tax what part of it was uncollected in 1957-58. Does that actually represent all?

Mr. SELLAR: That represents what was collected.

Mr. DRYSDALE: Could I find out what we have not collected?

Mr. SELLAR: I do not think you will find it in the public accounts.

Mr. DRYSDALE: You have no idea what percentage was not collected?

Mr. SELLAR: No, I have not. My men would know, but I do not.

Mr. DRYSDALE: Why is that not shown?

Mr. SELLAR: Well, I do not prepare the public accounts, so I shall not try to pass the buck. But it may be in the departmental report for all I know. I would like to verify it and let you know at the next meeting.

Mr. DRYSDALE: How are they written off? Is it done every five years, or what?

Mr. SELLAR: What the department does is this: it applies to treasury board for consent under a section of the Financial Administration Act to defer efforts to collect a bad account. That consent having been given, in due course an item is put in the estimates listing the amounts and asking for authority to write them off.

Parliament alone has the authority to write off any debt due to the crown. So you will get an item in the estimates some time for a write-off of that debt.

Mr. DRYSDALE: Is there not provision made for items of less than \$500 that you could write off yourself, departmentally?

Mr. SELLAR: No. The difference between \$500 and the larger sum is in the period of time for which you are supposed to hold off before you go to parliament. That is in respect to this amount of less than \$500.

A year ago an amendment was put in allowing for trifling items up to \$25 to be written off departmentally. I am not sure of that figure. But for any larger sum, we must go to parliament.

Mr. DRYSDALE: If it is easily accessible, I would be interested to find out for the comparable years 1954-55 and up to 1958, the amount that has been uncollectable in income tax, and including corporation taxes.

Mr. SELLAR: Very well.

Mr. HELLYER: From the standpoint of efficiency and cost, do you think it would be advisable for any government department to have the discretion to write off amounts larger than \$25?

Mr. SELLAR: To me the amount is too small. I realize that many transactions of the government are for small amounts, but I think where an amount larger than \$25 is involved, they should be allowed to have a little more discretion. However, that is government policy and I am not disagreeing with it, because the smaller they keep it, the stronger the over-all control of parliament. Therefore, as an officer of the house I will not contest it.

Mr. HALES: This may not be the right place to ask this question: but under these loans to other governments, speaking of the one to nationalist China, did they include the ships which we sold to China?

Mr. SELLAR: No sir, they are separate.

Mr. HALES: Have we been paid for those ships?

Mr. SELLAR: No. Two Canadian chartered banks made loans for the construction of those ships. The government of Canada guaranteed the loans, and we have annually been called upon to make good on that guarantee. We have paid out something like \$10 million on guarantees, and we still have some to make.

Mr. HALES: That was a bad deal.

Mr. SELLAR: Well, I do not know the reasons for the deal; but probably among other reasons it was made to provide employment.

Mr. SPENCER: Coming back to income tax, is there a breakdown of income tax revenue as between tax, interest and penalties?

Mr. SELLAR: I would imagine there is.

Mr. SPENCER: Does that show in the accounts?

Mr. SELLAR: It is not in the public accounts, no. It might be found in their departmental report. I will look it up for you.

Mr. MCGREGOR: In what year were these ships sold to China?

Mr. SELLAR: I am not sure. I would have to get that for you.

Mr. McMILLAN: In connection with the Canadian National Railways, I believe you said that in 1956-57 they had \$30,800,000. What is this \$12½ million for in 1957-58?

Mr. SELLAR: It is interest on loans the government has made to the railway, and on which the railway pays interest to the government.

Mr. McMILLAN: This is considered to be part of the operating cost, and we make it up out of other accounts if they have a deficit?

Mr. SELLAR: Yes, they may absorb that when they have an issue.

Mr. McMILLAN: When you speak about carrying a dividend of more than \$26 million in the previous year, 1956-57, does the government keep part of that dividend? Is that why \$30 million is put in there?

Mr. SELLAR: The government gets all the surplus. The railway is required to pay over all of its surplus. On the other hand, if the railway has a deficit, the government is obligated to make good the amount of the deficit. Up to,

I think, 1960, the government is also required to purchase annually from the railway preferred stock up to a percentage based on the gross earnings of the railway company, with this money to be used for capital betterments.

We are required to buy preferred stock to the equivalent of three per cent of the gross revenue of the company each year, and in 1958 the government purchased \$21,875,000 worth.

Mr. McMILLAN: On which the government gets interest? That is, interest is paid on it?

Mr. SELLAR: No sir, it is preferred stock.

Mr. McMILLAN: Oh, I see, yes.

Mr. SELLAR: This is four per cent preferred stock.

Mr. CHARLTON: The government buys so much preferred stock every year.

Mr. SELLAR: Yes sir, we are obligated to do so by the statutes.

Mr. CHARLTON: Is it the assets of the company that form the basis on which the amount is taken?

Mr. SELLAR: The legislation directs that from 1952 to 1960 the government purchase at par four per cent preferred stock to an amount equal to three per cent of the gross revenue of the company.

The railway is to use the money for additions and betterments included in the capital budget. Noncumulative dividends are to be paid to the extent that the earnings are available after payment of:

- (a) Interest on securities held by the public.
- (b) Interest on indebtedness to the government.
- (c) Taxes under the Income Tax Act.

Mr. CHARLTON: Does the railway pay that four per cent back to the government on the amount of preferred stock, as interest?

Mr. SELLAR: It pays it when it has the money.

Mr. MCGREGOR: When it needs the money, it borrows it from the government?

Mr. SELLAR: No, it is subscribed by the government as a capital subscription.

Mr. MCGREGOR: That is all shown in the loan for that year to the railway?

Mr. SELLAR: No, the government will set it up as an asset.

Mr. BELL (*Carleton*): Are they cumulative preferred shares?

Mr. SELLAR: I think so.

Mr. CHARLTON: Are there increased assets to cover them in the company?

Mr. SELLAR: No, it is just preferred stock of the company, but the money is earmarked for betterments that are in the capital budget and approved by the house of commons.

Mr. CHARLTON: Would there not be an increase in the assets of the company?

Mr. SELLAR: Yes. I thought what you meant was whether specific assets were earmarked as security for the stock.

The CHAIRMAN: Is there anything else, gentlemen? Paragraph 10.

10. A detailed listing of the 1957-58 Return on Investments items is given in Appendix 3 to Part I of the Public Accounts, therefore a few comparisons only are now made. The Bank of Canada Act requires the Bank to surrender its surplus annually to the Receiver General and the surplus exceeded by \$21,400,000 that of the previous year (though the total amount received from the Bank was \$21,200,000 less, because of the special transaction referred to in the preceding paragraph). Central Mortgage and Housing Corporation is also required, by section

30 of its Act, c. 46, R.S., to surrender its annual profits. In 1957-58 the amount received in respect of profits was \$1,017,000, the \$17,204,000 balance of the \$18,221,000 included in the above table being interest on loans made to the Corporation out of Consolidated Revenue Fund. Of the \$17,495,000 received in the previous year, \$869,000 was on account of profits and the balance for interest on loans.

Mr. BELL (*Carleton*): Mr. Chairman, could I ask Mr. Sellar a question in connection with Central Mortgage and Housing Corporation, to which he refers there. The requirement of the act is that the corporation surrenders its annual profits. I notice in the previous paragraph it has surrendered in the four previous fiscal years some \$70,600,000. What is the theory behind that requirement?

Mr. SELLAR: Your \$70 million figure is arrived at by adding up those figures in that table, is it?

Mr. BELL (*Carleton*): That is right.

Mr. SELLAR: The major part of those totals is interest on borrowings from the government.

Mr. BELL (*Carleton*): Then it is not an annual profit?

Mr. SELLAR: No. In 1957-58 the profits were \$1,017,000. The Central Mortgage and Housing Corporation Act provides that they shall have a reserve fund up to \$5 million. Once they have that reserve, any surplus has to be surrendered to the government. It is modelled on the Bank of Canada Act in that regard.

Mr. BELL (*Carleton*): The theory is that they are not supposed to accumulate profits to any extent; the purpose of Central Mortgage and Housing Corporation is to provide housing at the lowest possible rates?

Mr. SELLAR: Yes. One little problem to me is that I have never been able to satisfy myself why Central Mortgage and Housing Corporation was made subject to income tax when the government is to take the surplus.

Mr. BELL (*Carleton*): Last year they paid about \$970,000 income tax?

Mr. SELLAR: Yes.

The CHAIRMAN: If the Bank of Canada is forced to hand over its surplus profits, why is it not subject to income tax?

Mr. SELLAR: Because we take it all. They are entitled to keep a reserve fund of \$25 million. Having done that, they have no right to any money and they turn it all over to us. So why go through the fiction of taking income tax when it has to be returned to the Receiver General anyway?

The CHAIRMAN: Why is there that inconsistency, that Central Mortgage and Housing Corporation is made subject to income tax and the Bank of Canada is not?

Mr. SELLAR: That is the inconsistency. I do not think Central Mortgage and Housing Corporation should be subject to income tax.

Mr. BELL (*Carleton*): Does that apply to any of the other private corporations you mention in paragraph 13?

Mr. SELLAR: It did, at one time, to what was known as the Northwest Power Corporation, which was the equivalent of a hydro corporation. An ordinary publicly owned hydro corporation in this country does not pay income tax; but we made ours subject to income tax.

That being inconsistent, a couple of years ago you changed that and now it is no longer liable. The companies that are liable to income tax are the Broadcasting Corporation, the Canadian Farm Loan Board, the Canadian National Railways, the Canadian Overseas Telecommunications Corporation, Central Mortgage and Housing Corporation, Eldorado Mining and Refining

Limited and Eldorado Aviation Limited, Export Credit Insurance Company, Northern Transportation Company, Polymer Corporation Limited, the St. Lawrence Seaway Authority and Trans-Canada Airlines. The big contributor is Polymer Corporation Limited.

Mr. DRYSDALE: Do you not think that by having their statements on the same basis as private companies there is a ready basis of comparison to see their relative effectiveness.

Mr. SELLAR: That is the reason.

Mr. DRYSDALE: That is what I was trying to generalize.

Mr. SELLAR: The original reason was that it was felt there was a degree of unfairness between Canadian National Railways and the C.P.R., the C.P.R. being liable to income tax whereas the C.N.R. was not. It could also apply to other companies in competitive business.

Mr. DRYSDALE: You mentioned that, of the companies in schedule D, Central Mortgage and Housing Corporation should not pay income tax. Are there any others in there who you think should not pay income tax?

Mr. SELLAR: No. Central Mortgage and Housing Corporation is one where we take the surplus. Why go through the fiction of taking by tax?

Mr. HELLYER: With regard to the St. Lawrence Seaway, is any surplus there turned over?

Mr. SELLAR: The St. Lawrence Seaway Authority will be subject to income tax, but naturally it has not paid any.

Mr. CHARLTON: Is that Authority allowed to keep its surplus for its own use, rather than turn it over to the Receiver General?

Mr. SELLAR: The St. Lawrence Seaway?

Mr. CHARLTON: Yes.

Mr. SELLAR: Yes.

Mr. CHARLTON: How much?

Mr. SELLAR: The Financial Administration Act provides that at any time the Minister of Finance and the minister over this particular corporation—in this case, the Minister of Transport—can agree that the corporation has more money than it needs for its requirements and can take it away from the corporation, regardless of the amount. They decide the amount.

Mr. CHARLTON: Regardless of the amount?

Mr. SELLAR: Regardless of the amount. There is no set limit.

Mr. LAMBERT: Carrying on that particular point, does not that provide for some element of uncertainty on the part of the management of the St. Lawrence Seaway Authority, that suddenly the two ministers should get together and decide certain of its capital, accumulated surplus, can be appropriated?

Mr. SELLAR: Of course, it has not happened. The Financial Administration Act is designed on the basis that the Minister of Finance will be the man who wants the money and that the appropriate minister will be the man who will fight the Minister on behalf of the company. They require the approval of the governor in council.

Mr. LAMBERT: It is a matter of principle, I think, and we could go into it further if the management of these companies so required.

Mr. SELLAR: To the best of my knowledge that section has never been applied. The nearest was in connection with the surplus of Crown Assets Corporation, where it has turned over some of its surplus.

Mr. LAMBERT: But it is not really an operating entity?

Mr. SELLAR: No. You should bear in mind that the ministers can take the money in two different ways (a) for all time, (b) temporarily, to be returned to the company when they feel it is needed.

The CHAIRMAN: Mr. Sellar, do you audit all these crown corporations?

Mr. SELLAR: No, sir.

The CHAIRMAN: Which ones do you not audit?

Mr. SELLAR: I do not audit the Canadian National Railways, Central Mortgage and Housing Corporation, or Trans-Canada Air Lines. I do audit all the others I listed.

Mr. LAMBERT: Turning back to Central Mortgage and Housing, it is audited and it has a reserve of \$5 million. That was predicated on a level of operation at what figure?

Mr. SELLAR: If my memory is correct, that act was originally 1946 legislation.

Mr. LAMBERT: And revised in 1954?

Mr. SELLAR: Yes.

Mr. LAMBERT: There was no revision in that prior to 1954?

Mr. SELLAR: No.

Mr. LAMBERT: With the very extensive expansion of Central Mortgage and Housing directly in the field of mortgaging, in your opinion, is this reserve sufficient?

Mr. SELLAR: I have no opinion because I do not audit them. My knowledge does not go as far as yours.

Mr. SMITH (*Simcoe*): This is not the insurance fund? It is separate?

Mr. SELLAR: As I understood Mr. Lambert's question he was referring to a general reserve of \$5 million.

Mr. LAMBERT: Yes, separate from the insurance fund.

Mr. HALES: Mr. Chairman, could we ask Mr. Sellar if his advice is sought before audit companies are appointed for these corporations which he does not audit. Are you, Mr. Sellar, consulted in respect of the firms which audit them, or do you pass any opinion?

Mr. SELLAR: No, sir. When parliament says the governor in council shall appoint an auditor, there is no reason why the governor in council should ask me for an opinion.

Mr. HALES: I would think, as Auditor General of Canada, that you should have some say in the choice of auditors for these corporations?

Mr. SELLAR: No. The Financial Administration Act provides—

The CHAIRMAN: I would go even further and ask why the Auditor General of Canada is not the auditor of Central Mortgage and Housing Corporation and also some others? Perhaps there is a reason?

Mr. SELLAR: That is a question of policy. The act provides that where the auditor is to be appointed by the governor in council, the auditor general may be named the auditor or one of the auditors, notwithstanding the provisions of the particular statute.

Mr. BELL (*Carleton*): Returning to the question of corporation tax on proprietary companies, would you indicate which of these companies required to pay federal income tax have been subject to provincial corporation tax?

Mr. SELLAR: That is a controversial matter. There is a controversy going on between the government of Canada and the province of Ontario and the province of Manitoba. We both have corporations operating in Ontario.

Mr. CHOWN: Why the province of Manitoba?

Mr. SELLAR: It has a corporation operating at the head of the lakes.

Mr. CHOWN: Can you name the corporation.

Mr. SELLAR: No. However, I was informed that is the case.

Mr. DRYSDALE: For general information, when Mr. Sellar makes his report to the House of Commons, he is authorized under section 70 to report any other case which the auditor general considers should be brought to the notice of the House of Commons. Could you tell me how you exercise that discretion? Have you any sort of rules as to what is brought before us? I am wondering what matters might be important to you?

Mr. SELLAR: I follow the rules. First, I do not bring to you anything that is so highly technical that it is difficult to explain and is relatively unimportant. You have other things to worry about rather than some tricky question of accounting technique. Secondly, I only bring to you things which I think may be of interest to you as parliamentarians.

Then on the other hand, if I bring a matter to your attention in a report, possibly repeat one of a similar nature a year or so later and you do not pay any attention to either and are not at all interested in it, I do not repeat it if there is a third case. I repeat it just to see whether or not you are interested in it.

I am not critical of the practice in this example which I now give you, but I think it is wrong. A department buys a piece of land. It retains a lawyer as its agent through the Department of Justice. As is customary, the lawyer gets a cheque for the price of the land. The deal takes place at the year end. He does not complete his transaction until the month of May when he pays over. They charge that cheque as of the date it was issued. I claim it should be recorded as a charge the day it is paid over. I would say that, in a sense, is technical, but I have that one in this year and I am using it to explain my technique.

Mr. DRYSDALE: To clarify my own thinking in the matter, is there any case where you have to compile perhaps more complete information than is submitted to you by your auditors on the various matters which might be considered by us?

Mr. SELLAR: My auditors follow the audit guide in submitting stuff to me. They will submit a tremendous mass of stuff. I go through that and decide what I think should go into the report. That is then stencilled and my senior men are given a copy. They will have the copy for two weeks, then hold joint meetings and pick it to pieces. I may or may not be present. They come back and say, "We think you are wrong in including this and we think you should include something which you omitted". The auditor's report is a joint effort and we do not try to standardize what should or should not go in. We cannot tell what will arise. We are influenced by what we think the house is interested in and what we think the law requires us to report.

Mr. DRYSDALE: Although I do not wish to take up too much of the committee's time, I wonder if it would be possible at some future meeting to have an indication of some of the things which you have omitted which you do not think are of interest to us.

Mr. BELL (*Carleton*): No; we have enough work to do as it is.

Mr. DRYSDALE: I seem to be incurring the ire of the group; but we as parliamentarians are here to examine the public accounts. There is a certain discretionary practice left to the Auditor General; and I am interested in finding those things he considers as unnecessary for review by parliamentarians. If we knew what they were, they might be of interest to us. I just want examples.

Mr. BELL (*Carleton*): We could take over the Auditor General's job.

Mr. SMITH (*Simcoe North*): The items which are not covered in his report obvious are ones that he does not think are important.

Mr. MORTON: I do not wish to be technical or to restrict discussion, but I think the committee would be better advised if we stick to the items set forth in the report, rather than generalities. These other matters could be brought up at a proper time when we would be able to concentrate on them as such. However, this morning we are wandering from one item to another without reaching conclusions. It is not of much assistance to the members.

The CHAIRMAN: Most of the items we have been discussing far and wide are summarized in paragraph 9 and referred to in paragraphs 10, 11, 12, 13, 14 and 15. That is why we seem to be digressing, but in point of fact we are not.

Mr. MORTON: It seemed from time to time we had digressed completely away from the item under discussion.

The CHAIRMAN: Are there any other questions, gentlemen, on paragraphs 9 or 10?

Mr. McMILLAN: This may be digression, Mr. Chairman; but do we receive any returns from the international monetary fund or the world bank.

Mr. SELLAR: No.

Mr. McMILLAN: I understand we can be called on for 100 per cent of our subscription, but generally approximately 20 per cent is the amount we put up.

Mr. SELLAR: Yes, part is in gold and part in U.S.

Mr. McMILLAN: Does it cost Canada very much to carry that. Is it the interest on the money that you receive, or what?

Mr. SELLAR: It is one of those "if" items. If you do not have the money tied up there, you would either use it or keep it invested. It is of international value to us to have that fund.

Mr. McMILLAN: It is invested, but there is no actual return.

Mr. SELLAR: No, there is no return.

Mr. LAMBERT: Would not the cost be the cost of Canada's going into the market to borrow that money; our requirements are such. It may be in a year like this where you do have to go into the market.

Mr. SELLAR: Yes, I grant you that.

11. The increase in Exchange Fund Account earnings was mainly due to the higher average interest return prevailing in New York on short-term securities in the calendar year 1957—apart from \$1,083 million in gold holdings, the resources of the Account as at 31st December 1957 were almost entirely in United States securities. The advances to the Account at that date were approximately \$1,911 million.

12. The \$4,000,000 received from Polymer Corporation Limited comprises dividend payments, as does also the \$3,525,000 received from Eldorado Mining and Refining Limited.

The CHAIRMAN: We discussed paragraph 11 earlier. Paragraph 12 is next.

Mr. LAMBERT: Paragraph 12 is concerned strictly with Polymer dividends.

Mr. SELLAR: Yes.

Mr. LAMBERT: And the management of Polymer has the absolute right of declaration in regard to dividends?

Mr. SELLAR: Yes, the directors declare the dividends. At least, no—the directors each hold one share. As you know, there is a transfer in the hands of the minister with respect to that share. The Minister of Defence Production holds all the other shares. I suppose the Minister of Defence Production attends the annual meeting—or anyway it is arranged there will be a dividend declared in a certain amount that year. It is declared in the formal manner required by the Canadian Companies Act.

Mr. LAMBERT: In other words, Polymer is as close to being an independent commercial corporation as you could possibly get.

Mr. SELLAR: Yes, it is intended to be as such.

13. Section 84 of the Income Tax Act requires those Crown corporations listed in Schedule D to the Financial Administration Act to pay corporation tax. The payments made or to be made by six of the “proprietary” corporations were estimated to amount to \$10,600,000, including \$970,000 by Central Mortgage and Housing Corporation. The profits of \$1,017,000 surrendered to the Receiver General by this Corporation, as noted in paragraph 10 above, were after providing for this tax.

Mr. BELL (*Carleton*): In connection with corporation tax you mentioned today the Canadian farm loan board; do you have the figures of the amount of income tax paid by this board in recent fiscal periods. I know it is in their own report.

Mr. SELLAR: In their last report they show as provision for income tax something like \$15,700 and about \$10,000 already paid.

14. It will be observed that there is a decrease of over \$23 million in interest earnings on loans to national governments in each of the last two fiscal years when compared with 1955-56. Interest deferments on the 1946 loan to the United Kingdom is the main reason. This loan agreement provides that, in certain circumstances, the United Kingdom may defer an interest payment and it has twice done so. An amendment, ratified by c. 37, Statutes 1957, First Session, now limits to seven the number of deferments between 1957 and the year 2000, and fixes a 2% interest charge on amounts deferred. Because of this amendment, \$445,000 of interest was received on deferred interest account during the last fiscal year.

The CHAIRMAN: We discussed paragraph 14 earlier.

Agreed to.

The CHAIRMAN: Paragraph 15 is next.

15. The decrease of \$4,000,000 in interest on other investments, deposits, etc., in the year is mainly accounted for by a decrease of \$3,800,000 in Security Investment Account earnings, which amounted to \$5,200,000 in 1956-57 but to only \$1,400,000 in the year under review.

The CHAIRMAN: I have two questions: first, to what loans are the sinking funds connected; and second, what are the banking arrangements referred to in paragraph 15?

Mr. SELLAR: The sinking fund loans are all in connection with the Newfoundland loans. At the time Newfoundland entered Canada, the government of Canada took over the liability, which was approximately \$51 million. In turn, the province turned over the sinking fund associated with those loans. They mature in 1963. We hold in the sinking fund today—they are all sterling loans—the equivalent of \$14 million. In addition \$19 million is held

in London arising out of the sale of codfish in the European market by agreement between Newfoundland and the United Kingdom. It was to be held in London for the redemption of these loans. So out of the total of \$51 million to mature in 1963, we have today something like \$33 million to \$34 million. As you know, in regard to banking arrangements, the cheques are drawn on the Receiver General and not on a bank. Therefore, banks are kept in funds so they can honour cheques when presented. The banks receive no payment from the government or anyone else for cashing a cheque drawn on the government, nor in sending money through to the government. So we keep a standard balance with each which, in a sense, compensates the bank. They know that amount is going to be there constantly. Whenever the amount on balance exceeds the standard balance, an arrangement made about two years ago by the Department of Finance provides that the bank pay interest. The rate fluctuates but they pay interest on that. That was the source of some income in that year.

The CHAIRMAN: I think we might stop here.

Paragraphs 16 to 26 concern expenditures and are extremely important.

Our next meeting is scheduled for Wednesday, March 25, at 9.30 a.m., unless there is unanimous objection.

Mr. LAMBERT: I suggest you are going to have difficulty getting a quorum.

Moved by Mr. Hellyer and seconded by Mr. Drysdale that the committee adjourn until after the Easter recess.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

Wednesday, April 8, 1959

WITNESS:

Mr. Watson Sellar, C.M.G., Auditor General

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),
and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

ERRATUM

Issue No. 2, page 34, line 31 delete the word "*satisfactory*" and substitute therefore the word "*statutory*".

MINUTES OF PROCEEDINGS

WEDNESDAY, April 8, 1959.

(4)

The Standing Committee on Public Accounts met this day, pursuant to notice, at 9.30 o'clock. The Chairman, Mr. Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Bourget, Bruchési, Campbell (*Lambton-Kent*), Campeau, Charlton, Chown, Denis, Drysdale, Fraser, Hales, Hellyer, Keays, Lahaye, Lambert, Macnaughton, Martin, Morissette, Morris, Morton, Pickersgill, Pratt, Regier, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Villeneuve, Walker, Winch, and Wratten—(32).

In attendance: Mr. Watson Sellar, Auditor General for Canada.

The Committee resumed from March 18 its examination of the Public Accounts for the year ended March 31, 1958.

Mr. Watson Sellar was called. He supplied answers to questions posed on March 18 by Messrs. McGregor, Fraser, Charlton, Hellyer, Spencer and Drysdale, and was further examined thereon.

The witness sought and obtained the approval of the Committee respecting major corrections in his evidence given at the meeting of March 18. He referred to a further error which appears in at page 34, line 31st of the printed evidence issue No. 2 (*see erratum in this day's issue*).

The Committee then proceeded to paragraph 16 of the Auditor General's Report and Mr. Sellar's examination.

Paragraphs 16 to 26 were considered.

The witness undertook to supply answers not readily available.

A table showing a breakdown of payments for family allowances to provinces was taken as read and it was agreed to incorporate it in the evidence.

At 10.55 a.m. the Committee adjourned until 9.30 a.m. Wednesday, April 15th.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

WEDNESDAY, April 8, 1959.

The CHAIRMAN: Gentlemen, we now have a quorum. May I just refresh your memory a bit. At the last meeting we were dealing with revenues, paragraphs 6 to 15. Today we commence with paragraphs 16 to 26, at least, dealing with expenditures. However, before we start, Mr. Watson Sellar was asked several questions at the last meeting and possibly he has the answers at this time. We are continuing the examination of the accounts, with Mr. Watson Sellar as our chief witness.

Mr. WATSON SELLAR (*Auditor General*): Mr. Chairman, Mr. McGregor and Mr. Fraser asked me two questions about the sale of cameras. Mr. McGregor would like to know how many have been disposed of in the last five years and how much was received for them. Mr. Fraser, in turn, wanted me to find out whether they were sold to a firm or individuals. I regret to say I cannot give you a very satisfactory answer because Crown Assets Disposal Corporation does not receive a great many cameras and does not maintain a special classification, for statistical purposes. Therefore, it was unable to inform me how many were received or how much money was obtained for them. I was told that as a rule the cameras are rather old and are thrown in with a lot of other stuff. Dealers come in and make a bid on the lot. That is one reason I have not the record.

The chairman asked me what was the recommendation of the royal commission on broadcasting with respect to financing the deficit and operating costs of the broadcasting corporation. At page 279, the royal commission made three alternative suggestions:

A. To vote, at one time, five stipulated annual sums to cover the next five years, with the text providing for adjustments on account of inflation or deflation in the value of the 1956 dollar;

B. to provide by statute for an annual payment, with provision for annual increases;

C. to pay annually an amount equal to a percentage of total personal expenditure on consumer goods and services as calculated by the bureau of statistics.

The last would be the equivalent of a \$7 or \$10 levy on the family a year.

Mr. Charlton wished to know whether any special contributions have been made by the government to the unemployment insurance fund. In the years 1949-50, 1950-51, and 1951-52, a total of \$6,836,860 was credited to the fund in connection with unemployment assistance, arising out of the terms of union with Newfoundland when it entered Canada. Also in the same three years \$1,828,863 was credited to the account to reimburse supplementary benefits paid to loggers, class 3, and this included any unemployment that was not insurable but was declared insurable under section 87F, as amended in 1950, within a twelve-month period prior to the claim under class 4. In regard to these two sums, the largest amount was in 1950-51. The amount in 1952 was relatively small. If you like, I can give you the figures in more detail.

Mr. Hellyer asked what were the terms of the loan made to India last year. It took the form, you might say, of a line of credit, because the money was not paid to India, but on request paid to the Canadian wheat board to finance the purchase of wheat. The loan authorized was \$33 million. Up to

March 31, 1958 advances totalled \$16,173,000. Repayments are to be made in seven annual instalments starting March 31, 1961. The interest rate is 4½ per cent. The first interest instalment fell due on March 31, 1959, and has been paid.

Hon. Mr. MARTIN (*Essex East*): Do you recall the rate of interest which was demanded by Canada in regard to a proposed loan to Egypt in 1955?

Mr. SELLAR: No, sir, I would have to look that up for you.

Mr. McGregor inquired as to the date when the loan was made to nationalist China after the war. Advances were made between April, 1946 and December, 1948. The over-all total was \$52,216,000. In 1949 and 1950 repayments were made totalling \$2,790,000, so the debt is now \$49,400,000 in round figures. China made two interest payments totalling \$3,658,750.

Mr. McGregor also asked in what year the ships were sold to the Ming Sung Industrial Company Limited, or to China. Of course, in that regard, the government had nothing directly to do with the ships. What it did was to give a guarantee to the banks to secure the banks' loan to the Ming Sung company. The guarantee is dated November 13, 1946.

I have two questions in connection with income tax. Mr. Spencer wished to know if there is a breakdown of income tax revenue as between tax, interest and penalties. I made inquiries of the Department of National Revenue and they informed me their statistics are not compiled in a fashion that permits such a classification and that they do not publish any in their booklets.

Then Mr. Drysdale would like to know, if it were easily available, for the comparable years 1954-55 and up to 1958, the amount that has been uncollectable in income tax, and including corporation taxes. I think I know what Mr. Drysdale wants, and so does the department. But we have been unable, from the manner in which the statistics are prepared, to give you really what you want. At least, that is what we think. However, we will do the best we can.

Section 23 of the Financial Administration Act provides for deletions from the accounts whenever a debt is less than \$1,000 and has been outstanding for either 5 or 10 years. Deletions under the authority of that section in the past four years have totalled \$3,018,671, with \$2,957,088 representing debts by individuals and \$61,583 by corporations.

In addition, at the close of the income tax collection year for 1958, opinion was that tax accounts totalling \$10,677,420 were uncollectable. This represented 22,521 accounts. Neither a division by years nor one between corporations and individuals is available. However, only a small part will come within section 23 of the Financial Administration Act, that is, being for less than \$1,000. Nearly all of that \$10 million figure is with respect to amounts exceeding \$1,000.

Mr. DRYSDALE: Supplementary to that, do you have any idea what the major reasons are for not collecting them? For example, would it apply to companies in bankruptcy?

Mr. SELLAR: Yes, and people have disappeared, and things like that. My personal opinion is that there is a float of around \$100 million of income tax steadily outstanding. That will be due to disputes; due to bankruptcy; due to being unable to locate the individual concerned, and so on. But the income tax people get practically all of that money. When you think of the large sum that we take in, amounting to \$2½ billion a year, my own opinion, which is nothing more than a guess, is that what you would call the annual loss of the government on assessed tax—and I am not talking about tax evasion but assessed tax—is somewhere between one-twentieth and one-eighth of one per cent. That is my guess of what the bad debt record is. I cannot prove that, but am expressing my opinion.

Mr. FRASER: Could I ask a question in regard to the outstanding income tax. Is any of the 1942 tax included, when they paid half and the other half was to be paid on death?

Mr. SELLAR: You are going away back.

Mr. FRASER: To 1942, yes.

Mr. SELLAR: That is all settled.

Mr. FRASER: No, there is income tax that was deferred at that time and payable only on death.

Mr. SELLAR: Well, I will have to verify that, but I know we took it, or most of it, out of the accounts some years ago.

Mr. FRASER: I know there is a lot of that outstanding, but it only becomes due when a person dies. I am referring to the 1942 tax.

Mr. SELLAR: In conclusion, Mr. Chairman, I would like to apologize to the committee for three mistakes I made the last time this committee sat. It so happens that the three mistakes were in answering questions asked by Mr. Bell. I discovered two of them shortly afterwards. I phoned Mr. Bell and with his consent I corrected the transcript with respect to two. The first question was where Mr. Bell had asked me when the Bank of Canada changed its system of valuing its securities. I replied that it was after parliament had given the insurance companies authority so to do. I should have said "chartered banks". With Mr. Bell's consent, I substituted "chartered banks" for "insurance companies".

The second one was in connection with the Farm Loan Board. "Mr. Bell asked me what they paid in the way of income tax last year. I replied, \$15,700." At the moment I had overlooked the fact that they had already paid \$10,000 in addition to that. So I added a little sentence at the end of the transcript to show it was really \$26,000 that was paid.

The third blunder was in connection with the C.N.R. preferred stock. Mr. Charlton had asked me if it was non-cumulative. I replied, "Yes." A few minutes later Mr. Bell asked me the same question and I said, "No." My answer to Mr. Charlton was the correct one.

Finally, there is a little mistake in the transcript of the evidence. In reply to a question asked by Dr. McMillan in respect of the unemployment insurance fund, the evidence shows I said that they did not present a "satisfactory" balance sheet. The word "satisfactory", of course, is wrong. The word I used was "statutory". They do present quite a truthful balance sheet. I used the word "statutory" to indicate it was not one I was required to certify. I brought that to the notice of the unemployment insurance commission as soon as I saw it.

The CHAIRMAN: This correction appears at page 34 of the minutes of proceedings and evidence No. 2.

Mr. SELLAR: I made two corrections in connection with my answers to Mr. Bell. The third one where I blundered I left where it was; I did not touch it at all.

The CHAIRMAN: Does the committee give consent to accepting these corrections?

Agreed.

The CHAIRMAN: Gentlemen, shall we start with paragraph 16, expenditures.

16. *Expenditures.* For the first time since the end of World War II, recorded expenditures exceeded \$5 billion, the amount being \$5,087 million, of which \$1,668 million represented national defence costs. Although without audit significance, it is noted, by comparison, that

expenditures of the government of Canada ten years ago totalled \$2,195 million, including national defence costs of \$196 million; while twenty years ago expenditures were \$534 million with \$33 million spent on defence.

Mr. Sellar, I notice in paragraph 16 that national defence costs in the last ten years have increased from \$196 million to \$1,668 million. What amounts make up this big increase?

Mr. SELLAR: Mr. Chairman, there are of course a large number of heads. Three classifications, as reflected in the public accounts, show these big increases: For equipment and supplies in 1948 we spent \$37 million; last year we spent almost \$642 million. The pay and allowances to the forces ten years ago were \$61,600,000, while in the year 1958 they were approximately \$425 million. The salaries and wages paid by the forces—that is distinct from the civil service employees under the deputy minister's control—ten years ago cost approximately \$17 million, while in the last year they cost \$142 million. Those are the three big items.

The equipment item increased very largely because up to 1948 the services were living on the fat accumulated at the end of the war and their stuff was not yet obsolete. Since then improvements have been made and much more has been spent on equipment.

Mr. BELL (*Carleton*): Do you have the figures showing the change in numbers of personnel represented by the change in the pay and allowances and salaries?

Mr. SELLAR: I could obtain those figures. There are approximately 120,000 persons in uniform at the present time. I will try to get figures.

The CHAIRMAN: Could you give us more details on pay and allowances? Do you have those figures?

Mr. SELLAR: What do you mean?

The CHAIRMAN: Are all costs included in pay and allowances?

Mr. SELLAR: Yes. The pay and allowance rates and so on are set out at pages N21 to N26. The trouble with the classifications for national defence is that the amounts are very large. We have three forces, and we spread the charges around. This year, of course, there is a change in the estimates; there are separate votes. It is very difficult to ascertain what is the exact cost of any particular activity in the service forces.

Let me use as an example something I brought to the attention of this committee in 1956, namely the cost of educating the children of servicemen. It is approximately \$11 million a year. There are something like 950 school teachers on the pay-roll of the department. You will find so many charged to the army, so many to the air force, and so many to the navy. They are listed under the heading, professional services.

Then about \$175,000 a year is spent for transportation, partly in respect of taking the children to school and partly in respect of the teachers, some of whom are moved overseas and so on. All is charged to travel.

We spend about \$500,000 a year for text-books, and the like. That is split up in three different subheads and charged to office supplies.

We pay quite a large sum for fees to schools for non-resident children. For example, in nearby Gloucester township, we pay them so much for the children of servicemen. I do not think you should expect to find it charged under the sub-heading under which it is charged. It is charged to municipal services. You have things like that. Therefore you have some trouble in making a strictly reliable division of charges in national defence. I know they are trying to improve things, but I am still far from satisfied that everything is just as you would like. I must say in a thing like education I would

like to see a different allotment set up so that members of the House of Commons know exactly what is being spent in educating the children of service personnel.

Hon. Mr. MARTIN (*Essex East*): I do not think this paragraph 16 precludes us from an examination of all government expenditures for the fiscal year under review.

The CHAIRMAN: That is true; but we have to start some place.

Hon. Mr. MARTIN (*Essex East*): Quite. I want it to be orderly. Mr. Sellar just spoke of education.

The CHAIRMAN: Under the department, yes.

Hon. Mr. MARTIN (*Essex East*): My question now is: for instance, what is the total telephone bill of the government of Canada for this year—that kind of information—and what is the total travelling bill of the government of Canada for this year.

The CHAIRMAN: I do not want to misinterpret Mr. Sellar, but as I understand it I think he made the statement that there is an item, whether or not it is listed, which amounts to a certain amount, namely \$11 million a year paid for the education of dependents of the armed services.

Mr. BOURGET: Does that amount of \$11 million include the construction of schools?

Mr. SELLAR: There were relatively few schools constructed that year. I think there are 69 or 70 schools operated by the department; but I do not think there is any large expenditure in schools in that year.

Mr. MORTON: Does that amount include contributions to local school boards where there are no national defence institutions?

Mr. SELLAR: Yes.

Mr. MORTON: That is for building purposes, for building schools?

Mr. SELLAR: Again, I do not know whether or not there were any grants in that year.

The CHAIRMAN: I thought that education was a provincial matter.

Mr. SELLAR: There is no clear rule as to the responsibility for the education of the service personnel. We are now, for the first time in our history, having a situation in Canada where we have a large permanent force of soldiers, airmen and naval personnel.

Mr. BELL (*Carleton*): Would you be able to break down that figure of \$11 million as between the amount spent on children of service personnel serving outside of Canada and those serving within Canada?

Mr. SELLAR: There are roughly between 3,000 and 3,500 overseas in France and Germany. The teachers for those are recruited on loan from school boards. It is contract. The government does not employ them; they make contracts with school boards. My recollection is that the cost of educating children overseas is something in the neighbourhood of \$1 million to \$1½ million a year.

Mr. FRASER: Do those teachers have to be transported over to Europe?

Mr. SELLAR: Yes, sir.

Mr. FRASER: That is part of the expense?

Mr. SELLAR: Yes.

The CHAIRMAN: Does this amount to free education to those dependents?

Mr. SELLAR: I would say, yes.

Mr. REGIER: May I ask how many dependents are receiving education in this manner?

Mr. SELLAR: There are approximately 20,000 attending service schools of the department.

Mr. REGIER: In other words, the expenditure for text-books amounts to roughly \$25 each?

Mr. SELLAR: It averages out to about \$50 a year when we contribute fees to municipal schools for non-residents.

Mr. REGIER: I understood you to say that the cost of the books was half a million dollars, and if there are 20,000 that means that the texts cost around \$25 annually for each.

Mr. SELLAR: When you say "books", that can include a variety of things in a school. I will not try to mislead you.

Mr. DRYSDALE: Are all the teachers recruited from Canada or are there some from other countries?

Mr. SELLAR: To my knowledge they are all recruited in Canada.

Mr. SMITH (*Simcoe North*): I have had complaints from school boards about the system of repayment to school boards of the salaries of teachers on loan overseas to the Department of National Defence. They complain that they have to pay the teachers regularly, yet many months elapse before they are repaid by the Department of National Defence.

Mr. SELLAR: That is news to me. I shall make some enquiries.

Mr. MORRIS: When you speak of the desirability of bringing all this material together, is not one of the audit difficulties in that regard due to the fact that you are dealing with at least two departments? Are not some of the educational costs of some of the dependent children of the Department of National Defence for audit purposes, paid by the Department of Finance?

Mr. SELLAR: Well, if I understand your question correctly, Mr. Morris, the trouble can arise when the Department of National Defence pays a municipality when, at the same time, they are getting a grant from the Department of Finance. I know, at the moment, that there is such a controversy in one place which involved about \$12,000 paid by the Department of National Defence.

Mr. MORRIS: My question actually was one of auditing. Is one of your audit difficulties the fact that these costs are not borne by the originating department making the demand or encumbrance, that is, the Department of National Defence, but are in fact borne at least in part by the municipal grants division of the Department of Finance?

Mr. SELLAR: No. The municipal grants part does not come into my \$11 million. That is paid entirely by the Department of National Defence.

Mr. MORRIS: Some of the money paid by the municipal grants division— at page F12 of the public accounts—is in respect of educational costs, is it not?

Mr. SELLAR: They would add to the costs.

Mr. MORRIS: In a case where the municipality undertakes education, as I understand it or, for example, take the case of garbage removal at a self-contained defence establishment; does the municipal grants division not bear the costs of that, and not the Department of National Defence?

Mr. SELLAR: No.

Mr. BELL (*Carleton*): Does it not come down to the question of whether or not the establishment is a self-contained one for the purposes of municipal grants, and whether it should bear the cost of education? Is that not a factor you would take into consideration?

Mr. SELLAR: Yes, it is.

Mr. MORRIS: Is it ever possible to say how much the education of the Department of National Defence dependents costs, when it is perhaps inevitably obscured by payments out of other than Department of National Defence funds?

Mr. SELLAR: I assume you can never be certain of the total figure of anything. We do not attempt to reconcile the two. I was asked about costs in connection with the Department of National Defence. I gave you a big item and I said that there were other items. You cannot be sure of the total of any sub-heading as clearly disclosing everything, and I used education to illustrate it.

The CHAIRMAN: What is your recommendation or suggestion as to how the educational costs of the Department of National Defence should be or could be disclosed?

Mr. SELLAR: I have no recommendation to make, because, as I say, this year the estimates are presented in a different manner. In the past it was done by one big vote, but this year it is divided. I would like to see the application of this new style before I form any opinion.

Mr. REGIER: Is there any explanation why the cost of education should come to \$550 per annum per child, which is just about twice the amount that we use to educate the average child?

Mr. SELLAR: I am afraid you are getting into administration, Mr. Regier, and that is outside my field. What you have to bear in mind is that these schools are in isolated places.

Mr. LAMBERT: May I observe that many of the school districts in the province of Ontario, as well as in other provinces where Department of National Defence children are being educated, have municipal authority. The fee runs anywhere from \$500 to \$700 per pupil per annum; and these school boards are able to justify those fees on the basis of cost per pupil. I have just gone through that and I know it is a fact.]

The CHAIRMAN: I understand these things are not grouped together in the public accounts, is that right?

Mr. SELLAR: No.

The CHAIRMAN: They are difficult to find.

Mr. SELLAR: They are; that is correct.

Mr. DRYSDALE: Are there any other accounts in the Department of National Defence which would be an outstanding example of it being difficult to ascertain as to educational costs?

Mr. SELLAR: I cannot give you a yes or no answer. I asked my men to give me an example of the problem, and they gave me that example.

The CHAIRMAN: Is there anything else under paragraph 16?

Hon. Mr. MARTIN (*Essex East*): I asked Mr. Sellar a question when we were diverted by discussion of National Defence. That is natural, because National Defence represents the biggest single department of expenditure. But this is an item which covers the whole operation of government.

As government expenditures in the current fiscal year are higher than at any time before, it might be useful to examine some of the items which make this a fact. I was thinking of two items a moment ago, one of which was telephone costs.

The public accounts in 1958, volume 1, at page F-14 point out that the expenditure or cost of telephone service at Ottawa for all departments was \$1,221,312, and that the allotment was \$1,238,100. That was only, I take it, for the cities of Ottawa and Hull?

Mr. SELLAR: Yes sir, and for local calls, not for long distance.

Hon. Mr. MARTIN (*Essex East*): Can you give the committee figures of expenditure for the government of Canada not only in Ottawa but throughout the country with respect to the total telephone bill of the government of Canada?

Mr. SELLAR: To the best of my knowledge there is no record.

Hon. Mr. MARTIN (*Essex East*): You say there is no record?

Mr. SELLAR: No.

Hon. Mr. MARTIN (*Essex East*): Why is there no record?

Mr. SELLAR: Well, there would be a statistical record, of course, because the charges are to each department for all costs incurred outside of Ottawa, and for their long distance calls. It is the sort of thing which could be compiled quite easily, I imagine, but there is no record to the best of my knowledge.

However, I think that in the long white sheet which is included at the back of the estimates book there is a calculation of costs, and it might include telephone costs.

Hon. Mr. MARTIN (*Essex East*): My impression is that it does. I do not have the estimates book before me.

Mr. SELLAR: I do not have it with me, either.

Hon. Mr. MARTIN (*Essex East*): I am not wrong in saying that the telephone bill for Canada in 1958 was greater than it was in the preceding year.

Mr. SELLAR: That, sir, I do not know. I assume it would be because the rates went up if for no other reason.

Hon. Mr. MARTIN (*Essex East*): Can you also tell us the total travel bill of the government of Canada for 1958?

Mr. SELLAR: Again, sir, there is no calculation made in the public accounts of the total bill. It is shown for each department.

Mr. WALKER: Was there any calculation made under the previous administration?

Mr. SELLAR: No, it has never been made.

Mr. WALKER: Or for telephones?

Mr. SELLAR: No.

Hon. Mr. MARTIN (*Essex East*): It is always possible to find the total by adding the total of all the expenditures in each department?

Mr. SELLAR: Yes sir.

Hon. Mr. MARTIN (*Essex East*): My question was whether you could tell us the total travel bill of the government of Canada for 1958?

Mr. SELLAR: No.

Hon. Mr. MARTIN (*Essex East*): Your answer is no. May we assume that the travel bill for the government of Canada for 1958 was greater than it was in the preceding year?

Mr. SELLAR: I cannot say yes or no because I do not know. I have never made any comparison.

Hon. Mr. MARTIN (*Essex East*): Would it be convenient for you at the next meeting or at some subsequent meeting to give consideration to these questions, and to whether or not you could furnish the committee with the picture? The travel bill and the telephone bill and the telegraph bill are very important items and they have very great relevancy when we are discussing the implications of paragraph 16.

Mr. SELLAR: I think, Mr. Martin, that you could get that information faster from other sources than from me, because I keep no accounts. I would have to go through all the departments to get the figures. The comptroller of the treasury has a great many accounts on I.B.M. installations, and he could produce those figures much faster than I could.

Hon. Mr. MARTIN (*Essex East*): My reason for asking you first is because you are an unimpeachable authority in these matters.

Mr. SELLAR: Thank you.

Mr. WALKER: Why would you not try the Bureau of Statistics?

Mr. SELLAR: The Bureau of Statistics would not have it.

The CHAIRMAN: Is there anything else on paragraph 16? Paragraph 16 can be read with paragraphs 23 and 24.

Now, paragraph 17. This merely lists the various departments. Paragraphs 18 to 26. Are these examples?

17. Compared with 1956-57, expenditures were \$237 million greater, with over 85 per cent of the increase being in outlays by the Departments of National Health and Welfare, Public Works, Transport and Veterans Affairs. Reference is now made to the more substantial increases.

18. The major increase in expenditures of the Department of National Health and Welfare was in the charge for the old age security fund deficit, which was \$104 million, including a \$1.5 million carry-over from the previous year. This was \$95 million more than in 1956-57. Another large increase was the additional \$40 million spent on family allowances in 1957-58. This was due, in part, to the larger number of eligible children, but to a greater extent to the upward revision in rates authorized by parliament in April 1957 with effect from 1st September. The total of the family allowance payments in 1957-58 was approximately \$438 million compared with \$397 million in the previous year.

19. In the Department of Public Works, the major increase was in expenditures on the trans-Canada highway, these being \$62 million as compare with \$36 million in the year before. About \$49 million was paid to the provincial governments, while the government of Canada spent \$13 million on trans-Canada highway work in the national parks. Another material increase was in public building construction in Ottawa; expenditures totalled about \$17 million, or \$9 million more than in 1956-57.

20. In the Department of Transport, a charge without a 1956-57 parallel is the \$22,073,000 payment to the Canadian National Railways to cover its deficit (in the previous year it had a surplus). The corporate accounts record a deficit of \$29,573,000, but the Auditors' report notes:

In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

The \$7,500,000 of supplementary depreciation was deducted in determining the amount to be paid to the railway. In the direct activities of the Department of Transport, the major increase was in costs of the air services division, these amounting to about \$90 million, or \$20 million more than in the previous year.

21. In the Department of Veterans Affairs, war pensions were \$15 million greater and war veterans' allowances \$7 million greater than in the previous year. These costs are now approaching \$200 million annually, \$146 million being expended on war pensions and \$49 million on war veterans' allowances in the year under review.

22. Department of Finance expenditures include \$100 million paid to the Canada Council in accordance with the provisions of the Canada Council Act, c. 3, statutes 1957, first session. This was a special item in 1957-58. On the other hand, two \$50 million bookkeeping charges recorded in 1956-57 were not repeated in 1957-58: one to supplement the reserve for possible losses on realization of assets and the other to reduce the actuarial deficit in the superannuation account. Although the foregoing items offset one another, the total of departmental expenditure charges was greater, mainly because public debt charges increased \$33 million. The most substantial decrease was in tax rental payments to the provinces, the \$13 million reduction being due to the province of Ontario ceasing to rent its corporation tax field as from 1st January 1957.

23. No department spends currently nearly as much as does the Department of National Defence. The amount was \$1,668 million in 1957-58—a decrease of about \$91 million when compared with outlays of the year before. Leaving aside mutual aid to NATO countries, the most significant variations in expenditures were in navy accounts, there being decreases of about \$20 million in expenditures for ship construction, \$9 million in those for aircraft and engines and \$6 million in those for signal and wireless equipment. While army and air costs were also somewhat less than in the previous year, the \$79 million spent in defence research was over \$9 million more than in 1956-57.

24. The \$1,668 million shown above as spent by the Department of National Defence does not include expenditures amounting to over \$24 million recorded as charges to the national defence equipment account (see paragraph 116), nor expenditures amounting to more than \$3 million charged to funds provided from proceeds of sales of materiel under the authority of section 11 of the National Defence Act.

25. The Post Office is a public service where direct association exists between moneys collected and services performed. In 1957-58 net Post Office income was about \$152,900,000, which was approximately \$7 million more than that in the previous year. On the other hand, the expenditures of \$153,300,000 were about \$13 million greater. Thus, an operating surplus of \$5,800,000 in 1956-57 has been followed by a \$400,000 deficit. While a variety of costs were greater in the year under review, the most significant increases were in salaries and wages.

26. *Old Age Security Fund.* By law, charges to this special account are not reflected in the statement of expenditure and revenue required by section 64 of the Financial Administration Act. When the Old Age Security Act was enacted in 1951, an aim was to create

a self-supporting fund to be fed by proceeds of taxes imposed by the act. This expectation never being realized, each year resort has been made to the provision in the act permitting the Minister of Finance to make "temporary loans" to the old age security fund. The act requires that he report these to parliament, at the same time indicating whether, in his opinion, the revenues of the fund are or will be sufficient in the ensuing year to meet the charges on the fund without further loans, and if it appears that the revenues will not be sufficient, he shall state what measures he recommends for the purpose of increasing the revenues of the fund.

Except in 1953-54 when a write-off was authorized against the reserve for possible losses on realization of assets, the practice has been to convert the "loans" into charges against annual appropriations. The deficit in the past year is the largest of record, due mainly to monthly payments having been increased from \$40 to \$46 on 1st July 1957 and then to \$55 on 1st November. A summary for the past five years is:

	1953-54	1954-55	1955-56	1956-57	1957-58
No. of pensioners.....	716,399	745,620	771,753	797,486	827,560
Pension payments.....	\$ 339,000,000	\$ 353,200,000	\$ 366,200,000	\$ 379,100,000	\$ 473,900,000
Receipts from taxes on:					
Sales.....	146,800,000	143,100,000	160,400,000	179,300,000	175,800,000
Personal income.....	90,700,000	100,900,000	102,500,000	125,000,000	135,000,000
Corporation income.....	55,600,000	46,000,000	53,300,000	67,300,000	60,700,000
	293,100,000	290,000,000	316,200,000	371,600,000	371,500,000
Deficit.....	45,900,000	63,200,000	50,000,000	7,500,000	102,400,000

Hon. Mr. MARTIN (*Essex East*): On paragraph 17 should we not have a list of the departments? The expenditures we are told in 1958 compared with those for 1956-57 were \$237 million greater than they were in 1956-57, and the increase was brought about as a result of the expenditures on the Departments of National Health and Welfare, Public Works, Transport and Veterans Affairs. Should they not all be completed?

Mr. WALKER: Perhaps you should read the following paragraph.

Hon. Mr. MARTIN (*Essex East*): No, we will be dealing with the following paragraph, but could not that paragraph be completed by indicating where the expenditures were made in other departments?

Mr. SELLAR: You mean the other 15 per cent?

Hon. Mr. MARTIN (*Essex East*): Yes, the 85 per cent covers these three designated departments, and the other 15 per cent represents expenditures in other departments.

Mr. SELLAR: I do not know of any department which spent less. I think the other 15 per cent spent more. I know that I spent a little more, but the biggest increases were attributable to certain large departments.

Hon. Mr. MARTIN (*Essex East*): That is satisfactory.

Mr. PICKERSGILL: My question has to do with the expenditures of ministers without portfolio. I wonder where these expenses are shown in the public accounts?

Mr. SELLAR: They are in the accounts of the privy council. That is where they have always been. I do not imagine there has been any change made.

The CHAIRMAN: May I call your attention to paragraph 18 which could be subdivided into two chief parts, old age security fund, which should be read along with paragraph 26, and family allowances, which will be discussed later.

Hon. Mr. MARTIN (*Essex East*): What is your proposal? Is it to read all these together?

The CHAIRMAN: Yes. I suggest we start first with the old age security fund deficit, reading with it paragraph 26.

Hon. Mr. MARTIN (*Essex East*): Yes. Well, Mr. Sellar, there seems to me to be a wrong impression about the old age security fund deficit, and this might be a convenient place to discuss it. How much actual deficit is reported this year?

Mr. SELLAR: The amount is \$104 million.

Hon. Mr. MARTIN (*Essex East*): Yes, \$104 million. That is in 1958? You are now only dealing with the figure as of 1958?

Mr. SELLAR: March 31, 1958.

Hon. Mr. MARTIN (*Essex East*): Yes; the end of the fiscal year?

Mr. SELLAR: Yes.

Hon. Mr. MARTIN (*Essex East*): It is now, of course, considerably higher. Can you tell us the expenditure on old age pensions by the government of Canada prior to the adoption of the universal system—or perhaps that is not a fair question?

Mr. SELLAR: You are referring to the Old Age Pension Act that dates from 1928, and subsequent legislation? I have not those figures.

Hon. Mr. MARTIN (*Essex East*): What I am seeking to convey to the committee, Mr. Chairman, through Mr. Sellar, is that when we talk of the old age security deficit we fail to take into account that the government of Canada was spending over \$100 million on old age pensions prior to 1951, and that this deficit, great as it is, must be considered in the light of the fact that it includes expenditures that would have been made by the government of Canada at least in the amount of \$106 million but for the new act. I think that we must also take into consideration—and I ask Mr. Sellar if this is not correct—that when the old age security universal system was established, as a result of an all-party committee, it was assumed that there would be continuing obligations by the government of Canada in addition to the contributions made by individuals to this partially contributory scheme.

Mr. SMITH (*Simcoe North*): Which witness should we examine?

Hon. Mr. MARTIN (*Essex East*): Well, does my hon. friend object to this information?

Mr. SMITH (*Simcoe North*): Not at all.

Hon. Mr. MARTIN (*Essex East*): Then why does he interrupt? I am trying to establish this fact. The impression is continually given, both under this administration and under the previous one, that the deficit represents something that indicates the inadequacy and the economic weakness of the whole system. I am seeking to establish that is not the case, that when the all-party committee established the old age security scheme it was assumed that there would be a continuing obligation by the government of Canada. Part of the cost of the scheme would be borne by contributions made by employers, by employees and others, but there would be a continuing contribution, as there had been under the old scheme, by the government of Canada. The result is that the deficit—in present terms, some \$190 million;

and now, at the end of the fiscal year 1958, \$104 million—really does not represent as disastrous a situation as is often pictured. Do you concur in that, Mr. Sellar?

Mr. SELLAR: Well, sir—

Mr. DRYSDALE: “Yes” or “No”.

Mr. WALKER: That is a four-and-a-half minute question.

Mr. SELLAR: The big difference between the past and the present, Mr. Martin, is that the legislation of a few years ago set up a scheme based on the principle that it would be a self-supporting scheme and would be treated as independent of the ordinary accounts of government. That is why you have the appearance of a deficit.

You mentioned a while ago that they spent \$100 million under the old scheme. Last year they spent \$473 million. Both, in my humble opinion, are expenditures of the government of Canada. But, to preserve the idea of a contributory scheme, we have set up a special account, and the government makes loans to finance that account whenever it falls short.

The rate of payments has gone up. The number of new beneficiaries or pensioners is approximating 30,000 a year; and when we have good years, we very nearly match. Two years ago we very nearly matched. We have not had such good times lately, and we are in the red.

Hon. Mr. MARTIN (*Essex East*): You say “two years ago”. What was the deficit two years ago—about \$7 million?

Mr. SELLAR: About \$7 million.

The CHAIRMAN: Would you just explain to the committee, Mr. Sellar, what taxes are provided to make up this fund at the present time?

Mr. SELLAR: There are three taxes. They are all imposed by the Old Age Security Act. There is a 2 per cent sales tax. That is the same basis as is authorized by the excise tax schedule. Then individuals pay the lesser of 2 per cent of their income tax or \$60, while corporations pay 2 per cent of their taxable earnings.

The CHAIRMAN: Which provinces have the largest increase? Have you those figures?

Mr. SELLAR: Of course, there are far more in Ontario than any other province. Last year there were 301,000 recipients in Ontario. The next province was Quebec, with 174,000; then British Columbia with 104,000.

The CHAIRMAN: Did I understand you to say that the rate has been substantially increased?

Mr. SELLAR: Oh, yes. It has gone from \$40 to \$55.

Hon. Mr. MARTIN (*Essex East*): I see in paragraph 26, the second sentence, “When the Old Age Security Act was enacted in 1951, an aim was to create a self-supporting fund to be fed by proceeds of taxes imposed by the Act”.

I presume you mean there, that was the aim of the government, because I suggest to you, with great respect, it was not the aim of the all-parliamentary committee.

Mr. SELLAR: I am just going by reading the act, sir. That is all I am going by.

Hon. Mr. MARTIN (*Essex East*): Yes.

Mr. SELLAR: It says there shall be established a special account. There shall be credited to this certain proceeds; there shall be charged to it all expenditures—and if there is any deficit, the minister shall make a loan to it. That is what I mean.

Mr. WALKER: You say you are going by the act. When was the act passed?

Mr. SELLAR: In 1951.

The CHAIRMAN: What is the increased number of persons getting pensions?

Mr. SELLAR: In 1958 there were 827,560; in the year before there were 797,486. That is roughly 30,000 people.

Hon. Mr. MARTIN (*Essex East*): You might explain to Mr. Walker, Mr. Chairman—with, I am sure, the restraint that you always have—the difference between an act passed by parliament and the recommendation of a committee with regard to proposed legislation.

Mr. WALKER: That is self-evident. I was wondering whether my friend understood it.

Mr. BELL (*Carleton*): Apparently, in drafting the act you did not follow the recommendation of the parliamentary committee.

Hon. Mr. MARTIN (*Essex East*): You are quite right.

Mr. BELL (*Carleton*): With the same respect for parliament you have always shown!

The CHAIRMAN: Is there anything more on old age security fund deficit, paragraph 18? Is there anything you care to ask about paragraph 26? I think we have covered most of it.

The second part of paragraph 18 deals with family allowances in 1957-58. Can you give us the breakdown of the payments to the provinces, Mr. Sellar?

Mr. SELLAR: Overall there were approximately—if I may use round figures—5,800,000 children in receipt of allowances in 1958 (I am talking about the fiscal year), as compared with 5,570,000 the previous year, which is an increase of about 225,000 children.

Three years ago Quebec had the largest number of children. In the last two years Ontario has passed ahead. In the last year there were 1,825,000 children in Ontario; 1,787,000 in Quebec. This increase is general all over the country; every province has shown some increase. In the year 1958, 44,000 children of immigrants qualified for the allowance for the first time.

The CHAIRMAN: I am sorry, Mr. Sellar, I did not hear the last part of your answer.

Mr. SELLAR: I said 44,000 foreign-born children qualified for the allowance in 1958.

Mr. DRYSDALE: What is the qualification, Mr. Sellar?

Mr. SELLAR: They have to be resident in Canada a certain period of time.

Mr. PICKERSGILL: It is one year, is it not?

Mr. DRYSDALE: Just one year residence for the child?

The CHAIRMAN: There was an increase of 44,000 foreign-born children of newly-arrived immigrants who have been here one year; is that it?

Mr. PICKERSGILL: I wonder if Mr. Sellar could give an estimate of the amount of the increase that was due to the increased rates established in Mr. Harris' last budget for family allowances?

The CHAIRMAN: That was an increase of \$1 a child per head, was it not?

Mr. SELLAR: Mr. Harris estimated that that would represent \$24½ million. In that regard you have to bear in mind that you have 225,000 more children, and you have also to bear in mind that Mr. Harris' recommendation took effect during the year, not as of the first of the year, and therefore did not cover the whole year.

I would say offhand, that while Mr. Harris estimated \$24½ million, he was estimating, I think, from September 1, so that you would have to add five months more. I would say it would be roughly \$40 million. But that is guesswork on my part.

Mr. PICKERSGILL: While we are on this subject, I wonder whether this is not closely related, though it is not in this department at all. There was a children's assistance program established for immigrant children immediately on their arrival in Canada in order to bridge the gap in the first year. Have you the total figure for that?

Mr. SELLAR: I would have to get that information, sir. I have not it here.

Mr. REGIER: Mr. Chairman, I wonder if I might have this information? On behalf of how many families are family allowances paid in the province of Newfoundland?

Mr. SELLAR: I have not the figure for families; I have the figure for children. I have it for three years. Would that suit you?

Mr. REGIER: I only want the latest figure.

Mr. SELLAR: Last year, 187,035.

Mr. REGIER: That is over half the population.

Mr. PICKERSGILL: No; it is about one-third.

Mr. DRYSDALE: What is that in dollars?

Mr. SELLAR: It is \$14,131,000.

Mr. REGIER: Is not it a fact that the population is roughly 450,000?

Mr. PICKERSGILL: Yes.

The CHAIRMAN: Mr. Sellar, did you give the breakdown of the payments to the different provinces?

Mr. SELLAR: No.

The CHAIRMAN: With the consent of the committee, shall we have those figures put in the record, rather than read them?

Some hon. MEMBERS: Agreed.

A three-year comparison of numbers and total of payments by provinces is:

Province	1956		1957		1958	
	No.	\$	No.	\$	No.	\$
Newfoundland.....	175,474	12,415,000	181,237	12,882,000	187,035	14,131,000
Nova Scotia.....	244,551	17,597,000	248,287	17,973,000	253,713	19,400,000
Prince Edward Island...	36,144	2,622,000	36,173	2,641,000	36,839	2,824,000
New Brunswick.....	214,966	15,452,000	218,073	15,779,000	224,047	17,075,000
Quebec.....	1,675,840	120,390,000	1,729,386	124,368,000	1,786,800	136,081,000
Ontario.....	1,657,561	116,604,000	1,734,813	122,539,000	1,825,274	136,706,000
Manitoba.....	272,916	19,418,000	276,192	19,889,000	283,863	21,521,000
Saskatchewan.....	296,027	21,401,000	298,085	21,645,000	306,045	23,242,000
Alberta.....	380,095	26,753,000	395,234	27,953,000	414,550	31,030,000
British Columbia.....	412,819	29,097,000	440,749	31,030,000	466,169	34,969,000
N.W. T. and Yukon.....	11,043	786,000	11,317	819,000	12,045	907,000
	5,377,436	382,535,000	5,571,436	397,518,000	5,796,380	437,886,000

Mr. DRYSDALE: I was just wondering whether, Mr. Sellar, with regard to the old age security fund and the family allowances, you are satisfied with the way the accounts are being kept in those two departments?

Mr. SELLAR: Yes, they are very simple accounts.

Mr. DRYSDALE: And you have no recommendations for any alterations?

Mr. SELLAR: No, they are being kept as economically as I think is possible.

Hon. Mr. MARTIN (*Essex East*): Very good administration.

The CHAIRMAN: That completes paragraph 18. Paragraph 19, public works.

Mr. BOURGET: Mr. Chairman, with regard to paragraph 19, would Mr. Sellar explain the procedure followed in taking expenditures on the Trans-Canada highway in different provinces—or are you taking the figures given to you by the Department of Public Works?

Mr. SELLAR: May I use one province, whose account passed before me the other day?

Mr. BOURGET: Yes.

Mr. SELLAR: A progress claim came in from the province of Manitoba. It was complete in all details as to the particulars. It was certified by the deputy minister of highways of the province; it was certified by the provincial auditor or comptroller of the province; it was certified by the responsible engineer of the Department of Public Works of Ottawa in the province; it was certified by the treasury costs section and also by the treasury office of the comptroller of the treasury in Winnipeg. Therefore, there were either five or six certificates in connection with that. Quite frankly, I do not go very far beyond that. If six people examine it, we just total it to make sure things look all right, and we pass it.

Mr. BOURGET: So you are relying mostly on the figures given by Public Works?

Mr. SELLAR: The figures are supplied first by the province and verified by Public Works and the treasury; and if they make payments the accounts come to us. I do not send a man out in the field to make an examination of those claims.

The CHAIRMAN: What amount has been spent on the trans-Canada highway to date?

Mr. SELLAR: When you say to date, do you mean March 31, 1958?

The CHAIRMAN: Yes.

Mr. SELLAR: Roughly \$156 million.

Hon. Mr. HELLYER: You mentioned six certificates on an account in connection with the trans-Canada highway. To an ordinary layman like myself, it sounds like a lot of paperwork is involved in order to get a small amount of physical work done. Do you think the method of doing this work and paying for it is the most thorough there is available?

Mr. SELLAR: I have no opinion as to that, sir; we are governed by the agreement. It is in the agreement that the deputy minister of the department of highways and the provincial auditor must certify. I think those are two safeguards the government of Canada should have. That has been in the agreement ever since the arrangement started seven or eight years ago.

Hon. Mr. HELLYER: Do you have any recollection as to whether accounts were received by the federal government for those works in the province of Ontario which allegedly were not actually constructed?

Mr. SELLAR: You are referring to those which were under inquiry a few years ago?

Hon. Mr. HELLYER: Yes.

Mr. SELLAR: Yes; we are mixed up in those.

Hon. Mr. HELLYER: Those accounts have been received?

Mr. SELLAR: Some, yes.

Hon. Mr. HELLYER: Have you any idea of the number of certifications on those accounts?

Mr. SELLAR: The amount involved, so far as the government is concerned, was small. All accounts had not been sent forward.

Hon. Mr. HELLYER: I am not talking about the amount of money, but the number of certifications on the accounts.

Mr. SELLAR: Oh yes, you had the usual number; you had the provincial deputy minister and so on.

Hon. Mr. HELLYER: If, in fact, you had the usual number of certifications, and yet you use this as a criterion of the validity of the accounts, other than the rubber stamp that is affixed by the province, how can you justify the amount being in fact all right?

Mr. SELLAR: Well, every man who certifies has a responsibility. They cross-check each other in the field, and that is the only place where you can make a cross-check. If the engineers in the field are good, they are checking their opposite numbers in the government; if the treasury cost accounting people are good, they are checking the certificate that the provincial auditor signs. That is what I mean. So far as I am concerned, by the time it comes here it is just a mass of paper.

Mr. DRYSDALE: But it has been cross-checked?

Mr. SELLAR: Yes, there is nothing further I can do.

Mr. DRYSDALE: On the ground actually.

Mr. SELLAR: Yes. My only justification for going into it would be that I was suspicious of something.

The CHAIRMAN: Which province has received the largest payment?

Mr. SELLAR: Ontario, naturally. Ontario has received \$41,240,000 and British Columbia has received almost the same, \$40,820,000. Quebec has not received any.

Mr. SMITH (*Calgary South*): Would you give us the Alberta figure as well?

Mr. SELLAR: All of them?

Mr. SMITH (*Calgary South*): No, the Alberta figure.

Mr. SELLAR: Do you mean the total to date?

Mr. SMITH (*Calgary South*): Yes.

Mr. SELLAR: \$17,264,000.

The CHAIRMAN: Under the act what amount remains to be spent on trans-Canada highway?

Mr. SELLAR: Approximately \$94 million. The act appropriates \$250 million to be spent by May 31, 1961.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. PICKERSGILL: Do you happen to have a figure for Nova-Scotia?

Mr. SELLAR: Yes. Do you want the total?

Mr. PICKERSGILL: Yes.

Mr. SELLAR: \$4,793,000.

The CHAIRMAN: Public buildings is also included in paragraph 19. Public building construction in Ottawa is mentioned. Have you a list of the principal public buildings under construction in Ottawa?

Mr. SELLAR: Yes. I have a list. There is the geological surveys building on which we spent \$2,800,000 last year; the science building at the experimental farm, on which \$2,400,000 has been spent; the forest laboratory building of Mines and Technical Surveys, \$1,700,000; the chemical laboratory of Mines and

Technical Surveys, \$1,350,000, the administrative building for Mines and Technical Surveys, \$1,200,000, and the new public works building, \$1,200,000; completing the trade and commerce building, \$1,200,000; and the building to house the national gallery, \$1,100,000. Those are the big buildings.

The CHAIRMAN: Are there any other questions?

Mr. DRYSDALE: In respect of the Department of Public Works, are you satisfied with how the accounts are being maintained, or do you have any recommendations by which they could be made more efficient.

Mr. SELLAR: No, sir. There is a good system of control in the accounts of public works. We have no objections.

Mr. DRYSDALE: Just for my own personal information, in respect of the matter of changes in procedure, is any effect given to any of your recommendations? For instance, I understand it is originally the treasury board which sets out the accounting procedure and that you, as auditor, I assume, have to take the systems as they are. Do you make recommendations in the field and, if so, are they generally accepted?

Mr. SELLAR: Technically, you are right when you say the treasury board. Actually, treasury board does not do anything about it. It is left to the comptroller of the treasury to do, and he devises the system. I cannot criticize that system because I was the first comptroller of the treasury and I put it in. I think it is a good system. It has been improved since. When we find weaknesses we take it up with the comptroller of the treasury and with the department. Their co-operation is excellent. Where we convince them they are wrong they immediately make changes. Sometimes they convince us we are wrong and we shut up our mouths.

Mr. DRYSDALE: Effectively then, as far as the other departments are concerned, you will not have any recommendations as to suggestions in respect of the accounting system at all?

Mr. SELLAR: No, sir. The only accounts about which I worry are our records in connection with stores. I am far from satisfied that we have a comprehensive control of stores.

Mr. DRYSDALE: Could you draw it to the attention of the committee when you come to particular departments with reference to that?

Mr. SELLAR: No, sir. I am speaking in principle, not particulars.

Mr. DRYSDALE: That would hit almost every department?

Mr. SELLAR: Every department, including my own little department.

Mr. LAMBERT: How much of the work in this list of public buildings in Ottawa is under the direct control of public works where they have done the engineering and architectural work?

Mr. SELLAR: I would have to obtain the particulars on that. Quite often they have an outside architect on the 5 per cent basis. You would like a list of this?

Mr. LAMBERT: Yes. Further, in determining costs of these buildings and the cost of the services of engineering and technical staff of the various government departments, are the costs of their services actually determined or is it merely the out-of-pocket salaries?

Mr. SELLAR: Generally they get 5 per cent of the contract price.

Mr. LAMBERT: No; I am speaking of cases where the technical services are provided by the department itself.

Mr. SELLAR: They would be shown, not as a charge to the construction but to a departmental vote.

Mr. LAMBERT: Is there any way of determining whether or not it is cheaper to use a departmental engineer or architect to design a project as against bringing in a consultant or professional architect or engineer to do the job.

Mr. SELLAR: I do not know; that is a question for administration. You will have various problems. I do not think cost is really associated with the decision. The question is whether they have available the men suitable for the job?

Mr. LAMBERT: In your experience do you then say that cost is never considered as to whether or not you will use technical personnel within government departments as against outside consultants or professionals?

Mr. SELLAR: Of course they will take note of it, but they will figure a five per cent fee is a reasonable compensation to a practicing architect and that almost the equivalent amount will be paid if it is done by the government.

Mr. BROOME: It will be more.

Mr. LAMBERT: What do you go into in determining what is paid by the government with regard to that cost?

Mr. SELLAR: You have all the salaries, the plans and specifications, the engineers' plans and so on. I have to be general in my language because I know nothing about construction.

Mr. LAMBERT: Is anything given to you covering certain items of overhead which a private concern would have to consider? What I am speaking of is your light, rent, and so on?

Mr. SELLAR: In government costing we take that in to a limited extent. We do not carry it through to the same minute detail.

Mr. LAMBERT: I see. Then is it fair to say that a comparison of costs put forward by, say, a private engineering or architectural firm to those put forward by a government department is not a true comparison?

Mr. SELLAR: Oh, I would not try to answer that. I have never had to review those cases—that is, one prepared by the department and one by an outside firm. I have never had an actual case before me and I cannot answer. I would be lying to you if I tried to pull an answer out of the air.

Mr. LAMBERT: Have you ever given consideration to it?

Mr. SELLAR: No, sir.

Mr. LAMBERT: That is to say whether or not a wholly government-operated project is more efficient and less expensive than one handled by outside consultants and engineers, architects and so on?

Mr. SELLAR: No, sir. Among others, one reason is that if you developed a full-scale division in any department or all departments to cope with all government work, at various times the personnel would not have anything to do; they would be sitting around while the overhead would be going on all the time. What the departments have aimed to do is try to keep their architects and engineers down to what they regard as reasonable limits within their requirements and when they need more they go outside. If you want more particulars you would have to go to the department. I am not wise enough to give you the correct answer.

Mr. BROOME: You could say that they act in the same way as they do with lawyers, when they go out; instead of keeping a big staff of lawyers on hand, they farm out the work.

The CHAIRMAN: We have three paragraphs which I would like to get through today if we could.

Mr. DRYSDALE: While we are dealing with the Department of Public Works, Mr. Sellar mentioned the question of the handling of stores which he said ran through all departments. I would be interested if he could refer to the problem, making reference to the Department of Public Works, and give an indication as to what suggestions or recommendations he may wish to make.

Mr. SELLAR: Mr. Drysdale, you come from British Columbia and I shall give you an example from there. In British Columbia we own a lot of real estate. I mean the Crown in the right of Canada. We have many public facilities large and small, from buoys in the river to lighthouses and everything else; but there is no overall record of putting of these things. There is no way of putting a value on them.

I shall go back thirty or forty years so that nobody will feel there is anything political in it, but at that time we were buying a piece of land in Halifax. The dominion archivist discovered that we already owned that land. Such a thing can happen when a government has holdings all over the country.

I would like to see our control of public property improved, but it is going to be a slow job. You would have to take into calculation each step, as to whether it is worth the price that it would cost to maintain it.

Mr. DRYSDALE: You would just offer a recommendation as to each individual item?

Mr. SELLAR: We are working with the departments all the time, but we are not going to try to make a new heaven and a new earth this year or next year.

Mr. DRYSDALE: I take it there is nothing which the public accounts committee could do about it from a practical point of view?

Mr. SELLAR: No.

Mr. WALKER: This is the time to start, is it not?

Mr. SELLAR: These things get into circulation throughout the departments.

The CHAIRMAN: It will probably come about in three or four years.

Mr. SELLAR: You are probably playing the part of a "John the Baptist".

The CHAIRMAN: Let us discuss paragraph 20.

Mr. BROOME: In regard to that paragraph, would it be possible, without too much work, for you to determine how much money the government has paid to the Canadian National Railways through telegraph and freight charges, because the government routes practically all its business through the Canadian National Railways, does it not?

Mr. SELLAR: Oh no, the business is split.

Mr. BROOME: You say that as much as possible the business is split half and half between the two railroads?

Mr. SELLAR: I think as a rule the departments try to place their business between the two companies, that is, between the two big companies. The smaller companies do not get as much, of course.

Mr. BROOME: So it is not a question of hobbling the government?

Mr. SELLAR: No. For example, consider the link from Sudbury to the head of the lakes, where there is a subsidy of \$7 million.

Mr. BROOME: Yes.

Mr. SELLAR: Well, roughly speaking the Canadian National Railways get \$3.6 million of it, and the Canada Pacific Railways gets \$3.3 million. I am giving you round figures.

Mr. BROOME: I believe that is done on a tonnage basis.

Mr. SELLAR: It is based on the cost of maintenance of the railways; and when we add the telegraph business, we pick the telegraph company which runs into a particular town. If it runs into a city, it may go to one or the other company. But I think you will find that the Post Office and all the other big users try to average it.

Mr. BROOME: Would it be possible for you to tell us, without going to too much trouble, what the total freight bill was as between the two railroads?

Mr. SELLAR: It would be a colossal job.

Mr. BROOME: Well, in that case, just forget it.

Mr. DRYSDALE: Is this matter of averaging out one of departmental policy, carried on by each department, or is it a matter of instructions?

Mr. SELLAR: There may be instructions, but generally speaking it is just long established policy that the government railway should get a fair share of the business, and that the Canadian Pacific Railway as a taxpayer should get its fair share as well.

Mr. DRYSDALE: Are there instructions given to the various departments?

Mr. SELLAR: I do not think there are any instructions given to anybody.

Mr. BROOME: I should think the Canadian National Railways would get most of the telegraph business.

Mr. SELLAR: I know that my office uses the Canadian National,—why, I do not know.

The CHAIRMAN: Who is the auditor of the Canadian National Railways today?

Mr. SELLAR: The report which will come before you for the year 1957 will be signed by Ross, Touche and Company. George Touche and Company were named auditors for 1958, but they have consolidated with P.S. Ross and Sons. The appointment is made by act of parliament and it named Mr. de Lalanne of Montreal to be the auditor this year.

The CHAIRMAN: That would be McDonald Currie and Company, chartered accountants. Is there anything else under the Department of Transport?

Mr. BROOME: Yes. In regard to the deficit of the Canadian National Railways, of course they have independent auditors; but is there any way of comparing the operations between the Canadian Pacific Railway and the Canadian National Railways, leaving out ancillary operations of the Canadian Pacific Railway and simply comparing them as railway operations, and in measuring the cost per ton mile of moving freight? Is there any method or yardstick by which it is possible to compare their operations?

Mr. SELLAR: It may be that the Board of Transport Commissioners make such an analysis, but I have no idea.

The CHAIRMAN: You refer to the obsolescence item because it is a continuing affair, because they are currently switching over to diesel engines, but they have some steam engines which still have years of good life left, and which they are writing off. The obligation of the government is only to pay the annual deficit; is that right?

Mr. SELLAR: Yes.

Mr. BELL (*Carleton*): This \$7½ million is a supplementary item. How much is the total depreciation charged to operating expenses? Do you have that figure?

Mr. SELLAR: No, I will have to get you that figure. You want the depreciation?

Mr. BELL (*Carleton*): The total depreciation that is charged to operating expenses and which would be taken into consideration in achieving the amount of the main deficit.

Mr. SELLAR: Yes.

Mr. DRYSDALE: Mr. Chairman, what is the basis for completing this obsolescence on steam locomotives? I do not quite understand it. I do not want to appear too naive; I know there is a change-over to diesel power. But is it projected to a certain year?

Mr. SELLAR: It is projected to the life of the ordinary locomotive, when it would be written off in the ordinary way. If it had still five years of life ahead of it, they accumulated the five years' depreciation into this \$7½ million.

Mr. DRYSDALE: Is the obsolescence computed when, say, the steam locomotive is replaced by a diesel locomotive?

Mr. SELLAR: Yes.

Mr. DRYSDALE: When it is replaced by a specific diesel locomotive?

Mr. SELLAR: Yes.

Mr. DRYSDALE: It is not a sort of obsolescence of all the steam locomotives throughout the system?

Mr. SELLAR: No; it is just a specific instance. That is my understanding.

The CHAIRMAN: May I suggest that we leave paragraph 21, which concerns the Department of Veterans Affairs; paragraph 22, Department of Finance; and paragraph 25, Post Office? I think the time is really too short to give them adequate examination at the moment.

May I suggest, gentlemen, that we adjourn to next Wednesday, April 15, at 9.30 a.m.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

Wednesday, April 15, 1959



WITNESS:

Mr. Watson Sellar, C.M.G., Auditor General

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),
and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 15, 1959.

(5)

The Standing Committee on Public Accounts met this day at 9.30 o'clock. The Chairman, Mr. Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Broome, Bourget, Bruchési, Campeau, Charlton, Chown, Denis, Drysdale, Hales, Hanbidge, Hellyer, Keays, Macdonald (*Kings*), Macnaughton, McGee, McGregor, Morton, Pickersgill, Pratt, Smith (*Calgary South*), Smith (*Winnipeg North*), Stefanson, Stewart, Villeneuve, Walker, Winch, and Wratten.—(29)

In attendance: Mr. Watson Sellar, Auditor General for Canada.

Mr. Watson Sellar was called. He tabled answers to questions posed on April 8 by Messrs. Bell, Lambert and Pickersgill and supplemented answers given to Messrs. Bourget and Martin at the last meeting.

An answer to Mr. Bell dealing with establishments and pay rates of Service Forces for 1948 and 1958 was ordered printed as an appendix. (*see Appendix P-1 to this day's evidence*).

Mr. Sellar was examined further on paragraphs 21, 22 and 25.

The Committee then considered paragraphs 27 to 38.

Referring to paragraphs 28 and 29, the Chairman tabled an amendment to section 28 of the Financial Administration Act. Mimeographed copies were distributed forthwith.

At 10.55, Mr. Sellar's examination still continuing, the Committee adjourned until Wednesday, April 22nd, at 9.30 o'clock.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

REPORT OF THE COMMISSIONERS

OF THE LAND OFFICE

IN RESPONSE TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE SENATE
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE SENATE
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE SENATE
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE SENATE
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE SENATE
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES
ON THE 15TH DAY OF FEBRUARY, 1870

AND TO A RESOLUTION PASSED BY THE SENATE
ON THE 15TH DAY OF FEBRUARY, 1870

EVIDENCE

WEDNESDAY, April 15, 1959.

The CHAIRMAN: Gentlemen, we have a quorum. I notice the Toronto members seem to be in particularly good form this morning and I hope we will have an orderly meeting. Mr. Sellar will give the answers to a few questions which were asked at the last meeting.

Mr. WATSON SELLAR (*Auditor General of Canada*): Mr. Chairman, as you say, there were a few questions asked.

The first question was asked by Mr. Bell, who desired a comparison of the strength of the service forces in 1948 and 1958. Also he asked for a comparison in general terms of pay and allowances. I have a compilation prepared and I have given a copy to Mr. Bell. It involves quite a number of figures and I suggest that I be allowed to put it into the record and have it appear that way.

The CHAIRMAN: Will you produce it and put it in as Appendix P-1. Would you care to make any further comments?

Mr. SELLAR: This might be of interest. The strength of the defence active forces in 1948 was 34,759. As of March 31, 1958, the figure is 119,038, which shows the growth during this period. Then I have set out the pay rates and allowances for the different ranks.

The CHAIRMAN: What do they show?

Mr. SELLAR: They vary as you go down. That is why I suggested that it be allowed to go into the record. I doubt if the members will follow me.

The CHAIRMAN: They show a fairly substantial increase.

Mr. SELLAR: Oh, yes. Mr. Bell also asked what provision for depreciation was made in the Canadian National Railways accounts for the year ended December 31, 1957. The railway operating expenses of \$734,556,041 shown in the consolidated income statement included charges for depreciation to a total of \$78,660,230. This includes the supplementary depreciation of \$7,500,000 with respect to steam locomotives, which was a subject of discussion at the last meeting.

Mr. Lambert brought up the question of retaining architects for the construction of public buildings in Ottawa and asked for information with respect to the eight projects that I had named at that meeting. I have had a check made and in seven of the eight projects outside architects were retained. The one performed by the departmental staff was the chemical laboratory on Booth street.

Mr. Pickersgill asked for the amount paid in 1957-58 as welfare assistance for immigrant children who had not yet qualified under the Family Allowances Act. The amount was \$3,422,840. This is a scheme where when three months in arrears \$5 may be paid with respect to an immigrant child who is not yet qualified.

Mr. Chairman, with your permission, I would like to amplify certain answers I made at the last meeting, because I was wrong. I am correctly reported, but I did not complete my answers. May I do so?

The CHAIRMAN: Is permission granted?

Agreed.

Mr. SELLAR: During the discussion of the treatment of the accounts in the Department of National Defence for educational purposes, Mr. Bourget asked me what amount was spent in the way of capital construction. I replied that in the year it was relatively small. When my chaps saw the transcript of the proceedings they told me I was confusing with educational schools some schools which I had assumed were training schools for the service forces. Actually, the capital expenditure for educational schools in the year 1957-58 was \$5,436,000. This is a much larger amount than I led Mr. Bourget to believe.

Then Mr. Martin asked for a two-year comparison of the expenditures on telephones. I replied that there was no such tabulation available. I do not know why I gave that answer, because three years ago the treasury started the practice of printing in the public accounts a tabulation of standard objects of expenditure, headings and included is one for telephones, telegrams and other communication services. There is no breakdown by telephones, but collectively they are there. I think that is what he wanted. Under that heading the comparison is: \$14,749,939 was spent in 1956-57 and \$15,249,394 was spent in 1957-58.

Then Mr. Martin asked me for travelling expenses. Again they are not shown separately, but, together with travelling and removal expenses, in the year 1956-57 the total was \$61,000,900, and in 1957-58 it was \$66,720,528.

I give you those figures because my previous answers were incomplete.

The CHAIRMAN: Gentlemen, it may interest you to know that up to date Mr. Sellar has answered approximately 125 questions at our meetings this session. I think he should be congratulated on his effort and knowledge.

Mr. BELL (*Carleton*): Or questions on 125 subjects.

The CHAIRMAN: At our last meeting we were dealing with paragraphs 16 to 26, but we had not finished paragraph 21 which deals with Veterans Affairs, paragraph 22, Department of Finance and paragraph 25, Post Office. I wonder if we could turn to paragraph 21 at this time.

Mr. Sellar, have you any statistics by way of comparison showing the number of pensioners in the World War I and World War II? Has it increased or decreased?

Mr. SELLAR: Naturally the pensioners in regard to World War I are slowly decreasing. Pensions for disability decreased approximately by 2,000 in the year. Then in connection with World War II, the pensioners increased roughly by 500. Of course, the war veterans allowances have gone up.

The CHAIRMAN: What is the increase in the number of persons getting allowances, or the number of pensioners?

Mr. SELLAR: Are you wanting the veterans—or the veterans, the widows, the orphans and so on?

The CHAIRMAN: We might have all of them.

Mr. SELLAR: The total number of recipients for war veterans allowance in 1956-57 was 53,590; in 1957-58 the number was 59,549; over 1,000 of that figure was due to an amendment in the act providing for special awards on the death of the recipient of war veterans allowance.

Mr. HELLYER: Do you have the corresponding dollar figures?

Mr. SELLAR: Yes. Do you wish them for both pensions and war veterans?

Mr. HELLYER: Yes.

Mr. SELLAR: The figure for World War I pensions in 1956-57 was \$53,430,000 and in 1957-58 it was \$58,700,000. In connection with World War II, the figure for 1956-57 was \$74,330,000 and in 1957-58 it was \$83,900,000.

Then with respect to war veterans allowances, in 1956-57 the amount was \$41,260,000, and in 1957-58 the amount was \$47,990,000. I am giving you the round figures in each case.

The CHAIRMAN: What is meant by special awards?

Mr. SELLAR: Special awards are provided when the recipient of a war veterans allowance dies and leaves a widow. She may be granted a sum during the succeeding twelve months.

The CHAIRMAN: For the benefit of the committee and myself, would you explain what is the difference between a war pensioner and a war veterans allowance recipient?

Mr. SELLAR: A war pensioner has suffered a disability during service; a war veterans allowance is awarded to a man who may be receiving a small pension. But, generally speaking, it is awarded, in the case of a man over 60 years of age and in the case of a woman over 55 years of age, who is for physical or mental reasons incapable or unable to earn a living, and they receive some assistance.

The CHAIRMAN: What is the rate?

Mr. SELLAR: Not exceeding \$70 a month for a single man and not exceeding \$120 a month for a married man. In other words, the war veterans allowance, together with the income of the individual which is not exempt, must not exceed in total, in the case of a single person, \$1,080, or \$1,740 in the case of a married couple.

The CHAIRMAN: I see in the year under examination there was an increase of \$15 million in war pensions and \$7 million in veterans allowances.

Mr. SELLAR: Yes; that was due to the increase in rates.

The CHAIRMAN: Are there any other questions, gentlemen; if not, let us proceed to paragraph 22, Department of Finance.

Mr. BELL (*Carleton*): Could you tell us what the present actuarial deficit in the superannuation amount might be?

Mr. SELLAR: Well, in the accounts it is shown as \$139 million. In fact, Mr. Bell, a new valuation is being made. It is not completed, but it is in process. We will know shortly what the true situation is. The present one you have is based on calculations made in 1947, and brought up to date in 1952.

Mr. BELL (*Carleton*): Is it felt that those calculations are perhaps now, in the light of changed circumstances, inadequate?

Mr. SELLAR: I have no idea, sir; no idea whatsoever.

Mr. BELL (*Carleton*): The 139 million actuarial deficit you speak of is after the payments you refer to in paragraph 22?

Mr. SELLAR: Yes. Originally it was 312 million.

The CHAIRMAN: I notice you say the Canada Council has received as cash—the beginning of paragraph 22.

Mr. SELLAR: Yes.

The CHAIRMAN: That was paid over with interest?

Mr. SELLAR: Yes. I have an item further on in the report in connection with it.

The CHAIRMAN: What is the amount of the general reserve?

Mr. SELLAR: It is \$546,384,000.

Mr. HELLYER: Do you audit the Canada Council's account Mr. Sellar?

Mr. SELLAR: Yes, I am named by the act.

The CHAIRMAN: With regard to the tax agreements, what was paid to Ontario in 1957 and 1958?

Mr. SELLAR: Under a tax sharing agreement Ontario received in 1957, in round figures, \$162 million; and in 1958, \$75,700,000.

The CHAIRMAN: Could you tell us what tax rental payments have been made to Newfoundland and Quebec?

Mr. SELLAR: On a comparative basis, or just for the year?

The CHAIRMAN: Just for the year; the increase, if any.

Mr. SELLAR: In 1958 Newfoundland received under the tax agreements \$16,300,000, and Quebec received \$44,700,000. That does not, of course, include subsidy payments.

The CHAIRMAN: Would you have the increase in the last three years?

Mr. SELLAR: Yes. In 1956, under the tax agreements, Newfoundland received \$12,700,000; in 1957, \$14 million; and in 1958, \$16,300,000.

In 1956 Quebec received \$1 million; in 1957, \$1,200,000; and in 1958, \$44,700,000.

Mr. STEWART: Might I ask if that includes the adjustment rent paid to Newfoundland?

Mr. SELLAR: We are talking about tax rental agreements.

Mr. STEWART: That is what I thought; it does not include that?

Mr. SELLAR: Yes.

The CHAIRMAN: Is there anything else, Mr. Bell? It is your speciality?

Mr. WINCH: Before you pass that, this reference to the Canada Council will, I presume wait until we reach sections 50 and 51, because there is a rather important point there to be dealt with by Mr. Sellar?

Mr. BELL (*Carleton*): And the report itself refers to it.

Mr. WINCH: It is mentioned; but I wanted to make sure where we are going to discuss this.

The CHAIRMAN: I thought we could take the two paragraphs together later on.

Mr. WINCH: Right.

The CHAIRMAN: Is there anything else on paragraph 22?

Mr. BROOME: With regard to the superannuation accounts, have you the figures for the last couple of years to show whether the fund has been growing or decreasing.

Mr. SELLAR: I have not got figures there, but I think it is a fact that the income of the year is exceeding the outgo. I will verify that figure.

The CHAIRMAN: Is there anything else?

Paragraph 25, the Post Office.

Mr. DENIS: Mr. Sellar, could you give us a breakdown of that as to what part of the \$13 million increased expenditure is accounted for in salaries and wages?

Mr. SELLAR: Approximately \$86 million, sir.

Mr. DENIS: This is what I mean. You say that the expenditure is about \$13 million greater than the previous year. I would like to know what part of this \$13 million is accounted for in salaries and wages and what are the most important items you could get, to give us a breakdown of this \$13 million, the difference between this year and the previous year.

Mr. SELLAR: I would have to bring that in, sir. I have not the figures with me.

Mr. WINCH: When you are dealing with the reports of the Post Office Department, as far as revenue is concerned, do you make any analysis as to the amount of revenue that is coming in from each class of mail in comparison with the cost of that; or is that outside your scope?

Mr. SELLAR: No, we do not make any costing. The subject was brought up at this committee last year in connection with newspapers and periodicals.

The CHAIRMAN: Second-class mail.

Mr. SELLAR: The only thing I know about that, sir, is set out in the report of the Postmaster General for the year ended March 31, 1958, which was tabled recently.

At page 22 he states:

The cost ascertainment tests are now being conducted at designated test post offices on a triennial basis. The next tests will be conducted in the fiscal year 1958-1959—

That is, the year just ended. I do not know what has been the outcome of those tests.

Mr. HELLYER: Is that just a cost accounting test?

Mr. SELLAR: Yes.

Mr. HELLYER: You do not have a cost accounting procedure year by year to determine the cost of distributing different classes and kinds of mail?

Mr. SELLAR: No, that is handled by the administration.

Mr. HELLYER: But it is not in account form which you see when you make your audit.

Mr. SELLAR: No.

Mr. BELL (*Carleton*): The auditor general does not have such cost accounting, but I understood from Mr. Boyle, the deputy postmaster general, last year, that they have in the administration side of the post office such a cost accounting.

Mr. SELLAR: They have a staff in their finance branch that is doing it.

Mr. BROOME: Would they be able to determine, say, the cost of special delivery letters, the revenue against cost of delivering those letters? It seems to me that the five cents charge for delivering these letters is fantastic, and I am wondering whether they can see whether that service covers itself or not.

Mr. SELLAR: You would have to ask the department about that. I do not know.

The CHAIRMAN: Mr. Sellar, do you recall the recommendations that this committee made last year in its report with regard to the post office? We called attention to second-class mail.

Mr. SELLAR: You called attention to it, but I do not think you went beyond that.

The CHAIRMAN: Do you know if anything has been done in the department?

Mr. SELLAR: To the best of my knowledge, there has been no change in rates. You have to bear in mind that certain second-class rates are controlled by parliament and others by the postmaster general. The postmaster general may have made some changes, but I have not the information before me, sir.

The CHAIRMAN: Does paragraph 25 include all the revenues of the post office?

Mr. SELLAR: No sir. Since before Confederation certain classes of postmasters have always been paid out of revenue, and the Post Office Act provides that post office employees whose compensation is not fixed by the Civil Service Act may be paid out of postal revenues.

In the year there were 11,500 postmasters who came within that category, and they received altogether about \$21,300,000 directly out of post office revenue. They were paid direct. And that is not reflected. In other words, that is one place where action has been taken along the lines that Mr. Winch

discussed last year, of paying a revenue service out of its revenues. That is one limited example of where it is done.

The CHAIRMAN: Do you take revenues into calculation when voting supply?

Mr. SELLAR: In this particular instance, of course, the explanation is that away back, when the British post office ran our post office, they did not want to send out any money for the administration of Canada, so they would tell a fellow, "If you keep a post office you can keep the revenue". In other words, he had to support himself out of local revenue. That is the reason for it.

Mr. WINCH: Is that still the situation with these 11,000?

Mr. SELLAR: The little post offices, sir, yes. I imagine they keep, in a great many cases, all of the revenue of their post office.

Mr. WINCH: Is it not time for a survey to be made there as to whether or not there should not be a change?

Mr. SELLAR: They have been changing them over the years. The larger ones have been brought in under the Civil Service Act.

The CHAIRMAN: Is there anything else?

Mr. DENIS: Could you give us the amount of money spent on electronic equipment in the last year?

Mr. SELLAR: I have not that figure. They have spent a large sum, but whether it was last year or whether it was spread over a number of years, I do not know.

Mr. DENIS: Could you give us a breakdown of what was spent last year, two years ago and every year? Could you give us the whole history of electronic equipment, because, as you are aware, that started many years ago.

Mr. SELLAR: I have not the breakdown, sir. I can get it for you, but I have not got it here.

Mr. DENIS: You could get the exact figure up to date, I suppose?

Mr. SELLAR: Yes.

Mr. HELLYER: To what extent do government departments have the franking privileges?

Mr. SELLAR: Well, we can frank everything from our head offices other than parcel post and registered mail. We have no franking privilege outside of Ottawa for branch office. In turn, anybody can write to head office in Ottawa and frank his letter. For example, when I file my income tax return with the income tax office in Ottawa, I must put a stamp on it; but if my letter were addressed to the head office of income tax, it would go free.

Mr. HELLYER: You could not send it to the head office and ask them to forward it?

Mr. SELLAR: I hope not.

Mr. HELLYER: Has any estimate been made of the equivalent revenue representing the amount of mail franked?

Mr. SELLAR: There are figures published from time to time; from the last figures I would say it is somewhere between \$4 million and \$5 million. On the other hand, you must bear in mind the Post Office does not pay any rentals for any buildings or equipment provided by Public Works.

Mr. HELLYER: There is no charge by Public Works for any of the buildings or equipment?

Mr. SELLAR: No sir.

The CHAIRMAN: Are there any other questions dealing with the Post Office?

Mr. WINCH: So actually we do not get a true picture of the cost of the Post Office?

Mr. LAMBERT: If the Post Office Department leases premises, say for small-town post offices and so on, are not the rentals of these charged to the Post Office operation, or is it charged to Public Works?

Mr. SELLAR: Public Works.

Mr. PICKERSGILL: Would you say that the cost of revenue for the Post Office through giving free service came anywhere near equalling the free rent they get?

Mr. SELLAR: I would say the rents would amount to a much larger figure. When I say rents, I am including capital.

Mr. PICKERSGILL: For all the premises they occupy.

Mr. SELLAR: Yes.

Mr. BELL (*Carleton*): Could we get a figure of what the rents would be?

Mr. SELLAR: No, sir. Various people have tried to, but it has never been satisfactorily compiled because the Post Office complains, and I think with justification, that when we put up a public building in some community, local pride demands that a fine building be erected. The Post Office say: we could get along in a third class building and, therefore, we should not have to pay rental based on a \$200,000 building when a \$50,000 one would serve our purpose.

Mr. PICKERSGILL: Sometimes the reverse is true.

Mr. SELLAR: Maybe so.

Mr. LAMBERT: Is it not a fact if the Post Office did charge for mail services to government departments, it would be merely transferring money from one pot to another; and there would be more administrative difficulty and time would be spent by staff in looking after stamping, and all that goes with it?

Mr. SELLAR: You are correct, but you overlooked this: If charged to your vote and you had to go to treasury board and to parliament and defend your vote, you might be a little more careful in the amount of material you put in the mail. Quite often I receive from the same department in the same mail three or four letters which could have been included in one.

Mr. WINCH: The Civil Service Commission.

Mr. SELLAR: That is the sort of thing I mean. I grant you that to a large extent it would be bookkeeping.

Mr. LAMBERT: You could spend \$5 million policing for \$500,000, and the net cost to the government is a straight loss.

Mr. BELL (*Carleton*): Surely the issue is a larger one than that. Postal rates ought to pay for all postal services, and the issue is raised squarely when it is not paying for public buildings provided by the Department of Public Works.

The CHAIRMAN: And the free service provided under second class mail.

Mr. SELLAR: To be fair to everyone, may I say this. If you charge post offices for the occupation of publicly-owned buildings, then you should charge every department.

Mr. BELL (*Carleton*): Yes, customs and excise and so on.

Mr. PICKERSGILL: Do you know what the practice is in the United Kingdom?

Mr. SELLAR: No, except they have a deficit.

Mr. HELLYER: Do you think, through a stricter method of cost accounting, it would be an advantage to the taxpayer to know what the cost of various governmental services actually is?

Mr. SELLAR: It would be useful only if it has a practical value and it is not going to cost too much to set up and maintain. My own feeling with respect to post offices—and this is a personal opinion—is that the post office should

be treated somewhat in the nature of a public corporation, with its accounts set up on that basis and with an appropriation, of course, by parliament each year. This would bring all the costs of the Post Office together, the same as you do in connection with the broadcasting corporation and some others. However, that is purely a personal opinion.

Mr. DENIS: It does not mean, though, that there should be a deficit every year. The Post Office is a public service.

Mr. SELLAR: Yes.

Mr. DENIS: And, of course, we have to see that we do not have any difficulty.

Mr. SELLAR: That is quite true, sir. On the whole, on the basis of the accounts as they are now kept, the Post Office as a rule has had a small surplus. This year it has a deficit. To make the comparison I am now making is not entirely fair because in England they also run the telephone and the telegraph system. But over there they have a special account for the post office with so much of the revenue earmarked for future construction of post office buildings and so on in order that it can plan ahead for its needs. It more or less tries to design its business to be a self-supporting activity. I do not know whether or not we can do that in this country.

Mr. WINCH: I would like to get something clear. Under your terms of reference which, of course, is the act, are you restricted just to the auditing of books and giving a report on what you find in the course of your audit, or are you enabled at any time to go into the question of costing? I am just analyzing what you have said now in regard to whether something should be self-supporting. The reason I ask is because of something in which we are all interested, namely second class mail. It does not carry its own cost. Are you allowed to make any comment on that in your report, or must you confine yourself strictly to saying that the books are in order?

Mr. SELLAR: There is a general clause in section 70 which says that I can bring to the notice of parliament any matter I think merits its attention. Under that I can do almost anything. Last year I brought to your notice that the costing of second class mail tended to demonstrate that we are losing money. I can bring you up to date in regard to a more recent matter. Last year I saw in the newspapers on several occasions that taxpayers around the country had received a refund of one cent, two cents or five cents on their income tax account. They had gone to the papers and said they were going to frame the cheque, that here was the government going to all that expense of writing the cheque, putting it in an envelope and mailing it when only a cent was involved. That was a new one to me. We had not done that for quite a while, so I asked the treasury to cost the operation and to my surprise their costing showed that the system they had devised showed that the cost of writing the cheque, putting it in the mail, although not carrying it in the mail, is three-quarters of one cent. I thought it would be seven cents, but their costing showed it as three-quarters of one cent.

I am using that example to illustrate that I do sometimes look into these things. But I have no power to dictate to the department. I can ask for information, but cannot dictate.

Mr. PICKERSGILL: Is it not true that any quasi automatic operation like that would be apt to cost more than just letting the thing happen? What I mean is, to segregate these things and not send out the cheques would cost a great deal more than to send them out, simply because you would have to go over them another time with a great number of employees.

Mr. SELLAR: Well, when it is policy, I have nothing to say.

Mr. WINCH: I would still like you to continue your investigations to find out, as you say you can, the relationship between the cost of second class mail and the revenue.

Mr. SELLAR: I am hoping we will have that for you after they complete their inquiries this year.

Mr. PICKERSGILL: What about the cost of parcel post, Mr. Sellar; have you ever made any tests to see whether the cost of carrying parcels is fully paid for by the people who send the parcels. After all, it is parcel post, even more than the second class mail, that makes it necessary for the Post Office to have large buildings.

Mr. SELLAR: Well, we have looked into that to a limited degree. Periodically I receive oral complaints from the express companies that we are providing unfair competition. I also get complaints from my wife, in particular, when the post office delivers a parcel at the door, ring the bell for one second and, finding no one at home, leaves a card telling us to call at the post office to pick up our parcel.

Mr. PICKERSGILL: The express companies also do that.

Mr. SELLAR: I get those complaints. However, I do not know whether the parcel post rates are right or wrong. I am looking with great interest to the outcome of these costings just the same as I have always watched over the special deliveries. It seems to me the rate for them was very low. We had an item in our report a number of years ago on that subject. Of course, those are under contract.

Mr. HALES: With respect to parcel post costs, I recently learned in my own community of instances where retail stores are taking boxes over to the post office for delivery within the city and can get a lower rate than if they hired a parcel delivery company.

Mr. SELLAR: I could give you a personal example that happened to me yesterday. I was mailing two books to a friend of mine in Ottawa. I wrapped them up and put "books" on it. The postal clerk said 24 cents, then looked at the address and said, "As it is in Ottawa I will send it parcel post and it will be 15 cents." I was quite willing to pay the 24 cents; perhaps I should have, but being of Scotch background I paid 15 cents.

The CHAIRMAN: Being the Auditor General you got special treatment.

Mr. PICKERSGILL: Would you tell us what you did with the other 9 cents?

Mr. HALES: In this connection, I know we had the Post Office officials here last year. I am wondering if we should not have them back again, so that we can come to some definite decision or make definite recommendations. We did this last year and I am wondering whether we should spend one meeting with these people this year.

Mr. WALKER: Mr. Sellar, you say the matter is under investigation and surveys are being conducted in the Post Office at the present time.

Mr. SELLAR: That is according to the annual report of the Postmaster General tabled in the house this session.

Mr. WALKER: You are not suggesting that we go into these matters until we get that report, are you?

Mr. SELLAR: I would think unless they are finished you would be premature. They could be finished, for all I know.

The CHAIRMAN: Is there anything else in connection with the Post Office? Agreed to.

The CHAIRMAN: Paragraph 27 is next. We had discussed the intervening paragraphs last meeting.

OBSERVATIONS ON REVENUE AND EXPENDITURE TRANSACTIONS

27. Section 70 of the Financial Administration Act requires the Auditor General to report annually to the House of Commons the results of his examinations, and directs that attention be drawn to cases observed where

- (a) a public employee wilfully or negligently omitted to collect or receive money belonging to the Government of Canada,
- (b) public money was not duly accounted for and paid into Consolidated Revenue Fund,
- (c) an appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there was a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of money.

The section further directs that the Auditor General include in his report any other case he "considers should be brought to the notice of the House of Commons".

Mr. DRYSDALE: Mr. Chairman, I raised this matter earlier. The first point I would like to make is perhaps purely a technical one; but in the Auditor General's report at page 7, section 27, he starts off by saying:

Section 70 of the Financial Administration Act requires the Auditor General to report annually to the House of Commons the results of his examinations, and directs that attention be drawn to cases observed where...

and so on.

In section 17(1) of the Financial Administration Act almost the same wording states:

The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that...

and so on. First, I would suggest that where you are paraphrasing a section of an act and where paraphrasing is virtually the same length as the section in the act, it would be of assistance to put the act section in verbatim. In reading what you have here under paragraph 27, it is my impression that there is a certain discretion whereas in actuality under the Financial Administration Act there is no discretion.

I will now pass on to the point that I actually want to make. Sections (a) to (f) are the sections under which you must report each case, and at the end there is provided a certain amount of discretion. Earlier in the hearing—I think it is at page 48 on March 18—I inquired, perhaps prematurely, in regard to discretionary matters, under section 70. You said at page 48:

I follow the rules. First, I do not bring to you anything that is so highly technical that it is difficult to explain and is relatively unimportant.

Then I skip a sentence, and you state:

Secondly, I only bring to you things which I think may be of interest to you as parliamentarians.

The thing that interests me, sir, is that I would like to have examples or, perhaps, a list showing how you are exercising your discretion. In other words, I would like to have one or two examples or, if possible, an appendix list of what you consider technical matters; and then I would like to have an

example of some things which you think do not interest us as parliamentarians. I request this information because when I see how you exercise your discretion, I have the opportunity to agree or disagree with you in regard to what would interest us as parliamentarians.

Mr. SELLAR: You cannot tell from year to year what comes within the ambit of the concluding words of section 70. Each case has to be considered on its own merits. I have been expecting this question from Mr. Drysdale so it does not come as a surprise. I have made up a list of the items in this present report that I consider come within that. I refer in paragraph 38 to the text of the unforeseen expenses vote, as being one of those subjects. I refer you to paragraphs 54 and 55 involving the selection of appropriation to charge as a matter of parliamentary concern. Then in paragraphs 60 to 66 I deal with the Unemployment Assistance Act mainly because the contract under that act is a statutory text and I think that parliament is interested in it. Paragraphs 67 to 70 deal with a couple of points in connection with the War Pensions Act. I refer to this really because the legislation dates from 1919 and I think it might be modernized. That is a matter of opinion.

Paragraph 71 deals with air transport charges, but the air transport board refused to consider a change. I think that is something that is of interest to you.

Paragraphs 104 to 107 deal with the accounts of the Prairie Farm Assistance Act. I think that is of interest to you from the viewpoint of the application of the act. The same is true of paragraphs 121 to 123 in connection with the permanent services pension account.

Mr. DRYSDALE: If I may clarify my question, the things that I am interested in are the things that do not appear; in other words, examples of what you consider as being too technical to refer to us and, secondly, matters which you do not think interest us as parliamentarians.

Mr. SELLAR: Well, "too technical" would be a mere question of the system of keeping a bookkeeping account and whether it should take one particular form or another. Again, ordinarily speaking, I would not think of bringing a matter before you in connection with travelling expenses, because you authorize so much money to be spent. The way the government spends travelling expense money is controlled by executive regulation and you could not amend it or legislate on it. I would not think of bringing that before you.

I am bringing before you in the present account, a suspense account in the balance sheet, in connection with a bridge in Prince Edward Island where I think we should turn over some money to the province. You might say that is a technical accounting thing and the action taken is right, but I think it should be changed.

Mr. DRYSDALE: On technical accounting matters then, despite the action involved, if you feel it is too technical for us in essence, you would not refer it.

Mr. SELLAR: My experience has been if I bring up what I might call a hair-splitting administrative question, this committee would just yawn. I do not think I should worry you with these things; I should fight that out with the departments, as your agent.

Mr. DRYSDALE: But at the present time you are unable to provide us with a list showing the matters which you do not think are of interest to us.

Mr. SELLAR: I put in everything that I thought proper and have thrown away the rest.

The CHAIRMAN: Basically, it is a matter of personal judgment based on considerable experience as Auditor General.

Mr. SELLAR: And the experience of the office. Some of my senior officials have had 30 or 40 years experience in the office, and it is a pooling of the experience of all of us.

Mr. DRYSDALE: The point that is worrying me, and I will not labour the point any further, is that to a certain extent there is a large discretionary area, and I was trying to get some tangible examples. I assure you, Mr. Sellar, there is no question of reflection on you personally or on your staff, but I was trying to see what the area of discretion is; in other words, things you might disregard as of interest to parliamentarians might be of interest to them, and when I cannot see it I do not know. That is the difficulty.

Mr. SELLAR: I am sorry, Mr. Drysdale, but I cannot help you. The reason is simple. We are now in April, 1959. The accounts before you are for the fiscal year 1957-58 and the audit report was written shortly after the close of that year. Now I have had to, in a sense, brainwash all figures for 1958-59 out of my head, in order to have the figures for 1957-58 in my head for this meeting. I cannot recall anything in connection with this report that is not there.

Mr. DRYSDALE: Could I ask, for my own benefit, if it would be possible to jot down a few items for next year upon which you exercised your discretion to eject?

Mr. SELLAR: I would be glad to, because it would be of help for me to know what the sentiments of this committee are. I am serving you and want to know what you want. I will be very glad to give you a list of those; but I would put in this reservation: do not jump on the departments because I leave them out.

Mr. PICKERSGILL: I wonder if I could put a question to a related subject. Is it very usual to include in the public accounts for a year that is ended some expenditure for which no statutory provision has been made and for which the statutory provision is made in the subsequent year.

Mr. SELLAR: It is not included in the public accounts until the statutory provision is made. For example, on various occasions we have had the old age security fund deficit made the subject of an appropriation or of an act in June, and we kept the account open, and that has been put into the old year. But I cannot recall any without legislation. Now, bear in mind, I should never be positive of anything, but I cannot recall any case, and I would have had to take exception had the change not been approved by parliament.

Mr. PICKERSGILL: I was not suggesting that. Perhaps I did not make my question clear. Was it frequently the case that legislation was made in the subsequent fiscal year to include items in the accounts of the previous year. You have mentioned the old age security. I just wondered if there were no such examples?

Mr. SELLAR: I do not think so, sir. We may have done it in connection with the Prairie Farm Assistance Act and may have in connection with two or three others—the agriculture prices stabilization board or the fisheries stabilization board, and things like that. We may have, but my memory is not good enough to say we have.

Mr. PICKERSGILL: I wonder if Mr. Sellar would look up such precedents as might be available.

Mr. SELLAR: How many years would you like me to cover?

Mr. PICKERSGILL: Four or five. I would be particularly interested in an entirely new charge, something that had never existed before.

Paragraph 27 agreed to.

Mr. MACDONALD (*Kings*): Mr. Sellar, you made reference to a recovery of \$58,500 with regard to the Hillsborough bridge in Prince Edward Island. Is that still being recovered this year, and in your opinion do you feel it is an unnecessary expense to the province?

Mr. SELLAR: Well, that is in a paragraph toward the end of the book. I have not brought myself up to date as to what was done in the last fiscal year. That is a paragraph toward the end of the book.

Mr. MACDONALD (*Kings*): Yes, it is paragraph 125.

Mr. SELLAR: And it will not come before this committee within the next three weeks, therefore, I was waiting until that date to bring myself up to date.

The CHAIRMAN: Gentlemen, I do not want to anticipate Mr. Sellar, but it might be of use to point out that sections 28 to 35 inclusive deal with special warrants. If I can put it this way: paragraph 28 and 29 more or less outline the general principle and paragraph 30, the Colombo plan special account, is an example, as well as paragraph 31, NATO contribution, and paragraph 32 to 35 are a third example. So, with your permission, let us start with paragraph 28 and 29.

28. Twice during the year under review, Parliament was dissolved to permit a general election. In anticipation of the first dissolution, an interim grant of Supply was made by Parliament to cover one-half of all Estimates items then before the House, plus, in the case of some items, further fractions. When the second dissolution took place on 1st February 1958, there remained, generally speaking, one-sixth of the Main Estimates to be provided for and all or a substantial portion of the Supplementary Estimates tabled in October and January. The special warrant referred to below was issued on 7th February to bridge this financial gap. In a normal year the House of Commons decides amounts available for expenditure and regulates the application of votes; the use of the special warrant had the effect of transferring this function temporarily to the Executive. However, *ex post facto* legislative action was taken on 6th September 1958 when the Special Appropriation Act, 1958, took notice of all grants by warrant or otherwise and directed that they "be deemed to have been enacted by Parliament on the 1st day of April 1957".

29. Section 28 of the Financial Administration Act permits the issue of special warrants to authorize charges on Consolidated Revenue Fund when Parliament is not in session and an expenditure is urgently required for the public good. In the course of the fiscal year 1957-58 three special warrants were issued:

Date	Purpose	Amount
16th August 1957...	Assistance Fund (War Veterans Allowances) ..	\$ 300,000
19th August 1957...	Assistance to immigrants and refugees	2,428,000
7th February 1958...	Public Service administration and operating needs	544,290,332

The amount of the special warrant of 7th February was based on the total of the Estimates before the House of Commons at the time of dissolution, but some items were reduced and others excluded, either because revised estimates indicated that the full listed amounts were not regarded as necessary, or the purpose of the items was outside the ambit of section 28 of the Financial Administration Act.

30. *Colombo Plan Special Account*. Included in the 7th February warrant was \$5,733,000 for the Colombo Plan Fund established by c. 12, Statutes 1952-53. Since the balance at credit of the Account was \$61,417,000 as at 31st January 1958, the \$5,733,000 did not qualify within the expression "urgently required" in section 28 of the Financial Administration Act.

31. *NATO Contribution.* Each member of NATO is annually assessed by the Secretary General its share of the administrative budget of the Organization, and also of the cost of constructing the Organization's permanent Headquarters building. These assessments are made after the budgets for the calendar year are approved. In March 1958, Canada voluntarily made a \$69,057 advance payment on account of the administrative budget and a \$78,015 advance payment with respect to the Headquarters building. As the budgets still had to be approved by the appropriate NATO body, and as the Secretary General had made no demand on Canada, these payments out of funds made available by special warrant may not be regarded as meeting the test of urgency.

32. *Purchase of a Wharf.* A few years ago a mining corporation decided to construct a townsite at Tilt Cove, Newfoundland, and to undertake copper mining operations in the area. The corporation, considering port facilities for vessels of 10,000 ton register a necessity, sought assistance in developing a harbour. In 1955, the Department of Public Works undertook a survey to establish if others might need harbour services in the area, but before any report was made the corporation contracted directly for the construction of a wharf and facilities.

33. On 12th April 1957, Treasury Board authorized the Department of Public Works: (a) to acquire from the company the land and port facilities, (b) to take over the construction contract which had been entered into "at negotiated unit prices without calling for tenders", (c) to arrange that the mining corporation contribute 50% of the cost and "finance the Department's share of the cost until funds in the amount of \$350,000 are provided by Parliament in Supplementary Estimates for the fiscal year 1957-58", and (d) to arrange that the project be operated as a public wharf with the corporation paying dues at rates fixed by the Department of Transport.

34. The Department of Public Works was still negotiating when a subsequent Executive decision caused the Department to write the corporation on 18th September 1957, to inform it that: "Funds are not being included in the Supplementary Estimates to provide for this expenditure, and consequently the Department is unable to proceed with the acquisition of the wharf". However, Estimates tabled on 28th January 1958 included \$350,000 for the wharf.

35. On 11th March 1958, Treasury Board directed the Department to pay the \$350,000:

in full and final settlement of all its interests and claims in the wharf and wharfing facilities at Tilt Cove, Newfoundland, the site thereof and approaches thereto and the water lot immediately adjoining the said wharf and wharfing facilities and also in respect of a limited interest in a right of way over lands vested in the Corporation...

As noted above, Supplementaries were tabled on 28th January, but no interim supply was granted with respect to them. The expenditure was neither a charge to an interim supply grant nor one that met the test of being "urgently required for the public good" for warrant purposes. Moreover, while the cheque bears an April date, payment was not made to the mining corporation until a date in May 1958.

I should add at this time that there was an amendment to section 28 of the Financial Administration Act. I have had it mimeographed and perhaps we could have it distributed at this time. Mr. Sellar, could you give us the essence of the amendment to section 28 of the Financial Administration Act? Why was it brought in?

Mr. SELLAR: The reason, sir, was that the old section was out of date. When the Consolidated Revenue and Audit Act was drafted in 1931 we, in

the Department of Finance, intended to revise section 28 then. The Department of Justice opposed it on the ground the practice had been well established and people understood what it meant. It stood. Last year the Department of Finance did make an amendment that was long overdue. The significant change, apart from changing the text, is that the old text said "where an expenditure is urgently required for the public good", while the new text says, "where a payment is urgently required for the public good". The word "expenditure" has disappeared and "payment" has come in. In one way that broadens the application of the section, and in another way it narrows it.

The CHAIRMAN: Well, what is the lawyer's meaning—if I can put it this way—of the wording, as opposed to the chartered accountant's meaning?

Mr. SELLAR: To a chartered accountant the word "expenditure" can mean a bookkeeping transaction. For example, the credit to the Colombo fund of \$5 million, or whatever the amount was, was a bookkeeping transaction; it was not a payment. A payment, as I understand it, is an actual transaction between two or more individuals.

The reason the Minister of Finance changed "expenditure" to "payment" is that the word "expenditure" did not include the making of a loan to a crown corporation, for example. That was not an expenditure; it would be recorded as an asset. Therefore, by substituting "payment" the section was broadened.

Bear in mind that the three examples before you pivot on one point only. The legislation requires that the expenditure shall be urgently required for the public good. In the case of the Colombo plan there were over \$60 million at the credit of the account when parliament was dissolved in January. There were \$60 million at the credit of the account at the end of March. I claim that there was no urgent need for the money.

In the case of the payment to NATO, we had not been billed for a contribution, and until we are billed there was no liability. My view is that there was not a case of urgency there. The third case is in connection with the purchase of a wharf. As the wharf already existed, the actual financial transaction was not urgent. In fact, it was not made until the month of May. But, while I am bringing those three cases to your notice, you must bear in mind that parliament has already regularized the payments by the legislation passed in September of last year. The only reason that they are now before you is because the Minister of Finance told the house, in bringing in the bill, that the public accounts committee at the 1959 session of parliament will have its full rights with respect to all expenditures made in the fiscal year 1957-58 as audited by the auditor general, as they have with respect to expenditures made in any fiscal year. There will be full right of review of all expenditures.

This matter is reported to you merely from the viewpoint of precedent. Perhaps this committee should take notice of this new text and indicate in its report that, because the control of the public purse is one of the great powers of the House of Commons, any delegation of the power must be given a narrow and strict interpretation, bearing in mind the constitutional rights of parliament. In other words, a governor general's warrant should not issue except where the government of the day is satisfied that a payment must be made in the public interest before parliament will have a chance to consider granting supply. Bear in mind that I am just suggesting that you put something on the record.

Governor general's warrants are very rarely used in this country. As a rule they are used only at election time when the house is dissolved before supply is granted. That happened in 1926, it happened in 1940 and it happened

a year ago. In the intervals between those years I doubt if half a dozen warrants were issued. They are not used to any extent. I do suggest to you that it would be prudent to get something on the record that would give backing to the treasury board people 10, 15, 20 years from now when there is a rush for governor general's warrants.

Mr. WINCH: This money was transferred under an authority which says it must be urgently required, and you say it was not urgently required in your estimation as auditor general?

Mr. SELLAR: It was not, in my opinion.

The CHAIRMAN: And three examples are given.

Mr. BELL (*Carleton*): I am sure, Mr. Chairman, that every member of the committee would agree with Mr. Sellar when he says the power of the executive in this respect must be stringently interpreted. I am sure that not only every member of this committee would agree with that, but I think every member of the House of Commons, including those who occupy the treasury benches.

Mr. PICKERSGILL: On the other hand, there is a consideration that occurs to me. I am not in the least anxious to defend the present government; but in one of these cases here it would appear that, though there may have been no urgency in transferring the actual cash, there could conceivably have been some urgency in making the commitment. Of course, we have had a recent example of a case where there was no vote. Some of us think a commitment was made that was not subsequently honoured. I am not thinking of that; I am thinking, rather, of the case where the urgency, perhaps, of acquiring this wharf may have been such that the persons who previously owned it would have wished to know that there was a legal charge, though they would be quite willing to wait until May, or perhaps even longer, for their money. I do not know whether I make my point clear.

Mr. SELLAR: I can appreciate your point, Mr. Pickersgill, from the text of the act as it then was. In the case of the Tilt Cove wharf—and that is the one to which I presume you are making reference—

Mr. PICKERSGILL: Yes.

Mr. SELLAR:—there was a vote in the supplementary estimates tabled.

Mr. PICKERSGILL: That is right.

Mr. SELLAR: No fraction had been granted, and it was decided to go ahead and make the purchase. The matter came before treasury board as to what year should be charged with that purchase. Treasury board ruled that if the matter was completed at April 30—that is, good title was given, and everything else—the payment could be charged to the year. Actually, it was not. But that is just one of those cases where the lawyers receive money as agents of the Department of Justice. They hold it until they get clear title. The Justice people never understand us bookkeepers when we demand that they keep their accounts right. We are just a nuisance to them. Therefore, they do not have that transferred from one year to another.

As I understand the legislation now, the government could enter into a firm commitment for the purchase of a wharf. However, I think it is debatable whether they should issue a warrant for the payment if parliament was going to meet in the very near future. If the circumstances were that the company who owned the wharf was going to sell it to somebody else, and the government decided that would be contrary to the public interest, I think they could use the warrant procedure as being in the public interest.

Mr. PICKERSGILL: In this particular case—about which I happen to know something—there was no such risk. But I can conceive of cases arising, such as the case you have just suggested, where that might happen.

Mr. SELLAR: Yes. It is just like the point Mr. Drysdale was questioning me about. I can give him a case that is sound, then a marginal case where the circumstances would be different. It is the same in this sort of case.

Mr. LAMBERT: Mr. Sellar, take a situation where, because of the complexities of government procedures, it takes rather a long time to arrive at a decision regarding the acquisition of property, and the prospective vendor holds the property under option. Unless he has a commitment he may not feel that he can exercise his option, and unless there has been an appropriation or sufficient authority, the government cannot make the commitment. Surely, under those circumstances it would be in order to use a warrant?

Mr. SELLAR: I am not arguing that you cannot use a warrant. I am using a particular case and a particular set of circumstances and saying there is nothing there to demonstrate a state of urgency.

Mr. BENEDICKSON: We should make a note of this recommendation for our report. I quite agree members of Parliament should watch matters of this kind pretty carefully. I indicated in the debate on the supplementary estimates No. 3 this session that there sometimes can be reasons for approving or objecting to putting an expenditure item in either the current year or leaving it for the forthcoming year. It has some debatable points. I think that the auditor general was correct in drawing attention to the possibility that this was perhaps not of an urgent nature. I do not think the particular item was too significant in any way politically in the year in question. We can understand—such as a commitment to provide wheat to Colombo Plan countries—that a large expenditure could be charged to current accounts—even larger than we are operating on at the moment. We are asked to do that and charge that to past accounts, when there is not any possibility of spending much of the money for some considerable time. This is the type of open account operation similar to the defence equipment account which the present government took objection to.

Mr. WINCH: On the same line, I believe I am correct in my understanding that as you examine accounts you have the authority to ask for an explanation of them?

Mr. SELLAR: I have access to all files at all times.

Mr. WINCH: On that basis—and this will make it clearer for me on this question—let us take the Colombo plan special account. Going through the accounts on January 31 you find there is a balance at the credit of the account of \$61,417,000. Then you find that on February 7 a warrant was issued for \$5,733,000. You have drawn to our attention that as there was a balance of \$61,417,000 at the end of January, there was no question, because of section 28, of this money being urgently required. I presume you asked for an explanation as to the reason this money was urgently required?

Mr. SELLAR: I did not, personally, ask for a formal explanation, because it was obvious to us that this was the balance of the appropriation included in the estimates, just as they were appropriating by a governor general's warrant the balances of a large number of appropriations for the fiscal year. This was the residue of the vote. In other words, approximately one-sixth.

They did spend a fair amount of money under the Colombo Plan in the year; they spent something like \$38 million on it. But there was a balance still left at the year end and, as Mr. Pickersgill remarked a while ago, there would be commitments against that—very big commitments—for some of the power schemes, and so on, that are being constructed in Asia. My concern was the cash position; we had lots of credits available at that time.

The CHAIRMAN: Paragraph 31 is even more flagrant. There they have not even received the bill.

Mr. SELLAR: That is typical of NATO. They are slow.

Mr. MCGEE: Is there not some area of argument to be met in the field of foreign aid in connection with specific accounting procedure? I find, quite properly, some fault with this. Is there not another aspect which seems to have manifested itself in recent discussions on foreign aid, that the communist nations have the ability to make quick decisions and to give effect to those decisions in the way of financial aid?

Mr. BROOME: Nobody can agree to that contention. No, I think the hon. member is—

Mr. MCGEE: Suppose you let me go where I am going before you decide where I have been.

Mr. BROOME: I was afraid of where you were going.

The CHAIRMAN: Mr. McGee is on his way. Is there anything else?

Mr. MCGEE: As I was beginning to say: this argument or discussion has taken place and I suggest it relates to the effectiveness of our contributions in this field in general. I ask you if either of the expenditures in paragraph 30, running into 31, relate in any way to the need to step up the process of these grants in aid in various directions?

Mr. SELLAR: Mr. Chairman, the Colombo plan account is a special account which was created a number of years ago. Originally it was an annual vote which, if not spent, lapsed at the end of the year. Then you had to wait until you got a new appropriation.

That was not satisfactory from an administrative viewpoint. So they created this special account to which all of the appropriation for the year is credited. Therefore they are now in a position to make fast decisions.

At the end of that year they had \$60 million at their credit. They could act fast there. The NATO expenditure is an annual appropriation, so you have to wait until you get the money.

In some countries there is provision in their legislation whereby levies of international organizations may be anticipated to the extent of one year and paid. But we have not that form of legislation. We do it, to a degree, but there is no general legislation.

Mr. MCGEE: In reply to my question and the fact I have mentioned, it does not appear.

Mr. SELLAR: We have it for the Colombo plan.

Mr. BENIDICKSON: That is statutory—is it not?

Mr. SELLAR: Yes, it is a dollar vote by parliament.

The CHAIRMAN: Is there anything else? If not, the item is agreed to.

May I call your attention now to paragraphs 36 and 37. "Unforeseen expenses", and may I suggest you read with it paragraph 50, "Payments of interest without authority". The three are the same principle.

Mr. SELLAR: Yes.

36. *Unforeseen Expenses.* An unusual application of the 'unforeseen expenses' vote was observed in the review of transactions of the national gallery. The board of trustees, as a body corporate, enjoys a power to contract in its own name, with section 8 of the National Gallery Act, c. 186, R.S., providing that:

8. (1) There shall be a special account in the consolidated revenue fund called the national gallery purchase account to which shall be credited any money appropriated by Parliament in any fiscal year for the purpose of acquiring works of art, and any expenditure for the acquisition of works of art in that or any subsequent fiscal year, including any costs in connection therewith, may be paid out of the moneys so appropriated and credited.

37. \$130,000 was included for the account in the 1957-58 estimates, with \$108,334 becoming available by interim grants of supply. The board, having proceeded on the assumption that the full amount would be credited before 31st March, had agreed to pay \$25,000 to an art dealer before that date, being half the purchase price of a Picasso, and so found itself in financial straits when the government decided in February 1958 that the balance of the item did not meet the test of being "urgently required for the public good" for special warrant purposes. Treasury board on 12th February authorized a \$25,000 transfer from the 'unforeseen expenses' vote to cover the payment due in 1957-58, but it is difficult to regard the amount as applied to an unforeseen expense.

The CHAIRMAN: Paragraph 36 has to do with the national gallery, and paragraph 50 has to do with the Canada Council.

Mr. WINCH: Does the Red Cross not come in here somewhere? Is there not something special for the Red Cross here?

The CHAIRMAN: No, that comes up later.

Mr. WINCH: It is on the same principle, is it not?

Mr. SELLAR: No, it is a different matter.

Mr. WINCH: I thought it was the same principle.

The CHAIRMAN: Is the question not this: when one act says the money ought to be paid under a certain situation, another act cannot be used?

Mr. SELLAR: That is the point sir. In the case of the national gallery, in 1951 there was legislation. Up to that year when parliament appropriated money for the national gallery it lapsed at the year end with the result that they could never accumulate money to buy paintings. They had to buy them within the year, and the complaint was that sometimes they had to buy a less valuable painting than they wanted, because they did not have the money.

So in 1951 the legislation was changed. I shall read the pertinent section, which is section 8 of the National Gallery Act, as follows:

8. (1) There shall be a special account in the consolidated revenue fund called the national gallery purchase account to which shall be credited any money appropriated by parliament in any fiscal year for the purpose of acquiring works of art, and any expenditure for the acquisition of works of art in that or any subsequent fiscal year, including any costs in connection therewith, may be paid out of the moneys so appropriated and credited.

(2) There shall be a special account in the consolidated revenue fund called the national gallery special operating account to which shall be credited all money received by the board by way of donation, bequest, revenue or otherwise.

(3) Any expenditures for the purposes of this act may be paid out of the national gallery special operating account or out of money appropriated by parliament for such purposes. 1951 (2nd session), c.16, s.8.

I know it is a little difficult to follow from a reading, so I point out that there are two special accounts: the national gallery purchase account, and the operating account.

In connection with the purchase account, the section says it shall be credited with all money appropriated by parliament in any fiscal year for the purpose of acquiring works of art.

In the fiscal year in question the estimate was for \$130,000 to acquire works of art. But parliament was dissolved in January so approximately only \$108,000 had been made available and credited to that account.

The national gallery had made a commitment for the purchase of a certain painting which cost \$50,000; \$25,000 to be paid in the fiscal year, and \$25,000

in the next. That commitment had been entered into in anticipation they would get the \$130,000. Instead they only got \$108,000.

So in order to make good \$25,000 was taken from the miscellaneous and unforeseen expenses vote. Again I would point out to you that this has all been regularized by the legislation of last September. It is before you now as a matter of precedent.

The section says that the moneys appropriated by parliament for the acquisition of works of art shall be credited to the special account. Parliament appropriated certain moneys for this.

In addition the government used the general vote, which is for a total of \$1,500,000 to supplement the \$108,000.

My view is that if parliament votes, let us say, \$130,000 for the purchase of works of art, it means that is the amount the national gallery can spend, and that the executive cannot increase that amount by \$1 million, going to an extreme, by drawing on the unforeseen vote. The government never would, but I use that to illustrate the extreme that might be involved.

It is for that reason I bring it to your notice, believing as I do that when parliament legislates in a special manner in respect to a special purpose, other legislation more general in character cannot be used to over-ride the specific legislation. But that is a question of law, and is beyond me. You have a lot of eminent lawyers here and I will let you decide it.

The CHAIRMAN: It is a question of the control of parliament.

Mr. BENEDICKSON: Unforeseen is more of the same. Is that what you have in mind?

Mr. SELLAR: An unforeseen vote does not meet the test of an amount appropriated by parliament for the purchase of works of art.

Mr. WINCH: Because they have already done that.

The CHAIRMAN: Paragraphs 36, 37 and 50 agreed to.

Paragraph 38.

38. Founded on audit observations, it is suggested that the text of the vote for unforeseen expenses be further considered. It now reads:

To provide, subject to the approval of the treasury board, for miscellaneous minor or unforeseen expenses including authority to re-use any sums repaid to this appropriation from other appropriations, and special compensation or other rewards for inventions or practical suggestions for improvements—\$1,500,000.

With such a text, it is obvious that parliamentary control would be strengthened were this vote restricted to unforeseen expenses, and not used, as is now the case, also to pay recurring costs. An illustration is the cost of the suggestion award board. 'Suggestion awards' are still small in total, but they have more than doubled in the past five years: from \$9,300 to \$21,900. Under the present style of the estimates item, parliament exercises no control over the amount that may be spent on this activity—which is operated by civil servants to reward other civil servants.

The CHAIRMAN: In the second part of 38 "Suggestion award board"—perhaps we have time to finish it today.

Mr. SELLAR: That is just a little point. The unforeseen vote is a very necessary vote. For example, in the year in question we had a visit by Her Majesty, and that vote was drawn upon to pay the small amount of expenses in connection with the visit, and so on. But when you come to a continuing expenditure, one that is actually going to happen year after year, my view is that it should be set up in a distinct vote so that parliament can decide how much it wants to give for the purpose, as it does in every other case. This is an exception; I think

there should be a small vote associated with the civil service commission for this purpose, and you could put in your limit.

As it is now, technically speaking, they could spend \$1½ million on awards. They never would, but I use that to illustrate. You do not have the control that parliament is entitled to impose when you follow this practice.

The CHAIRMAN: Your words are: "parliament exercises no control over the amount that may be spent on this activity—which is operated by civil servants to reward other civil servants".

Mr. SELLAR: It is a well administered little scheme as far as it goes. But I have my doubts about how valuable it is. However, that is another thing. There is no abuse. I am interested only in the question of principle.

Mr. BELL (*Carleton*): It ought to be in another vote. There is no reason whatever for it being an unforeseen item.

Mr. SELLAR: No.

Mr. BELL (*Carleton*): I think we would all be in general agreement in the committee that we should recommend that the unforeseen vote ought to have eliminated from it any recurring items. We should so recommend to the Minister of Finance and the treasury board when we come to make our report.

The CHAIRMAN: Paragraph 38 agreed to.

The committee is adjourned, to meet again on April 22 at 9.30 a.m.

APPENDIX P-1

(In answer to Mr. Bell.)

Comparison of 1948 and 1958 Service Forces establishments and pay rates.
A comparison of strengths of Defence Active Forces is:

	1948	1958
Navy	6,857	19,867
Army	15,885	47,473
Air	12,017	51,698
	<hr/>	<hr/>
	34,759	119,038

For the sake of brevity, some Army ranks will be used to compare pay classifications, the rates being the same for equivalent ranks in Navy and Air:

	Monthly Basic Rate	
	1948	1958
Major General	\$660	\$1,161
Colonel	434	730
Lt. Colonel	313	555
Major	268	455
Captain	203	355
Lieutenant	171	285
Sergeant	91	194
Private (1st Class)	69	127

With respect to allowances, range comparisons are:

	Monthly	
	1948	1958
Separated Family Allowances from Major General	\$ 85	\$150
to ranks below sergeant	39	46
Subsistence Allowance in lieu of Rations & Quarters from Major General	100	165
to ranks below sergeant	54	91
Marriage Allowance from Major General .	40	40
to ranks below sergeant	30	30

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

Wednesday, April 22, 1959



WITNESS:

Mr. Watson Sellar, C.M.G., Auditor General

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),
and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 22, 1959.

(6)

The Standing Committee on Public Accounts met this day at 9.30 o'clock. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Chown, Denis, Drysdale, Fraser, Hales, Hellyer, Keays, Macdonald (*Kings*), Macnaughton, McGee, McGrath, McMillan, Morissette, Morris, Pickersgill, Robichaud, Smith (*Calgary South*), Smith (*Simcoe North*), Stefanson, Stewart, Villeneuve, Walker, Winch and Wratten—(25).

In attendance: Mr. Watson Sellar, Auditor General for Canada.

Mr. Watson Sellar was called and read into the record answers to questions asked by Messrs. Broome, Denis and Pickersgill on April 15th last.

The Chairman tabled for distribution mimeographed copies of an editorial on certain aspects of Mr. Sellar's report which appeared in "The New Chronicle" of Port Arthur.

The Committee reverted to paragraph 23 of the Auditor General's Report and Mr. Sellar was briefly questioned thereon.

The Committee then considered paragraph 50, followed by paragraphs 39 to 49.

In the course of his examination on paragraph 50 of his report, the witness read correspondence exchanged between the Chairman of The Canada Council and the then Minister of Finance; referred to Orders in Council, P.C. 561, 562 and 563—passed in 1957, and quoted relevant sections of The Canada Council Act.

It was agreed to call the Deputy Minister of Finance.

On paragraphs 46, 57, 48 and 49, Mr. Sellar read correspondence which passed between the External Affairs Department and the Canadian Red Cross.

At 11.00 o'clock, Mr. Sellar's examination still continuing, the Committee adjourned until April 29th at 9.30 a.m.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

WEDNESDAY, April 22, 1959.

The CHAIRMAN: Gentlemen, we have a quorum. I took the liberty of having mimeograph copies made of an editorial which appeared in *The New Chronicle*, Port Arthur, Ontario, which concerns Public Accounts. I thought it was rather useful by way of information.

There, there are answers that Mr. Sellar wants to make to certain questions.

Mr. WATSON SELLAR (*Auditor General of Canada*): Yes, Mr. Chairman. At the last meeting Mr. Broome asked if current credits to the superannuation account exceeded outgo in the past two years.

The answer is, yes. As of March 31, 1956, the balance at credit was \$804,236,283 and on March 31, 1958, it was \$1,045,760,439. This increase of \$241,524,156 includes special contributions totalling \$85,100,000 made by the government in accordance with the requirement of the act that, when a salary increase of general application is granted to the civil service, the Minister of Finance is to credit the account with the amount estimated to be necessary to provide for the increase in cost of the benefits payable as a result of the salary increase. In other words, not only was there an increase of \$85 million due to the special contribution by the government, but in ordinary operations income exceeded outgo.

Mr. Denis asked two questions in connection with the post office. He noted there was an increase in expenditure of \$13 million in 1958 as compared with the previous year and wanted to know what was the cause of this.

A comparison, by standard objects of expenditure is given on page S-21 of the Public Accounts. Variations of over \$50,000 are:

	Increase	Decrease
Civil salaries and wages	\$8,037,285	
Movements of mail by land, air and water	4,439,807	
Materials and supplies	513,468	
Construction or acquisition of equipment	353,984	
Office stationery, supplies, equipment and furnishings	98,309	
Professional and special services		\$420,374

Then Mr. Denis asked for a breakdown by fiscal years, of post office expenditures on electronic equipment. The post office informs me that its electronic sortation program dates from 1952-53 and that expenditures by years have been—and I will give round figures: 1952-53, \$34,000; 1953-54, \$230,000; 1954-55, \$287,000; 1955-56, \$468,000; 1956-57, \$959,000; 1957-58, \$405,000. That totals \$2,383,000.

I was asked to bring the figures up as close to date as I could. The department informs me that to the end of February \$183,912 had been spent in the last fiscal year. This brings the total up to \$2,567,184.

In addition, during the fall of 1958 the department made an installation in its financial branch. Included is a Univac 120 electronic calculator. The rental for this installation is \$1,885 a month.

Mr. Pickersgill asked if, during the past five years, legislation was frequently enacted in a subsequent fiscal year to include items in the accounts of the previous year.

As the accounts for 1958-59 are still open, the review has been of the fiscal years 1953 to 1958. The outcome does not add anything to my reply of last week. Action along these lines is exceptional with cases noted involving the old age security fund and the prairie farm emergency fund.

Those are the questions, sir, to which I was asked to bring answers last week.

Mr. SMITH (*Calgary South*): Mr. Chairman, I wonder if I might be permitted to revert to paragraph 23 in order to ask a question of Mr. Sellar which I mentioned at a previous meeting I was going to ask. May I proceed, Mr. Chairman?

The CHAIRMAN: Certainly, Mr. Smith.

Mr. SMITH (*Calgary South*): I refer to the reference there that the "most significant variations in expenditures were in navy accounts". Last August, when the estimates committee were looking at these navy accounts, in particular the destroyer escort program, many of the members of the committee expressed some concern over the method of accounting, in that after some six years we still did not know what these destroyers were actually costing the country.

My question, Mr. Sellar, is this. Have you, in looking at this procedure, had any similar concern that perhaps the accounting procedures should have provided you, or certainly the government, with a better understanding year by year of what the destroyers were actually costing the government?

Were you satisfied with the procedure they were using; that is the point I am getting at?

Mr. SELLAR: From the accounting viewpoint, I have no complaint. My personal opinion is that the increase in the cost of those destroyers was not infrequently due to the very numerous changes in plans and specifications by the naval engineers and other authorities. They were constantly changing the plans, and I think that made it very difficult to follow the cost of that construction. But the treasury cost accounting system, so far as I know, was working efficiently. No treasury cost accountant complained to me that any yard was not keeping its accounts properly. I felt it was the frequent change of plans by the naval people that was bringing up the cost. And, of course, you have to bear in mind that those costs were spread over yards all over the country.

Mr. SMITH (*Calgary South*): The concern, as I say, was expressed that as these ships were being constructed there were, of course, new designs and new plans for yet further ships. The argument, as I recall it, was that if there was no actual method of accounting or assessing what the actual costs were, was there not some possibility of making a saving with a more accurate check; because, after all, some three to six years to determine final cost did seem to the committee to be rather a long period.

Mr. SELLAR: I grant you that; but there was a lot of work done and then had to be redone.

One thing we have always got to bear in mind in dealing with the service forces is that no good officer of the service forces is worth anything if he is "money minded". He wants the best possible thing he can get to save lives in the event of war. He is not "money minded"; he wants the best there is. You have to temper your criticism of the services by bearing in mind that that is part of their drill.

Mr. SMITH (*Calgary South*): Nobody on the committee disagreed with that principle. It was just—as I have raised—this point, that a period of six years to determine eventual cost did seem a little unnecessary.

Mr. SELLAR: I have had complaints from some friends in the building side on the same thing.

Mr. HALES: Along this same line of thought, Mr. Chairman: how much "cost plus" buying is the government doing? Are you satisfied we are getting away from that type of purchasing as much as possible?

Mr. SELLAR: "Cost plus" cannot be avoided in certain circumstances, sir. It would be an extravagance if we asked for firm prices, particularly in new ventures. The contractor has no basis on which to calculate his costs. He would have to ask a preposterous price to make sure he did not go bankrupt. Most of the "cost plus" contracts now are for special jobs, such as these vessels we have just been discussing. I think the tendency is to get away from that sort of contract; but there is still a lot of it.

Mr. HALES: There is a lot of it?

Mr. SELLAR: Yes, there is still a lot of it.

Mr. HALES: Do you think we could perhaps weed out some of them?

Mr. SELLAR: No; I think you should have some legislation on the subject as to how "cost plus" contracts are to be awarded.

We just select a contractor. In some countries, on a "cost plus" proposition, tenders are invited from competent contractors to establish what fee they will do the job for. We do not do that in this country, and I do not know of any obligation on any department to proceed otherwise than in the way they do.

Mr. SMITH (*Simcoe North*): Are the methods used by various departments to examine "cost plus" contracts satisfactory and modern from an accounting point of view?

Mr. SELLAR: All "cost plus" contracts are examined by the one unit, the treasury cost accounting service. It is under the comptroller for the treasury. They report to the departments as well as to the comptroller, and the act provides that if the comptroller—which means, the cost accounting section—disallows any cost, the department cannot pay it without the consent of the governor in council. That is, there must be a treasury board minute authorizing it.

I think the system is reasonably efficient. But many of these contracts are huge contracts; many of them are located in remote parts of Canada, and it is a slow process. Also, a lot of it is done by subcontractors, and you have to get in all their accounts.

I know of a job that was finished last spring; that is, a year ago. Subcontractors were still bringing in their costs last October. You would have said that they should have been all cleaned up and the subcontractors were dragging.

Mr. SMITH (*Simcoe North*): I suppose the system of calling for bids, or calling for proposals first on a "cost plus" contract, is a sort of pre-qualification system, is it?

Mr. SELLAR: None have for "cost plus" programs.

Mr. SMITH (*Simcoe North*): But if it were done?

Mr. SELLAR: What you would do, in the first place, would be this: I think you would indicate the contractors whom you wanted to bid. You would not have any Tom, Dick or Harry. You would want a man with the necessary equipment and personnel. Then it is a matter of, does he want 4 per cent, 5 per cent, 7 per cent, or does he want a fixed fee, and so on?

Mr. SMITH (*Simcoe North*): Do you know of any countries, states or provinces where that practice is followed?

Mr. SELLAR: In the United States, sir. I happened to read that in a book the other day.

The CHAIRMAN: At the last meeting, gentlemen, we got as far as paragraph 38. Today we should start with paragraph 39; but may I direct your attention to paragraph 50, dealing with the Canada Council, which is a continuation of the same discussion of a general principle that we were talking about at the last meeting. Mr. Sellar, would you discuss paragraph 50.

50. *Payments of Interest without Authority.* The Canada Council Act received assent on 28 March 1957 and came into operation on 15th April. The Council being financially dependent on income from investments, section 15 provides that:

15. The Minister of Finance may, during the first year after the coming into force of this Act, advance to the Council out of Consolidated Revenue Fund, amounts not exceeding in the aggregate one hundred thousand dollars, upon such terms and conditions as to interest, terms of repayment and otherwise as are approved by the Governor in Council.

No use was made of this section; instead, on 15th April (a) an expenditure charge was recorded for \$100 million, being an amount equivalent to the sum of the grants to the Council, stipulated by the Act, (b) simultaneously, a credit was entered in a special account in the name of the Council in Department of Finance books, and (c) an order in council authorized payment of interest thereon at the rate of one-quarter of one per cent below the current average treasury bill rate. The consequence was that when the special account was closed fifteen days later, the Council was paid \$100 million as grant and also \$142,603 as interest.

Mr. SELLAR: Yes, sir. As you stated, the point is more or less the same as that on which you were finishing your discussion at the last meeting.

I qualified my reply to a question by Mr. Winch to that effect, because there is a subsidiary angle that could be brought up, if the committee desires. I do not suggest that it should be; I think you should deal with this purely in principle.

The facts are these, gentlemen. In January 1957, the then government initiated legislation to create the Canada Council. On March 28 the legislation received assent. On April 15 the governor in council named the various members of the council. The council organized and got down to business at meetings on April 30 and May 1.

The Canada Council Act provides that there be two funds, an endowment fund of \$50 million and a university capital grants fund of \$50 million. By section 14—and I will read the text—“The Minister of Finance may, out of the consolidated revenue fund, pay to the council the sum of \$50 million which shall constitute an endowment fund for the purposes of this act”.

Secondly, the university capital grants fund is controlled by section 17, the material part of which reads, “The council shall establish a fund to be called the university capital grants fund, to which shall be credited the sum of \$50 million, which shall be paid to the council by the Minister of Finance out of the consolidated revenue fund”.

Then, as the council is a wholly autonomous body, independent of the government of Canada, section 15—which is before you—provides that, “The Minister of Finance may, during the first year after the coming into force of this Act, advance to the council, out of the consolidated revenue fund, amounts not exceeding in the aggregate one hundred thousand dollars, upon such terms and conditions as to interest, terms of repayment and otherwise as are approved by the governor in council”.

That is the legislation. On April 15, the day the members of this council were named, the Minister of Finance, acting under section 20 of the Financial Administration Act, opened a special account in the consolidated revenue fund

and fixed a rate of interest with respect to that account. That is to say, he deposited the \$100 million to the credit of Canada Council and paid interest on it.

Section 20 reads,

(1) Money received by or on behalf of Her Majesty for a special purpose and paid into the consolidated revenue fund may be paid out of the consolidated revenue fund for that purpose, subject to the provisions of any statute applicable thereto.

(2) Subject to any other act, interest may be allowed and paid from the consolidated revenue fund in respect of money to which subsection (1) applies, in accordance with and at rates fixed by the minister with the approval of the governor in council.

That is to say, instead of the government loaning the Canada Council money under the authority of section 15 of the Canada Council Act, the government borrowed money from the Canada Council and paid \$142,000 interest for the use of that money during the month of April. My point is that such action is inconsistent with parliament's maintaining a control over the public purse. Parliament, by the Canada Council Act, appropriated \$50 million for an endowment fund and \$50 million for capital grants fund, and by section 15 provided money to meet interim requirements. The Right Honourable Mr. St. Laurent was in charge of the bill. Throughout he was very careful to explain everything. The discussion of this bill was very prolonged. The discussion of section 15 in the committee stage was quite brief. With your consent, sir, I would like to read that. Mr. Zaplitny asked a question; it was the first and only question. It reads as follows:

MR. ZAPLITNY: I was merely going to say that this section refers to advances being made during the first year after the coming into force of this act. I have not been able to find anywhere in the bill any reference as to when the act may come into force, whether it will be by proclamation or on a particular date. Perhaps I have not read it carefully enough. What occurs to me is whether it is intended that this advance shall be only for the first year, and I would assume that that would be for the purpose of having some money to work with while waiting for the returns from the endowment fund. I should like to get it clear as to when it is expected this act will come into force?

MR. ST. LAURENT (*Quebec East*): It will come into force on the day that it is sanctioned. That is the provision in the Interpretation Act, that if there is no other date fixed by parliament the act comes into force when it is given royal assent.

In other words, Mr. St. Laurent in no way challenged the size-up given by Mr. Zaplitny, that the purpose was to have some money to work with while waiting for a return from the endowment fund. In my humble opinion, it is not in the interests of the House of Commons, when there is special legislation providing money out of the consolidated revenue fund, that the government may by-pass and rely on some section in a more general act to authorize a more generous treatment. That, sir, is my real point.

MR. PICKERSGILL: The question I would like to put to Mr. Sellar is this: I assume that this payment which was made, or the special account which was set up on April 15, was done through the action of treasury board; so I would imagine—and I do not know—that the minister would have had the advice of the solicitor of the treasury. Has the Auditor General any chance of ascertaining whether there was any suggestion advanced and, if so, could he give us the date.

MR. SELLAR: I am glad Mr. Pickersgill brought that up. I am not in possession of the advice given by the solicitor of the treasury to the department. I do think that if the committee entertains any doubts on this subject that the

Department of Finance should be called on. I do not think you should form an opinion until after you hear from them. Mr. Pickersgill, one of my worries about this thing is this. You will recall that in this legislation, and in fact all legislation dealing with assistance to universities, Mr. St. Laurent's government was very careful to distinguish between a grant by the government of Canada and the payment of the grant to the universities. They interjected a middleman. This is also to be found in the Canada Council Act. May I again read section 17 to you:

The council shall establish a fund to be called the university capital grants fund, to which shall be credited the sum of \$50 million, which shall be paid to the council by the Minister of Finance out of the consolidated revenue fund.

In other words, my view is that until the council established the fund at its meeting on April 30 or May 1, as the case may be, the Minister of Finance lacked the capacity to pay out \$50 million on that account.

Mr. SMITH (*Calgary South*): Did you suggest specifically who should be called, before any opinion is arrived at?

Mr. SELLAR: I am interested only from the viewpoint of precedents. Has the government a right, when there is special legislation, to reject that special legislation and use more general legislation? If you feel the government should enjoy that right—and I am contesting it—you should get the Department of Finance to support your view.

Mr. WINCH: Is my thinking correct on this. Is it not an established practice—and I think it has been also ruled—that where there is a specific act, it cannot be overridden by a general act.

Mr. SELLAR: That is what I understand, sir; the last day we were here we were discussing the national gallery special account and the assistance given to it. These two are in line, one by one government and another happened to be by another government; but that is incidental. The leading decision on the subject is a privy council decision made a good many years ago in connection with the dominion of New Zealand, where a large sum of money was made available under a special act for a special purpose; but instead of using that act, the government used another one and paid out money. The case went to the courts and the privy council decided that where, as you say, a special act regulated a thing, legislation more general in character could not take its place.

Mr. WINCH: Could I put it this way: as Auditor General, responsible to parliament, are you drawing this to the attention of the committee because you feel it has now passed the position of being a precedent and is becoming somewhat of a practice?

Mr. SELLAR: When you have two cases in a year, I am afraid it is going to be. I think you should go on record to protect your authority over the consolidated revenue fund. But again I say, do not take my word alone, wait until you have heard all sides of the question.

The CHAIRMAN: I think we should call a witness from the Department of Finance.

Mr. PICKERSGILL: I suggest, Mr. Chairman, that we ought to hear the deputy minister of Finance on the same subject. I think the Auditor General has been exceedingly fair about this.

The CHAIRMAN: Is that agreed, gentlemen?

Agreed.

Mr. SELLAR: There is another angle to this thing as I mentioned before; do you want to consider a second angle to this, or do you want to let it rest on the question of principle?

Mr. FRASER: Give us the other angle.

The CHAIRMAN: If you have one, you should trot it out.

Mr. SELLAR: This council was established—at least the act received royal assent on March 28.

Mr. McMILLAN: Which year?

Mr. SELLAR: 1957. On April 15 an order in council was passed appointing the Honourable Brooke Claxton chairman of the new council, and also appointing the vice chairman and all the other members. I named Mr. Claxton for a particular reason, which I will come to in a minute. Then the next order in council appoints the director and associate director of the Canada Council. The next order in council after that authorizes an interest rate for Canada Council deposits with the Receiver General. These orders in council are numbered 561, 562 and 563. All bear the date of having been sanctioned by His Excellency on April 15. I do not know how His Excellency signs orders in council, but if he goes by numbers, these were the last three he signed that day, because the next order in council, 564, is dated April 18.

Now, as I say, order in council 561 passed by the cabinet on that day appointed Mr. Brooke Claxton to be chairman of the Canada Council. On the same day Mr. Claxton wrote to Mr. Harris as follows:

Will you please pay to the Receiver General for deposit in the consolidated revenue fund for credit of the Canada Council:

(1) The sum of \$50 million for the endowment fund as provided in section 14 of the Canada Council Act; and

(2) The sum of \$50 million for the university capital grants fund provided for in section 17 of the act.

Such sums shall be held on deposit pending authorization by the council for their investment and would bear interest at the appropriate rate.

Yours sincerely,
(Sgd) Brooke Claxton,
Chairman,
The Canada Council.

There is also on the record a letter from the Minister of Finance, also dated April 15, to Mr. Brooke Claxton:

I have your letter of April 15, requesting that the sums of \$50 million for the endowment fund and \$50 million for the university capital grants fund as provided in sections 14 and 17 of the Canada Council Act be paid to the Receiver General for deposit in the consolidated revenue fund to be held for the credit of the Canada Council pending authorization by the council for their investment.

As requested these sums are being paid today into the consolidated revenue fund and will be placed to the credit of a special account in the name of the council and will be paid out for the purposes of the council.

I have also signed today a submission to the governor in council recommending that interest be allowed on these moneys at a rate of one-quarter of one per cent below the average for the month of the weekly average accepted treasury bill tender rates calculated on the minimum balance at the credit of the council in each month, except that for the month of deposit the interest shall be calculated on the minimum balance for the period from the date of the deposit to the end of the month.

Yours sincerely,
(Sgd) W. E. Harris.

You will notice that the three orders in council were passed on one day, that two letters were written on that date and that a report to council was prepared and a special account opened in the consolidated revenue fund on the same day. It is quite true that under the Interpretation Act any appointment by order in council has effect as of midnight of the previous day. But unless there was more than one council meeting on April 15, I think this committee would be entitled to ask the representative of the Department of Finance, when he appears before this committee, whether, when the letter was received from Mr. Claxton, the Department of Finance knew, as a fact that Mr. Claxton was the chairman of the Canada Council and not a prospective chairman; because if he was still a private citizen he had no authority to give instructions in respect of the council's money. Moreover, section 17 says that only after a special fund is opened by the Canada Council may the \$15 million for the university capital grants be paid over by the Minister of Finance.

Those are two points which, when you have a representative of the Department of Finance before you, I think you should clear up.

Mr. WINCH: May I raise a third point. I would like to ask you, as auditor general whether, if the chairman is appointed, the actual council itself is not yet appointed, and the director and associate director are not appointed, authorization can be given for the government to pay interest on the moneys advanced by the government itself in respect of a board which officially has not been established yet? In other words, they are paying interest on their own money. Is that a third point?

Mr. SELLAR: You are quite right. I have taken that into calculation also, but I thought I covered it by phrasing as I did.

Section 20 says: Money received by the government of Canada for a special purpose. How can money be received?

Mr. WINCH: If the council is not yet established?

Mr. SELLAR: The council was named that day by the same order in council; but it had not organized. The decision of the House of Lords in England, which is the one we follow, is that there must be two parties, a giver and a receiver, and that in law a bookkeeping entry does not create a receipt of money. Therefore I thought that the point was allied with my previous statement. However, you are quite right in bringing it out.

Mr. McMILLAN: Was interest credited to that account from that date?

Mr. SELLAR: From April 15 to May 1. On May 1, in accordance with the Financial Administration Act, requisition was made on the comptroller of the treasury to issue a cheque for \$100 million plus \$143,000 interest to the Canada Council and he drew the cheque and issued it.

Mr. WINCH: The Canada Council drew a cheque for \$143,000 of interest for a period when they had not yet been organized. Am I right there?

Mr. SELLAR: Before they had been made into an organization.

The CHAIRMAN: Do I understand your point is that the interest paid to the Canada Council really belongs to the consolidated revenue fund of the government of Canada?

Mr. BELL (*Carleton*): And ought to be recovered.

Mr. SELLAR: That is a question of policy.

Mr. PICKERSGILL: I believe I heard a phrase in the letter from Mr. Claxton to Mr. Harris in respect of the person to whom it was to be paid. Perhaps the auditor general would refresh my memory on that point.

Mr. SELLAR: Yes, sir. He wrote to Mr. Harris as Minister of Finance and said you will pay to the receiver general.

Mr. PICKERSGILL: That is what puzzled me a little.

Mr. SELLAR: The title of the Minister of Finance is Minister of Finance and Receiver General. Mr. Claxton was splitting them into two personalities for the purpose of the letter.

Mr. PICKERSGILL: Are you arguing that was not possible under the House of Lords decision?

Mr. SELLAR: I am not worried over Mr. Claxton's letter. I think he was looking after the interests of the council in the very best way he could. My interest is in the officials of the Department of Finance who advised the minister.

Mr. PICKERSGILL: Quite.

Mr. SELLAR: I think Mr. Claxton was doing just what any man would do who had the interests of the Canada Council at heart.

The CHAIRMAN: Is any salary paid to Mr. Claxton?

Mr. SELLAR: No. The act provides that Mr. Claxton and the vice-chairman may be paid a salary; but no salary has been paid to them and, as a matter of fact, there was no real provision made for the payment of travelling expenses to the chairman. That was changed only recently when the order in council was amended allowing him the same allowances as are allowed to an ordinary member of the council.

However, during the past year, Mr. Claxton took very little money in the way of travelling expenses, and none at all for salary or entertainment expenses.

Mr. WALKER: I suppose he is remunerated by being the cultural Santa Claus?

Mr. SELLAR: If you know Mr. Claxton you know he is a gentleman who, if he is interested in anything, takes a tremendous interest in it. I never saw a minister like him. He is going in all directions at once.

Mr. PICKERSGILL: And always accomplishing something.

The CHAIRMAN: I am glad you put that in.

Mr. WALKER: I heard you still referring to him as the minister. I guess he is the last Liberal minister who has power in Ottawa.

Mr. SELLAR: I referred to him as the minister because I deal with these persons only as ministers, and not in their private capacity. He was a minister for several years.

Mr. WALKER: Just to get it clear on the record, he no longer is.

Mr. SELLAR: Oh, no.

Mr. WALKER: Sometimes one thinks he is, you know.

The CHAIRMAN: Is there anything else on the Canada Council at this point?

Well, gentlemen, then let us revert to paragraph 39.

39. *Revenue Collecting Practices.* Two minor instances were observed where departmental practices are inconsistent with legislation. The first concerns Customs Tariff item 438c, which has a text of approximately 700 words, but it will suffice to note that it provides, among other things, that metal stampings may be imported either free of duty or at a reduced rate by automobile manufacturers under certain conditions. The questioned practice arises when the stampings pass through Customs as an integral part of an assembly that is subject to duty. The Department of National Revenue applies a practice called 'split billing', under which the stampings incorporated in the assembly are permitted entry duty free, while duty is levied on the balance of the assembly. Audit attention was not directed to any legislation that allows free entry in these circumstances.

The CHAIRMAN: The last sentence in this paragraph says:

Audit attention was not directed to any legislation that allows free entry in these circumstances.

Mr. SELLAR: That is quite correct. If you want to save time, you could take paragraphs 39 and 40 together, because my men tell me they understand that budget legislation is to be introduced at the present session in respect of both these paragraphs.

40. The other questioned revenue collecting practice is associated with a provision in the Excise Tax Act, as amended by c. 56, Statutes 1953-54. This amendment stipulates that if goods imported are already wrapped, packaged, put up in boxes or bottles or otherwise prepared for sale, the packaging "shall be deemed to be subject to the same rate of duty as the goods contained therein", for the purpose of establishing duty-paid value for sales tax calculations. However, a departmental instruction states that:

where the goods being imported are subject to sales tax only, not excise tax, and the packaging takes a different rate of duty for Customs purposes than the goods which it contains, the sales tax may be applied on the relative duty paid values as determined by the Customs Division.

It was explained that a reason for this practice is that there is inconsistency in invoicing packaging material, and administrative problems arise as a result. Such may be the case, but the Department is giving an application which is at variance with the text of the statute.

Mr. SELLAR: The committee might wish to wait until they see the legislation.

The CHAIRMAN: Except that the last sentence in paragraph 40 says:

Such may be the case, but the department is giving an application which is at variance with the text of the statute.

Mr. SELLAR: They agree with that, sir, and said they had to do it because they cannot apply the statute; they had to do as well as they could. They could not get a wording which met the requirements. When I put the pressure on them by putting in this paragraph they got busy. I understand they are trying to bring in a text in the bill within the near future which would remove the need for any repetition of paragraph 40.

The CHAIRMAN: I was interested in this, but I gather your point is there is a tendency that a departmental instruction could change the force of an act.

Mr. SELLAR: In the case of paragraph 40, I think the receiver general of Canada has made a little money he should not have made.

Mr. SMITH (*Simcoe North*): Have questions been asked concerning paragraph 39 where it deals with automobile stamping?

Mr. SELLAR: Yes.

Mr. SMITH (*Simcoe North*): I have a question in respect of paragraph 39 which deals with the matter of stampings which would normally come in free of duty and are still permitted to be brought in when they become part of a major assembly. Is there any substantial amount involved in that?

Mr. SELLAR: No. It is limited to manufacturers which bring in not more than a certain number of units a year. The trouble is mainly in connection with the instrument board where there is a certain amount of work done in addition to stamping it out. It is not big, but it is two different things, which worried us.

Mr. SMITH (*Simcoe North*): My concern is that it is permitting the manufacturers which were involved to increase their assembly in the United States and thus reduce the amount of actual manufacture in Canada. Does it have that tendency?

Mr. SELLAR: It has a tendency, but do not exaggerate it; the amount of work done was trifling.

The CHAIRMAN: Gentlemen, is there anything else?

We will proceed to paragraphs 41, 42 and 43.

41. *Fire Losses.* Back in the days of Sir John A. Macdonald, it was decided that in view of the large amount, varied character and widely separated position of the property in the Dominion belonging to the Crown, it is a wise economy for the Government to underwrite its own risks.

This 1881 decision of policy, still in effect, is quoted to preface a question: What should be the practice with respect to the amount, if any, of insurance a contractor should be obligated to carry to protect the Crown during performance of contracts? Settlements of two fire losses observed in the course of recent audits prompt the query.

42. On Remembrance Day, 1954, employees of a plumbing firm were working in a stores warehouse at Griesbach Barracks, Alberta. A spark, during welding operations, started a blaze and before the fire was out the building was damaged to the extent of \$425,000 and \$3,500,000 of military stores destroyed. The contractor was sued, but there was general agreement that were judgment for the full amount awarded in favour of the Crown, it would be to a great extent a barren financial victory; therefore when \$250,000 was tendered in June 1957 by an insurance company, it was accepted and that closed the matter. The other settlement was in respect of a fire loss at Camp Sarcee in November 1956, caused by workmen breaking a gas main when excavating outside a building. Damage to the building and contents amounted to \$2,250,000. \$250,000 was recovered from an insurance company and \$50,000 from the contractor in the year under review.

43. A review of contract forms used by various departments discloses that a clause common to all requires firm price contractors to keep buildings insured during construction. However, only in certain contracts is it required that contractors insure the Crown against public liability and property damage or other special risks. The question is whether enunciation of a general policy is desirable.

The CHAIRMAN: In the last sentence in paragraph 41 you seem to put the question:

What should be the practice with respect to the amount, if any, of insurance a contractor should be obligated to carry to protect the crown during performance of contracts?

Then paragraphs 42 and 43 are examples of losses. Is that right?

Mr. SELLAR: Yes, sir.

Mr. McMILLAN: Mr. Sellar, can you tell us anything in respect of the losses in connection with the explosion last year on Bank street, which involves government property?

Mr. SELLAR: We are suing to recover our losses, but do not know yet where we stand.

Mr. BELL (*Carleton*): It is not in this auditor general's report.

Mr. McMILLAN: I realize that.

Mr. FRASER: What is the average fire loss per year to the government?

Mr. SELLAR: I do not have that, sir. I do not think it is tabulated. I used these two because they are very large ones, mainly because they were military stores which were burned. I will do my best to try to get the figures for you.

Mr. FRASER: During and after the war years we had losses running into \$15 million or more a year and I am wondering what they were during the last couple of years?

Mr. SELLAR: I cannot tell you. I do not know whether there were any charges against the special legislation following a fire.

Mr. WALKER: The contractors are required, are they not, to be covered for fire hazards, but the amount is not sufficient to cover the losses set out in paragraph 42. Is that the point?

Mr. SELLAR: A contractor for a building is required to insure it providing it is not a cost-plus contract. If it is a cost-plus contract the government assumes the full risk. In both of these cases the fire was not in connection with the construction of a building. The contract, in one case, was for outside of a building, providing for the laying of pipes. A bulldozer snapped a gas pipe running close to a building which set fire to the building. In the other case a plumber was just making some repairs. As it happened it was Remembrance Day and the troops had been given the day off so there was no fire picquet. Moreover, they were fixing the water pipes in the camp and the result was that when the fire started the whole damn thing went.

Mr. WALKER: The suggestion is it should be a general liability coverage rather than a fire policy covering the building under construction. Is that your point?

Mr. SELLAR: My point is: a large contractor, as a matter of business, each year carries a very large general liability policy. A small contractor may not. My point is whether or not it would be prudent to expect all contractors to carry a certain amount of public liability insurance. That is all. Actually, if I had the rewriting of this report I would leave out those paragraphs. I do not think they really are parliamentary because insurance is generally regarded as an executive matter.

The CHAIRMAN: But on the other hand, in one case you have \$4 million losses and we received \$250,000 in settlement which was, of course, the best we could do, and in the other you have \$2,250,000, and we received a \$300,000 supplement, so it would seem to me these are quite serious losses.

Mr. SELLAR: They are large amounts; but might I add that if you tried to find out where the two amounts which you have just read are credited in the public accounts, you will not succeed. The payment in connection with Griesbach is on page N-76, under the heading of sundries; and the Sarcee recovery is on page N-75 included with all refunds of previous years expenditures, without any specific reference. It is just another example of where the public accounts might be a little more informative.

Mr. DRYSDALE: What is the Fire Losses Replacement Account Act?

Mr. SELLAR: That was an act passed four or five years ago.

Mr. DRYSDALE: In 1953-54 they made \$5 million available. How would it be used in circumstances such as this; would it not be charged to such an account?

Mr. SELLAR: It could be; or they could charge replacement cost to a vote.

Mr. PICKERSGILL: The purpose of that legislation was to provide funds immediately for replacement, where it was needed urgently.

Mr. SELLAR: That is quite right, and an associated reason was that the government of the day wanted to get away from the use of governor general's warrants if at all possible.

Mr. PICKERSGILL: Exactly.

The CHAIRMAN: Your purpose is to focus attention on whether or not the department or the government concerned should consider general policy?

Mr. SELLAR: Yes; I might add that in the present year the government is experimenting with a new type of security. Hitherto contractors had to put up cash or government of Canada bonds in the amount of 10 per cent,

as the case might be. But in the current year we are taking bonds of companies; we take surety bonds for 10 per cent of the contract price, guaranteeing that the bidder will enter into a contract if offered one within 60 days after the closing date of the tenders.

Then the contractor is required to give a performance bond of 50 per cent of the contract price in favour of the government, and he also is required to give a labour and materials payment bond of 50 per cent of the tender price to protect suppliers and labour in the event that he fails to pay them. So this is a new type of bonding.

It has not been in effect long enough to be certain that it is an overall improvement, but the departments tell me that so far they are well pleased with it, and think it gives us better protection.

The weakness is that if a departmental official makes a concession to a contractor which he should not make, it might have the effect of relieving the bonding company of its liability.

Mr. WALKER: Instead of that new contract, you feel that you might consider having a general liability clause inserted as well?

Mr. SELLAR: I have the feeling that we should.

Mr. WALKER: We could recommend that it should be considered. There are many contractors. Some will pass on their costs to the government; or if there seems to be an extra charge, one will pass it along, and it would be a question of whether it would pay in the long run.

Mr. PICKERSGILL: I noticed that this was a plumbing firm which presumably made some minor repairs, and it did seem to me in that case you might have an insurance policy which would cover losses, and that would be another factor. Every time you called in a plumber, it would be adding to the plumbing costs. I take it that is an example of the way we might achieve the protection which we would get.

Mr. SELLAR: That is quite right. I am not contesting that. In this case the plumbing company carried one for \$250,000 and we, as the government, got the benefit of it. But are we sure that other plumbers had one even for \$250,000? Are we sure that a certain amount is carried?

Mr. PICKERSGILL: If the department concerned is interested in small contractors or subcontractors carrying public liability and property damage policies, would this not increase the cost of the construction? And at the end of the year how would this extra cost compare with the losses which are sustained annually?

Mr. SELLAR: Your point is well taken, but I would like to add this: that the government has no dealings with subcontractors. It is the prime contractor we deal with otherwise, it is a matter between the prime and his subcontractors.

Mr. PICKERSGILL: Perhaps I should have said small contractor, then.

Mr. SELLAR: I agree with you. It is a question of whether we should encourage a bonding, not only for the protection of the government but for anybody in the country; so that when they deal with a contractor they will know that they have some security.

Mr. BELL (*Carleton*): I wonder if you could tell us whether there has been in recent years any review of the whole question of the crown underwriting its own risks? I notice you say that it was following a policy decision of 1881. I wondered if there has been a review, and whether it is in fact, as stated in the decision, still wise economy for the crown to underwrite its own risks?

Mr. SELLAR: To the best of my knowledge there has not been. I know that some insurance people have urged ministers that it should be reviewed. But you have to bear in mind—I am not talking to you because you are a conservative—that Sir John A. Macdonald is regarded somewhat like a god

around government circles now, and that anything he approved 80 years ago and has stood the test is regarded as pretty good business; something which should not be discarded without good reason. Moreover for a government to carry its own insurance is a very general maxim of governments.

Mr. BELL (*Carleton*): It is general today?

Mr. SELLAR: Very general.

Mr. BELL (*Carleton*): Do you know of any governments which do insure?

Mr. SELLAR: No, I do not. There may be, but I do not know.

Mr. PICKERSGILL: Do you know what the practice of the provincial governments is?

Mr. SELLAR: No sir.

Mr. FRASER: I understand that the Ontario government insures some of its public buildings.

Mr. HALES: Did I understand you to say that in connection with the statement of these fires, you could not find where the cheque had been credited to an insurance account?

Mr. SELLAR: It was not credited to an insurance account. It was just credited to the revenues of National Defence.

Mr. HALES: Why would it not be credited to the government insurance account?

Mr. SELLAR: Because there was no charge against that account in connection with it.

Mr. HALES: How do you follow where this cheque finally ends up?

Mr. SELLAR: We can follow it through into revenue. And when I say "we", I mean we in the audit office. But you, as a reader of the public accounts, cannot find it at all.

Mr. HALES: Would you suggest that it be credited to a fire insurance account?

Mr. SELLAR: No sir, I think it should be clearly set out in the department which receives the money, for your information.

Mr. MORRIS: Could Mr. Sellar tell us what the liability of the crown would be in a case where a crown building burned and the fire destroyed the property of others? I have in mind such a case. Do you know what the accounting procedure is when a barracks installation burns, as recently happened in Halifax, and the fire destroys a quantity of private property belonging to service personnel. What is the position of the crown from an accounting point of view?

Mr. SELLAR: I do not know sir. I have read treasury board minutes authorizing the department to pay so much to this man and so much to that man for property loss due to a fire on crown property, or due to an accident in a crown vehicle and so on. I have always regarded that as something in the nature of an *ex gratia* payment. But what the position is in law I really do not know; I have not the slightest idea.

Mr. SMITH (*Simcoe North*): Speaking as an auditor, do you think that if the government paid into a special account the equivalent of premiums on their risks, it would be any advantage?

Mr. SELLAR: No sir, because in fact that is what this special legislation now does. It says that \$5 million is earmarked for this sort of thing.

Mr. SMITH (*Simcoe North*): I was not thinking of it on that basis, but on an actuarial basis, whereby each department of government would be charged with a sum equivalent to premiums on their properties?

Mr. SELLAR: Well, that is a question of policy. All I can say is that you have to bear in mind that government property is scattered all over this country. In some cases you have big concentrations, but taking public property as a whole, and our investment as a whole, the loss at any place will be a pretty low percentage.

Mr. MCGEE: Was this question not raised recently when it was suggested that the Post Office might be set up on an accounting basis equivalent to that of crown corporations in terms of assessing their profit and loss situation? Would Mr. Smith's suggestion not be mandatory in regard to that particular department?

Mr. SELLAR: Whether you would go as far as taking in questions of insurance, I do not know. My belief is that the Canadian National Railways self-insures. It is a crown corporation.

Mr. PICKERSGILL: May I ask Mr. Sellar if he happens to know whether there is marine insurance carried by the government?

Mr. SELLAR: I do not know, sir.

Mr. PICKERSGILL: I do not know either.

Mr. SELLAR: I have taken it for granted that there is none. We used to insure steam boilers. In those days Jim Hunter was the deputy minister of Public Works and I asked him why he insured steam boilers. He said "because I get an inspection free of charge, and that protects me. It is an annual inspection free of charge."

Mr. PICKERSGILL: It does occur to me that perhaps it would not seem inappropriate to cover such risks and in certain aspects of the marine insurance field that there should be fire insurance. After all, with so many government buildings all over the country, it is almost certain that Sir John A. Macdonald was right in his judgement. But at certain times you get a very big expenditure. It was just idle curiosity on my part.

Mr. BELL (*Carleton*): My understanding is that the government of Canada carries no insurance, but that certain crown corporations do. I believe that Atomic Energy carries a certain amount of insurance not only for the type of risk we are speaking of, but for public liability on its vehicles as well. However I do not think there is uniformity as between the government itself and the crown corporations.

Mr. PICKERSGILL: I would imagine that a company like Polymer which is run as a commercial enterprise would carry insurance, but I do not know.

Mr. DRYSDALE: Could the auditor general find out specifically what the situation is with respect to marine insurance?

Mr. SELLAR: Yes, I could find out the policy for crown corporations.

The CHAIRMAN: Is there anything else on paragraph 43. Let us take paragraph 44.

44. *Services Performed for the United Nations.* It will be recalled that the UN Emergency Force, now operating on the borders of Egypt, was hurriedly organized in November 1956, without prior agreement as to reimbursement of costs incurred. By way of information, it is noted that from the outset to 31st March 1958 the cost to the government of Canada for military services supplied has totalled \$10,783,000. It has now been agreed in principle that Canada will absorb: (a) pay and allowances, (b) the cost of clothing and personal equipment and (c) transportation costs to the Canadian seaboard. In turn, the United Nations is responsible for: (a) the cost of maintenance and of spare parts required in connection with unit equipment and aircraft, (b) food and billeting costs and (c) transportation costs outside of Canada. Of the

\$10,783,000 spent, the United Nations is to reimburse \$4,187,000, of which \$792,000 was received in the fiscal year 1957-58. The Canadian contingent was initially equipped at Canadian expense on the understanding that it would return with its equipment intact and in a serviceable condition, the United Nations to make good deterioration beyond that provided for under normal depreciation schedules.

Mr. FRASER: Mr. Chairman, before we leave that could Mr. Sellar find out if there is any public liability carried by any department of government?

Mr. SELLAR: I will try to find that out.

Mr. McGRATH: Particularly in the case of government vehicles; for instance, liability in the case of collision.

Mr. SELLAR: I do not think they carry any.

The CHAIRMAN: With regard to paragraph 44, has the United Nations paid any money on account recently?

Mr. SELLAR: Yes; as I have noted, it paid \$792,000 in 1957-58, and in January of the present year we received another \$1,259,000.

Mr. DRYSDALE: What is the basis of payments? Was there any significance in the \$792,000 and the \$1 million?

Mr. SELLAR: Mr. Drysdale, I have been auditor of the United Nations and know that from time to time United Nations is very short of money.

Mr. DRYSDALE: I see.

Mr. SELLAR: And it only pays what it has.

The CHAIRMAN: Is there anything else on paragraph 44, gentlemen?

Agreed to.

The CHAIRMAN: Paragraph 45.

45. *Indo-China Truce Commission.* Canada also has military personnel and civilian officials serving with the Indo-China Truce Commission. Expenditures are on a cost-sharing basis. From 1954 to 31st March 1958, charges to the National Defence vote amounted to \$4,895,000 and to the External Affairs vote \$1,388,000—and of the \$6,283,000 total, \$1,743,000 has been classed as recoverable. An initial payment of \$554,000 was received in March 1958 from the fund known as the "Common Pool", established by the Geneva Conference members.

The CHAIRMAN: Who puts up the money?

Mr. SELLAR: In connection with the truce commissions, it is the governments that participated in the Geneva conference, the United Kingdom, France, U.S.S.R., and communist China.

The CHAIRMAN: And not the United States?

Mr. SELLAR: No, the United States would not sit at the same table as communist China.

The CHAIRMAN: Is there anything else on paragraph 45? Paragraph 46, application given to a "dollar" vote. May I anticipate you, Mr. Sellar. Paragraph 46, 47, 48 and 49 should be read together; is that right? They all refer to the same thing?

Mr. SELLAR: Yes, sir.

46. *Application Given to a 'Dollar' Vote.* In 1953 disastrous floods swept over the United Kingdom and Europe. Vote 572 of that year granted a million dollars to the Canadian National European Flood Relief Fund. The Canadian Red Cross Society agreed to administer the grant along with a somewhat larger sum raised by public subscription. When the relief task was completed, the Society reported that an unexpended balance of \$506,000 remained. An opinion of the law officers

was to the effect that as this sum had not been used for the purpose for which it had been provided, it should be returned to Consolidated Revenue Fund, unless Parliament otherwise directed. The result was an item in a 1956 Appropriation Act reading:

557. To authorize the expenditure for international relief purposes, or other relief purposes authorized by the Governor in Council, of the unexpended portion of the grant made by the Government of Canada to the Canadian National European Flood Relief Fund by Vote 572 of the Appropriation Act No. 2, 1953—\$1.

When this item was before Committee of Supply on 22nd March 1956, the then Minister of Finance stated:

This is a legalistic item arising out of the fact that of the million dollar vote which Parliament passed in favour of the Canadian Red Cross three years ago, I believe, in connection with relief in the United Kingdom, Holland and Denmark for flood victims, about half was spent. About half a million dollars is outstanding to the Canadian Red Cross at the moment. The question arises as to whether the money was in fact returnable to the Consolidated Revenue Fund, since it had not been used for that particular purpose at that time. The reason for this vote, then, is to ensure in the hands of the Canadian Red Cross that amount of \$506,000, so they may use it for other European relief purposes similar, or somewhat similar, to the original purpose of the vote. (Debates, p. 2508)

47. Consequently, after the vote was enacted the Government indicated to the Department of External Affairs that it was to arrange that it be consulted by the Red Cross Society with respect to all proposed payments and that the Department was to bring special cases to the notice of the Governor in Council.

48. Late in June 1957, 'Hurricane Audrey' roared across the Gulf of Mexico and did great damage in the State of Louisiana. The *Toronto Globe and Mail*, on Monday, 1st July 1957, reported that:

The Canadian Red Cross announced Saturday a cash gift of \$50,000 to the American Red Cross to help cope with the devastation caused by Hurricane Audrey.

The records of the Department indicate that it was consulted after this announcement.

49. Attention is drawn because: (a) in 1956 the then Minister of Finance had informed the House that the purpose of Vote 557 was to permit the funds to be used for "European relief purposes similar, or somewhat similar, to the original purpose of the vote"; and (b) the \$50,000 grant to the American Red Cross Society was announced without prior consultation with the Department.

The CHAIRMAN: One is the principle and the others are examples.

Mr. SELLAR: You should read together with it an answer given in the House of Commons on March 25, 1959, by the Right Hon. Mr. Diefenbaker, Acting Secretary of State for External Affairs.

Mr. WINCH: I am glad you mentioned that.

The CHAIRMAN: Have you got the answer there?

Mr. SELLAR: I have the question and the answer.

The CHAIRMAN: Is it pertinent to read the question and answer?

Mr. SELLAR: I think it is, but I leave it to the committee.

Mr. DRYSDALE: You have to read it so we know whether or not it is pertinent.

The CHAIRMAN: Will you read it.

Mr. SELLAR:

Question No. 277—Mr. Vivian:

Would the Secretary of State for External Affairs make a statement on that section of the auditor general's report, presented January 30, 1959, which deals with the \$50,000 grant made in late June, 1957, to the American Red Cross society to help cope with the devastation caused by hurricane Audrey?

Answer by: Right Hon. J. G. Diefenbaker (Acting Secretary of State for External Affairs):

In the report of the Auditor General for 1958, two points were raised in connection with the contribution of \$50,000 to the American Red Cross for relief to victims of hurricane Audrey. These points were, first, whether the Department of External Affairs was consulted by the Canadian Red Cross society before the grant was announced in the press on July 1, 1957; and, second, whether the grant was made in conformity with the provisions of the relevant vote.

With respect to the first point, I have had the records examined and I find that the department was consulted by the national commissioner of the Canadian Red Cross society on June 27, 1957, and that departmental approval for the proposed grant of \$50,000 was communicated to the national commissioner on the same day.

On the second point, the wording of the vote is as follows:

"To authorize the expenditure for international relief purposes, or other relief purposes authorized by the governor in council, of the unexpended portion of the grant made by the government of Canada to the Canadian national European flood relief fund by vote 572 of the Appropriation Act, No. 2, 1953".

There is nothing in this wording or, indeed, in the correspondence which preceded the establishment of this vote which suggests that it was intended at any time to confine its application to relief purposes in Europe. Indeed, the moneys expended under the vote have, in very large measure, gone for relief in other parts of the world. I am aware, however, that the explanation given to the house on March 22, 1956 by the then minister of finance might have been open to another interpretation.

On the basis of my examination of this matter I am satisfied that the Canadian Red Cross society acted entirely within the terms on which the administration of these funds was entrusted to it. I should perhaps add that these funds derived only partly from the \$1 million grant made in 1953 by the government to the Canadian national European flood relief fund.

The CHAIRMAN: Have you anything to add to this answer?

Mr. SELLAR: Yes, sir. Nothing pleases me more than to see that answer on the record, sir.

Mr. WINCH: I wonder whether you are intrigued with the same thing I am; go ahead.

Mr. SELLAR: It squarely places the responsibility on the Department of External Affairs. I had said in my report that the Department of External Affairs was consulted on July 2. This reply says that the department was consulted on June 27. Now, the date of June 27 frankly puzzles me, gentlemen. Hurricane Audrey was working up the Gulf of Mexico for several days. On June 27 it had reached the coast of Texas. It had not hit Louisiana to any great extent. The papers of the following day referred to only a few people having been killed. It was the evening papers and the Saturday papers that

spoke of the great disaster in Louisiana. Moreover, it was not until a date after June 27 that the President of the United States declared it a devastated area entitled to federal relief assistance. For that reason, I am a little surprised at June 27 being used. I do not challenge it for one minute. I do not regard it as material whether the acting Secretary of State was a little misled into giving a wrong date; it may have been the twenty-eighth or twenty-ninth. The fact is the department acknowledges that it was consulted before. Now you quite reasonably might ask me why I did not use that date in my report when the department said it was consulted on June 27. I think that would be a reasonable question for you to put. The reason I use July 2 is because the records of the Department of External Affairs did not disclose any date whatsoever. It could have been in some other file which we did not see. But there is this exchange of letters and I would like your consent to read this exhibit into the record, because I feel my own reputation is a little involved.

The CHAIRMAN: Is that agreeable, gentlemen?

Agreed.

Department of External Affairs

Ottawa, August 30, 1957.

Dr. W. S. Stanbury,
National Commissioner,
The Canadian Red Cross Society,
95 Wellesley Street East,
Toronto 5, Canada.

Dear Dr. Stanbury:

I am writing to you about the XIX international Red Cross conference which is to be held in New Delhi beginning October 24, 1957.

We are at present preparing material for the commentary for the Canadian delegation to the conference. One project we are trying to bring up to date is a list of the contributions made from the unexpended portion of the European flood relief fund since it was released in March, 1956 to be used in times of national disasters. We have listed below the donations from this fund for which we have been able to find reference on our files.

Country	Amount Donated	Type of Disaster	Month & Year
Lebanon	\$25,000	Earthquake	April, 1956
Afghanistan	2,000	Earthquake	July, 1956
Iran	10,000	Flood	August, 1956
India	25,000	Flood	October, 1956
Egypt	10,000	Military	November, 1956
Turkey	15,000	Earthquake and flood	April, 1957
Iran	10,000	Earthquake	July, 1957
Indonesia	5,000	Flood	August, 1957

We do not feel sure that this list is complete. We should be grateful if you would advise us of any errors or omissions so that we may have a complete list of donations from the fund for the use of the delegation.

Yours sincerely,

Rodney Grey,

Acting Under-Secretary of State
for External Affairs.

On September 5, 1957, Dr. Stanbury replied to that letter:

Dear Mr. Grey:

Many thanks for your letter of 30th August in connection with the unexpended balance of the Canadian National European Flood Relief Fund. I am attaching herewith a statement of the disbursements from this fund since January, 1956, which is in agreement with the list contained in your letter with two exceptions.

In July, 1957, we forwarded a donation of \$50,000 to the American National Red Cross to assist in their relief and rehabilitation operations on behalf of the victims of "Hurricane Audrey" and a donation of \$5,000 to assist in relief operations following a disastrous fire was made to the Burma Red Cross Society in June of this year. Mr. Grandy of your department was consulted concerning the gift to the American Red Cross on July 2 and our contribution to the Burmese disaster operations was referred to Mr. Couillard on June 19 last.

I trust this information will be helpful to you in your preparations for the XIXth International Red Cross Conference but if we can be of any further assistance to you, please do not hesitate to let us know.

The schedule attached gives the items I have already read and adds Burma, fire, June 1957, \$5,000; Indonesia, flood, August 1957, \$5,000; U.S.A., hurricane, July 1957, \$50,000.

The CHAIRMAN: Mr. Sellar, are there any other payments which are not shown in your report on which you would care to comment.

Mr. SELLAR: That question is a little awkward, sir, because the Department of External Affairs does not keep what I would call a bookkeeping account of the charges. You must bear in mind that this money is on deposit with the Canadian Red Cross society in Toronto. On the records there are indications that there have been some more recent contributions. There has been a contribution to Spain in connection with a flood. There have been at least two contributions to Tunisia in connection with the Algerian refugees. I cannot give you the whole list. You will have to ask the department for that.

The CHAIRMAN: I am informed there was a contribution to Poland. Have you any details? Is it necessary to obtain the consent of the Department of External Affairs before contributions are made?

Mr. SELLAR: There was a contribution to Poland for \$10,000 in April, 1958, according to the note I have from one of my examiners. With regard to your question in respect of the consent of the Department of External Affairs, might I say that this money was a residue of moneys raised for a flood in the Netherlands several years back. The law officers ruled it was public money and should be returned to the government of Canada. Mr. St. Laurent took an active interest in it and decided it should be kept on hand ready for relief.

So he put through a dollar vote which you have before you. External Affairs as administrator of the account of June 2, 1956, asked the cabinet for instructions. The instructions from cabinet confirmed that disbursements might be made by the Canadian Red Cross for international relief purposes without obtaining the authority of the governor in council; and that only if and when it was proposed to use these funds for other relief purposes, would it be necessary to secure authorization.

Secondly, it was agreed that there should be a system arranged between the Department of External Affairs and the Canadian Red Cross Society to consult in regard to the use of these funds for international relief, and to proceed only by agreement. In other words, there was to be consultation.

The CHAIRMAN: Just one question: at the present time is the Red Cross obtaining interest on this money, and if so, does it belong to the Red Cross or to the government of Canada?

Mr. SELLAR: I have no idea whatsoever. There is certainly nothing about it in the Public Accounts.

Mr. MORRIS: Is it not a relevant factor today that this \$506,000 given away is segregated, or that a portion of it belongs to the federal authorities? This is a residue of funds which were based on two contributions, one from the government of Canada and the rest from the public. The \$506,000 is not the unexpended portion of the federal grant. It is the residue of the entire collection of funds. Therefore, on what basis could the law officers of the crown arrive at a decision that this money ought to be reimbursed to the public treasury? It is not public treasury money.

Mr. SELLAR: You are asking me a question of law. You would have to ask the law officers to give you the information. I was not saying that. What I was saying is this: this is a contribution for flood relief. Administration of this money was vested in a committee of from 15 to 18 people across Canada. They were charged with the administration of it.

Before the Red Cross assumed any responsibility with respect to the distribution of this money, the Red Cross secured the views of practically all the members, but not quite all, because two or three did not reply.

The Red Cross then consulted with Mr. St. Laurent. I am a little in the dark about this thing, because some of the correspondence between Mr. St. Laurent and the Red Cross is in his personal files, which left with him. I imagine the Red Cross is the only body in Canada which has the complete record. Moreover I am satisfied that there must have been some conversations.

I also know that Mr. St. Laurent was a great admirer of the Red Cross and that he would tend to authorize the Red Cross to exercise its own discretion in the administration of these funds, independent of government direction. I am guessing when I say that, but I honestly believe it is a fair statement.

Mr. MORRIS: Was he actually authorizing the Canadian Red Cross society? The Prime Minister of Canada only had the capacity to authorize the Red Cross society to dispose of that portion of the \$506,000 which represented the residue of money which the government of Canada had contributed.

The Prime Minister of Canada had no authority over any undisposed portion which represented public contributions.

Mr. SELLAR: The Red Cross had no title to any of this money. It was never vested in the Red Cross. It was placed in a special account, and the Red Cross acted as agent. You must be fair to the Red Cross and not involve them in this case.

Mr. MORRIS: That is what I am trying to bring out.

Mr. SELLAR: The Red Cross must be regarded only as the agent in this matter.

Mr. DRYSDALE: Is that true of the \$50,000?

Mr. SELLAR: That is true.

Mr. DRYSDALE: I cannot understand what would stop the Red Cross from giving \$50,000 to anybody. All the more power to them, if they are subsequently to be reimbursed. What you seem to be saying in essence is that the Red Cross continue to get money and to make gifts, but I cannot see what is going to stop me from, say, giving \$50,000 out of my money and then hoping to be reimbursed.

Mr. SELLAR: The answer to that is this: the parliament of Canada has, by a dollar vote, said it owns this money.

Mr. DRYSDALE: I am talking about the \$50,000.

Mr. SELLAR: I am talking about the account from which the \$50,000 comes. The government of Canada says it owns that money. Whether the government of Canada has good title to that, I do not know; but I do not criticize my parliament; I take my orders. The vote says that money may be used for two purposes, for international relief or for relief purposes authorized by the governor in council. There is no question that any relief activity in this world that the governor in council approves would be a legal charge against that money.

The point is, "international relief" is not defined. What is the proper definition of "international relief"? In none of the correspondence or files that I saw was it defined. I have had to turn to the Encyclopedia Britannica for a definition, and if I may, sir, I would like to read that for the record, to explain it.

The CHAIRMAN: I wonder if we could break off here and continue this at the next meeting.

Mr. MORRIS: Mr. Chairman, I want to make this perfectly clear, if I may. This will take only 10 seconds. In my line of questioning I am concerned with this. This item is appearing and has been booted about as if the Canadian Red Cross Society has been acting improperly in some manner. I maintain that this fund is an obscure fund; part of it is not from public sources; and therefore the Canadian Red Cross society is quite within its justifiable rights in its disposition.

Mr. WINCH: I have two or three questions on that, Mr. Chairman, but I will hold them until the next meeting.

The CHAIRMAN: The next meeting, gentlemen, is on April 29 at 9.30.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

A handwritten signature in dark ink, appearing to be 'W', located to the right of the title 'PUBLIC ACCOUNTS'.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

WITNESSES:

Mr. Watson Sellar, Auditor General for Canada; Dr. W. S. Stanbury, National Commissioner, The Canadian Red Cross Society, Toronto, Ontario; Messrs. H. F. Clark, Chief of the Finance Division and G. F. Bruce, Economic Division, Department of External Affairs.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),

and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

ERRATUM

At page 101 of the printed Minutes of Proceedings and Evidence No. 5, April 22, second last paragraph, the words "*On paragraphs 46, 57, 48 and 49*" should read "*On paragraphs 46, 47, 48 and 49*".

MINUTES OF PROCEEDINGS

WEDNESDAY, April 29, 1959.
(7)

The Standing Committee on Public Accounts met this day at 9.30 o'clock. The chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Bruchési, Campbell (*Lambton-Kent*), Campeau, Denis, Drysdale, Fraser, Hales, Hellyer, Lambert, Macdonald (*Kings*), Macnaughton, McGee, McGrath, Morissette, Morris, Morton, Pickersgill, Robichaud, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Stefanson, Stewart, Walker, Winch and Wratten.—(29)

In attendance: Mr. Watson Sellar, Auditor General for Canada; Dr. W. S. Stanbury, National Commissioner, The Canadian Red Cross Society, Toronto, Ontario; and Messrs. H. F. Clark, Finance Division, and G. F. Bruce, Economic Division, Department of External Affairs.

Mr. Watson Sellar was again called and he recorded answers to questions asked at the previous meeting by Messrs. Fraser, McGrath, Walker and Bell, and was further questioned thereon.

The Chairman stated that Dr. Stanbury and officials of the Department of External Affairs had requested to give evidence before the Committee in consequence of the Proceedings of the meeting of April 22nd relating to the Relief Fund of The International Red Cross.

The Committee agreed to hear the above-mentioned witnesses following Mr. Sellar's evidence of this day.

The Committee then further considered paragraphs 46, 47, 48 and 49.

Mr. Sellar made additional comments thereon and in the course of his statement he quoted correspondence exchanged between Dr. Stanbury and the Right Honourable Louis S. St. Laurent the then Prime Minister. He also quoted from a Canadian Red Cross issue of May, 1958, and was further examined.

As agreed Dr. Stanbury was called and read a prepared brief, copies of which were distributed forthwith.

It was decided that Exhibits A to R appended to the brief and referred to by Dr. Stanbury, together with an audited statement of Receipts and Expenditures (copies distributed) as well as an additional statement as prepared by the Red Cross auditors, be printed as appendices. (*See Appendices A to U in this day's Evidence*)

Dr. Stanbury was questioned.

Mr. Watson Sellar was recalled and made a brief supplementary statement relating principally to the meaning of the words "International Relief".

It being 11.00 o'clock the Committee adjourned until 2.00 o'clock this day to hear Mr. Clark of the Department of External Affairs.

AFTERNOON MEETING

(8)

The Committee resumed at 2.00 o'clock. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Bourget, Campbell (*Lambton-Kent*), Charlton, Denis, Fraser, Hales, Macdonald (*Kings*), Macnaughton, McGrath, McMillan, Pickersgill, Robichaud, Smith (*Simcoe-North*), Stefanson, Walker and Winch.—(18)

In attendance: Mr. Watson Sellar, Auditor General for Canada; Senator G. S. Thorvaldson; Mr. H. F. Clark and Mr. G. F. Bruce.

The Committee continued its study of paragraphs 46, 47, 48 and 49.

As agreed, Mr. H. F. Clark was called.

In the course of the examination, the witness read a memorandum dated June 29, 1957, from E. T. Galpin to J. F. Grandy of the Department of External Affairs.

He also recorded an extract of a letter dated February 10, 1959, to the Secretary of the Treasury Board.

It was agreed that the above mentioned memorandum dated June 29th be printed in this day's Evidence. (*See Exhibit P-2*)

Discussion ensued as to the legal interpretation of "International Relief" to be obtained from the Department of Justice.

On motion of Mr. Walker, seconded by Mr. Winch,

Resolved,—That the Committee obtain an opinion from the Department of Justice as to the meaning and scope of the words "International Relief" contained in Item 567 of the 1956 Appropriation Act and more particularly referred to in paragraph 46 of the Auditor General's Report now before the Committee.

At 2.30 o'clock, Mr. Sellar's examination still continuing, the Committee adjourned until Wednesday, May 6th at 9.30 a.m.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

WEDNESDAY, April 29, 1959.

MORNING SITTING

The CHAIRMAN: Gentlemen, we have a quorum. At the last meeting certain questions were asked, and Mr. Sellar is now in a position to answer them.

Mr. WATSON SELLAR (Auditor General for Canada): Mr. Chairman, when we were discussing the item of fire losses Mr. Fraser asked for statistics on government property fire losses over the last two years. I have not been able to get the figures for two years, and what I now shall give has been taken from the report of the dominion fire commissioner for the 1957 calendar year.

The losses in that year were as follows:

National Defence	\$1,068,000
Other departments	700,000
Crown corporations	1,483,000

making a total of \$3,251,000.

Included in the crown corporations is \$816,000 with respect to the Canadian National Railways, and \$500,000 for the Northern Ontario Pipe Line Crown Corporation.

Mr. Fraser also asked if there was any public liability insurance carried by any department of government. To the best of my knowledge, none is carried in Canada.

Mr. McGrath interjected in connection with that question and asked about insurance in the case of government automobiles, for example, in the case of a collision.

Order in council P.C. 48/1147 of June 16, 1937, directs that the terms of the July 5, 1881 order in council "be extended to include automobile insurance on all classes of government automobiles". Consequently no public liability insurance is carried on government cars.

Mr. Drysdale asked for information with respect to marine insurance on government ships. The three departments most concerned are Fisheries, Public Works and Transport. All regard the self-insuring order in council of 1881 as applicable, therefore marine insurance coverage is limited to cases where a charter-hire agreement is in effect.

Mr. Bell asked about insurance practices of crown corporations. The Auditor General is not the auditor of all crown corporations. With respect to those he audits, the following insure against fire:

Canadian Farm Loan Board
Canadian Overseas Telecommunication Corporation
Eldorado Aviation Limited
Eldorado Mining and Refining Limited
Northern Canada Power Commission
Northern Transportation Company Limited
Polymer Corporation Limited
St. Lawrence Seaway Authority

The following two crown corporations maintain an insurance fund for fire losses:

National Battlefields Commission
National Harbours Board

The following corporations make no special provision for fire losses:

Atomic Energy of Canada Limited
Canadian Arsenals Limited
Canadian Broadcasting Corporation
Crown Assets Disposal Corporation
Export Credits Insurance Corporation
National Capital Commission

All of the corporations listed carry automobile insurance and/or insurance against third party risks.

Mr. BELL (*Carleton*): I am glad to have that information. I think it all points up the fact that there ought to be some statute to deal with the question of insurance risks, with the adoption of a uniform procedure throughout the service.

Mr. FRASER: While we are on the subject of fire insurance, and referring to the answer I received with respect to fire losses of \$500,000 for the Northern Ontario Pipe Line Crown Corporation, have you any idea as to what that was?

Mr. SELLAR: That was an explosion in the pipe.

Mr. FRASER: Who pays for it—the crown company?

Mr. SELLAR: Initially the crown company pays; but under the legislation it will ultimately be recovered from the commercial pipe line company.

Mr. FRASER: It will come back to the government?

Mr. SELLAR: Yes sir, it will come back to the government.

Mr. FRASER: Thank you.

Mr. McGRATH: My query last week was directed toward government owned vessels, not government owned vehicles, and with regard to the insurance of government owned vessels in case of a collision at sea?

Mr. SELLAR: I am sorry. There is no marine insurance of any sort carried on government owned vessels.

Mr. McGRATH: But these answers of course are interesting.

The CHAIRMAN: Are there any other questions at this stage? If not, may I recall to your attention that at the last meeting we were discussing paragraph 46. Mr. McGee has a question.

Mr. McGEE: I wanted to confirm what Mr. Sellar said concerning Canadian Arsenals, and no provision for fire loss.

Mr. SELLAR: No sir, all property of Canadian Arsenals is property of the crown. They merely act as agents for the crown in administering that property.

Mr. PICKERSGILL: Did Mr. Sellar include in these agencies the Canadian Broadcasting Corporation and state that they did not carry fire insurance?

Mr. SELLAR: That is right. The Canadian Broadcasting Corporation does not carry fire insurance.

The CHAIRMAN: Is there anything else? At the last meeting we were discussing paragraphs 46 to 49 inclusive, which have to do with the application given to a dollar vote: in plain terms, the Canadian Red Cross and the Department of External Affairs.

Mr. Watson Sellar had made certain comments but had not finished his remarks. We have the advantage this morning of the presence here of

Dr. W. S. Stanbury, national commissioner of the Canadian Red Cross, Mr. H. F. Clark, head of the finance division of the Department of External Affairs, and Mr. G. F. Bruce, economics 2 division of the Department of External Affairs. They telephoned your chairman and requested permission to appear this morning before the committee. I told them that subject to the consent of the committee they could come and we would probably hear them. May I suggest we begin with Mr. Sellar, who had not concluded his remarks on these paragraphs.

Mr. SELLAR: Mr. Chairman, when the committee was about to adjourn last week, Mr. Morris made an observation which I shall quote, because I would like to discuss it for a moment.

Mr. MORRIS: Mr. Chairman, I want to make this perfectly clear, if I may. This will take only 10 seconds. In my line of questioning I am concerned with this. This item is appearing and has been booted about as if the Canadian Red Cross society has been acting improperly in some manner. I maintain that this fund is an obscure fund; part of it is not from public sources; and therefore the Canadian Red Cross society is quite within its justifiable rights in its disposition.

I would like to discuss that expression "obscure fund", because I think it is of importance that the committee thoroughly understand the limited dimensions of the point that is before it. I am very glad that Dr. Stanbury is present because he may later correct me if I go off the trolley in explaining the matter. As I stated last week, the only complete file on this matter is, I think, that of the Red Cross society.

In 1953 there were serious floods in northern Europe partly due to very heavy snowfalls with sudden thawing, and partly due to the dykes breaking by reason of very high tides, and doing great damage in the United Kingdom and the Netherlands.

As a result, the league of Red Cross societies, I think made known to the world the plight of the various countries which had been devastated by the war, and that regardless of how wealthy they might be, for the time being they were short of supplies to take care of those who suffered loss. In any event, an appeal was made in Canada for funds.

The appeal was made in the name of the Canadian National European Flood Relief Fund. Last week I erred when I indicated to you that the committee in charge was relatively small. It was quite a substantial committee. I will correct that, and I will give you the figures in a moment.

This committee solicited subscriptions. The largest subscription was that of the government of Canada which voted \$1 million. Having raised the money, the voluntary committee turned to the Red Cross and asked it to administer it because the Red Cross has the machinery, the experience, and the international association necessary for the purpose.

The Red Cross assumed that duty. In the course of performing that duty I assume the Red Cross made certain payments in cash. I also assume that a very substantial portion took the form of supplies, materials and services. In any event, when the need was all served there was a substantial amount of money left. My understanding is that thereupon that money would be frozen and could not be used for any purpose at all. That, naturally, was not in the interests of humanity.

The matter was discussed between the Red Cross society and the government of Canada and perhaps others. In any event the government of Canada, having made the largest subscription, secured an opinion from the legal officers and then introduced in parliament a vote, the text of which is before you.

Mr. BELL (*Carleton*): Do you have a copy of that opinion?

Mr. SELLAR: No, sir.

Mr. BELL (*Carleton*): Have you seen it?

Mr. SELLAR: No sir. As a matter of fact I have never been interested in the opinion because the legislation dealt with it from a viewpoint of law, and therefore I was not interested in the opinion. The effect of that vote is, I think, no more than this; that the government of Canada relieves the Red Cross society of any liability for the spending of that money for other than the original purpose for which this money was raised. The government of Canada was not the sole contributor. Various provinces contributed money and many corporations and individuals also contributed.

Although I am not a lawyer, I think if the government of Canada had an equity in that fund, so also did others. I do not think it was within the capacity of the government of Canada to say, "We seize that money as government money." There was a common interest across the board.

With your permission, Mr. Chairman, I would like to read an exchange of letters between Dr. Stanbury and the Prime Minister. I think this will be helpful in an understanding of the situation.

The CHAIRMAN: Is that agreed?

Agreed.

Mr. SELLAR: Dr. Stanbury's letter is dated October 20, 1956. It reads:

Dear Mr. Prime Minister,

Re: *Unexpended Surplus Canadian National European Flood Relief Fund*

You will recall that the government of Canada, on March 22, 1956, authorized the expenditure of the unexpended portion of the grant by the government of Canada to the Canadian National European Flood Relief Fund for international relief purposes under the aegis of the Canadian Red Cross Society. At your suggestion, all members of the Canadian National Flood Relief Committee were asked to express their opinion as to the disposal of the unexpended surplus contributed by the people of Canada and the provincial governments. It has taken some time for Mr. Charles LaFerle, honorary secretary of the committee, to obtain a reply, but a majority have now concurred in the suggestion that the total amount of the unexpended surplus should be made available for international relief under the administration of the Canadian Red Cross Society.

Of the 51 persons canvassed, 37 have given unqualified approval, one qualified approval, and one considered himself not entitled to an opinion. Twelve members of the committee have not replied, including the premiers of British Columbia, Newfoundland, Nova Scotia and Quebec. You will recall that neither the government of British Columbia, nor Newfoundland made any direct contribution to the fund, the contributions of the governments of Nova Scotia and Quebec being \$10,000 and \$35,000 respectively.

I should be grateful for your opinion as to whether you consider that we have now taken all practical steps to liberalize this fund as originally suggested by you.

As of September 30, 1956, the unexpended portion of the fund, with accumulated interest, stood at \$612,461.90.

Assuring you of our appreciation of your interest and cooperation in this project, I am,

Yours sincerely,

W. S. Stanbury, M.D.
National Commissioner.

On October 24, the Right Hon. Mr. St. Laurent replied to Dr. Stanbury in these words:

Dear Dr. Stanbury:

I have your letter of the 20th instant and I think you are entitled to consider that the members of the committee who have not replied to your communication do not object to the manner in which that communication indicated it was intended to dispose of the unexpended portion of the fund.

I feel quite strongly that you can, without any undue risk, proceed now to use the unexpended portion in the manner which has been suggested.

With warm personal regards, I am,

Yours sincerely,
Original signed by
Louis S. St. Laurent.

Now, what is the nature of the commitment given by the last few words of Mr. St. Laurent's letter? I think it is reasonable to assume that the Red Cross society was entitled to regard them as a moral undertaking that the government of Canada would stand behind them in the event that any of the other original subscribers of this money challenged this. That may be right or it may be wrong. I am giving you my views. My view is that the vote which is before you only refers to the ratio of the amount of money which the \$1 million is to the total raised. I may be wrong in that, but that is my opinion.

In my opinion we have given a moral undertaking to the Red Cross society that we stand behind them in respect of the application of the total amount, whatever it may be.

Mr. PICKERSGILL: I did not catch the first part of Mr. Sellar's last sentence. Would he repeat it? That is the reference to the part contributed by the government of Canada.

Mr. SELLAR: My view is that the vote which is before you covers only the ratio of interest that the government of Canada's contribution of \$1 million has to the total amount contributed and left over.

Mr. DRYSDALE: What was the total?

Mr. SELLAR: I do not have the figures. You will have to ask either Dr. Stanbury or the officials of the Department of External Affairs.

There is just one more matter. I want to make certain that Mr. Morris and the others are quite sure how this money is handled. I will now quote from the official publication of the Red Cross society, the "Despatch". It is the issue of May, 1958, in which is the financial statement of the society for the financial year 1957. It is an audited statement and the balance sheet is divided into two parts. First are the general funds of the society which are of no concern to us at the moment.

Then in the second part of the statement are the designated and reserved funds. On one side is cash of \$809,000 and the securities totalling \$1,651,000. I am giving these in round figures. On the other side the first item is completion of buildings.

Then the next is international relief of \$579,000, and various other purposes. You will see that the Red Cross society is distinguishing between these accounts.

I now turn to page 7 where there is a write-up describing the treatment of the designated and reserved fund by the Red Cross. I need not read all the paragraphs because only the first two are of present concern.

The Canadian Red Cross Society administers certain reserved or designated funds that cannot be used to cover general operational re-

quirements but are planned for specific projects, purposes and services. The society also makes various appropriations for capital purposes and the expenditure covers a period of years. Until the completion of such projects, the unexpended balances are carried in funds especially designated for these purposes.

Through the years the Canadian Red Cross Society has been requested by especially interested groups of citizens or by the government to administer independent funds for specific disaster relief usually in foreign lands. In recent years, such funds have included the Canadian National European Flood Relief Fund, the Greek Earthquake Relief Fund and the Canadian Hungarian Relief Fund. There have also been special funds for disasters in many other nations. All of these funds have been donated for specific purposes and can be used only for the purposes outlined by the donors. By agreement with the sponsors, the funds are administered by the Canadian Red Cross Society in accordance with traditional and established International Red Cross principles.

I hope that gives Mr. Morris the information he wants in regard to the general background of this fund. Of course, the point with which I am concerned is the application to be given to the vote. The vote is set out in paragraph 46, which is before you. It reads as follows:

To authorize the expenditure for international relief purposes, or other relief purposes authorized by the governor in council, of the unexpended portion of the grant made by the government of Canada to the Canadian National European Flood Relief Fund by vote 572 of the Appropriation Act No. 2, 1953—\$1.

That is an enactment. The words with which we are concerned are "expenditure for international relief purposes, or other relief purposes authorized by the governor in council." As I said the last time I appeared before the committee, the phrase "or other relief purposes authorized by the governor in council," seemed to me to give the governor in council an unfettered discretion in selecting relief products; that is to say, it could include domestic relief, as well as international. That is my personal opinion. If I am wrong I would like the committee to correct me in due course. But that is how we are performing our audit.

The real word of concern is the word "international" in the phrase "international relief purposes". Mr. Harris, then Minister of Finance, was in charge of this item before the house. I quote from paragraph 46 what he said. The material words are to be found in the last sentence:

The reason for this vote, then, is to ensure in the hands of the Canadian Red Cross that amount of \$506,000, so they may use it for other European relief purposes similar, or somewhat similar, to the original purpose of the vote.

In the audit office we have never attached any significance to the word "European." Our view was that the House of Commons was considering this from a humanitarian viewpoint and not from the viewpoint of geography. Our concern is with the words "similar, or somewhat similar, to the original purpose of the vote."

Reference was made by the then Minister of Finance to the Red Cross Society, and in seeking to find out what was "international" relief we naturally turned to the publications of the Red Cross in an effort to ascertain what was the accepted interpretation of that word; because you will see by the text the governor in council need not participate in any way for an expenditure under that heading. The most concise statement is to be found in the *Encyclopædia Britannica*, where it treats with the international committee of the Red Cross, the league Red Cross societies and the national societies.

The paragraph which I am going to quote comes under the heading of the League of Red Cross Societies.

In 1924 the league established a relief organization to promote participation of national societies in international relief, especially in disaster. When recovery from a major disaster is beyond the resources of a government and its relief organization, an international appeal is made and relief activities stemming from this appeal are coordinated by the league. After World War II the League of Red Cross Societies coordinated international relief in dozens of major catastrophies, through which a number of national societies provided food, clothing, medical supplies and shelter to victims of disasters in India, Pakistan, Greece, Italy, the Netherlands and other countries. For example, in 1953 the league appeal for victims of western European floods yielded relief consisting of commodities and money, contributed by 34 national societies.

If that definition is apt, the test is not that an expenditure has been made in any country other than Canada, but that the government and its relief organizations is of the opinion that an international appeal for funds is necessary, so they can give immediate relief to their citizens.

Now, Mr. Chairman, comes the financial point, the payment of the \$50,000 to the American Red Cross Society. This disaster happened late in June and was front-page news on Friday and Saturday of that week. By Monday morning, which was July 1, it was merely a mop-up story—to put it in newspaper language.

In the item before you I quote the *Globe and Mail*, because it was the only paper published in Toronto on that date. The write-up was from the Associated Press. It includes the following:

President Eisenhower designated the storm ravaged sections of Louisiana and Texas as disaster areas, eligible for federal aid.

The item ends with—and I regard this with some significance—and the side heading is “Canadian aid sent”. It reads as follows:

The Canadian Red Cross announced Saturday a cash gift of \$50,000 to the American Red Cross to help cope with the devastation caused by Hurricane Audrey.

Marshall Stearns, chairman of the national executive committee, said the donation was an interim measure and the Canadian Red Cross was ready to make further contributions if the need became apparent.

Mr. Stearns recalled how the American Red Cross contributed \$250,000 to Manitoba flood relief in 1950 and said this action has never been forgotten.

He said the cash reserve of the American Red Cross has been heavily depleted by recent natural disasters.

None of those words are in quotes—it is the reporter’s language. My point is that I question if the Department of External Affairs had authority to instruct the Red Cross to make a payment of \$50,000 to the American Red Cross before the governor in council concurred in so doing. Neither the American Red Cross nor the United States government indicated that an international appeal for funds was necessary and, therefore, I think that this payment falls within the second category of purposes made for this vote. That is my sole point, sir—parliament having instructed that the governor in council, in certain cases must concur, it was obligatory on the Department of External Affairs to obtain that concurrence before payment was made. That is the sole point that is before you.

Mr. LAMBERT: Mr. Chairman, is not the payment handled by the Red Cross?

Mr. SELLAR: Yes.

Mr. LAMBERT: And it is the Red Cross that made the announcement and not the Department of External Affairs. Are we not setting up an "Aunt Sally" here, to knock it down?

Mr. SELLAR: Dr. Stanbury, of course, can clear that up for you. But I have been puzzled by that myself and I have looked at the copies of the "Despatch" to see if there was any indication there.

I am quoting from the issue of December, 1957. There is a picture, and this is the caption at the side of it:

When the news of the dreadful toll of life and property following hurricane Audrey reached Canada, the Canadian Red Cross promptly sent a cash gift of \$50,000 to the American Red Cross to assist in disaster work. The gift was acknowledged by President Eisenhower and E. Roland Harriman, Chairman of the Board of the American National Red Cross. Two Canadian Red Cross case workers were also loaned to the American Red Cross and served in the Lake Charles area for over a month. Miss Gertrude Trottier, of Montreal, and Miss Leil Eberle, of Toronto, are shown interviewing a victim of the disaster in Louisiana.

I give you the whole thing, although the latter part is not pertinent. But I would gather that in all cases where the Red Cross makes a cash payment, and not in the form of supplies, the cheque goes out in the name of the Red Cross.

Mr. LAMBERT: Mr. Chairman, my question is: Is Mr. Sellar of the opinion that we are to go through the whole of the rather slow and dilatory machinery of consultation with the Department of External Affairs, then the cabinet, when the disaster is there and the funds are there, and when we have indicated that these funds are for the purposes of the Red Cross? With all due respect, legally it may be all right; but I think we are setting up an "Aunt Sally" here, and proceeding to knock it down.

Mr. WINCH: Mr. Chairman, could I put it this way, over the same line: Is it your interpretation, Mr. Sellar, that, as auditor general, you have to check the expenditures of all money and see it is done in conformity with either law or regulation? In your opinion, although on a humanitarian basis you completely agree, as auditor general you feel there is a question here as to whether this was spent in accordance with the authority, or the policy as laid down either by the house or by the government?

Mr. SELLAR: Laid down by parliament?

Mr. WINCH: Yes.

Mr. SELLAR: May I read this again: "To authorize the expenditure for international relief purposes, or other relief purposes authorized by the governor in council, of the unexpended portion..." My view is that this does not come within the technical meaning of "international relief purposes". It does come within the term of "other relief purposes"; but in that case it has to be authorized by the governor in council. You need not get the consent of the governor in council when it is for international relief purposes as recognized by the league of Red Cross societies. It is only in exceptional cases that the governor in council would be drawn into it.

Mr. PICKERSGILL: Mr. Chairman, I would like to put this question to Mr. Sellar. The \$1 million granted by the government of Canada was no longer in the treasury, I take it; it had already been paid over to the Red Cross and it was part of a fund in the physical possession of the Red Cross? It was part of a fund of which only an equity belonged to the government of Canada; is that a correct statement of the facts?

Mr. SELLAR: I would go a little further than you, sir. One million dollars was granted; \$1 million was paid out under the authority of that grant. To

me, Canada lost all title to that money when that was done. Later, others ruled that it was to be regarded as an accountable advance, or something of that nature, and that the parliament of Canada had authority to give fresh directions. The parliament of Canada gave fresh directions.

Ordinarily, with a new vote in parliament, a grant to a society—I do not care which one it is; any one—ceases to be government money and, once it is paid over, the society is under no obligation to make any accounting to the government of Canada. That is my view. But in this case parliament took this unusual action, and it is because of the action of parliament that I have brought this before you.

I have no opinion on this subject; I am merely reporting to you, because I am required to do so by law. I will quote from section 70 of the Financial Administration Act: "The auditor general shall annually report to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that... (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by parliament".

That is why I am reporting this. I have no other motive at all.

Mr. PICKERSGILL: I have two further questions, Mr. Chairman, if I could put them now. I must say that I am inclined to agree with Mr. Sellar about the outright nature of the grant of \$1 million; but I apprehended—and, of course, I was a member of the government at the time this vote was made—that the purpose of that vote was not to regrant the money, or not to restore to the governor in council any control of that money. It was to relieve the Red Cross society of the embarrassment of no longer having an object on which it could legally spend the money. In other words, all parliament was seeking to do was to enlarge the ambit of the discretion of the Red Cross society to spend the money. It would appear to me that if it was spent in conformity with what the Red Cross society—being a responsible organization, it wished the grant to be made outright in the first place—considered to be a disaster, it could hardly be regarded as going outside the ambit of what parliament regarded.

It would also seem to me that this fund is one to which there were other contributors, and that payments to it would be very hard to distinguish. I suppose you could take the fractions; but otherwise would it not be rather hard to distinguish what portion came from parliament and what from other sources?

Mr. SELLAR: You can only do it on a ratio basis.

Mr. WINCH: Could the matter be resolved a little more clearly this way—by getting the action of the Red Cross society in relation to this expenditure of \$50,000? In other words, did the Red Cross society ask the Department of External Affairs for authority to make this grant; and if so, upon what occasion did they make it, and on what basis? Was it before the money was granted, or was it after, asking endorsement of their action?

Mr. BELL (*Carleton*): Did not Mr. Sellar go into everything last week? Did he not go into all the evidence he has; and should not we ask Dr. Stanbury that question? Time is running against us this morning. For one, I would like to see that Dr. Stanbury has an opportunity of testifying before the committee. Perhaps if we let him have that opportunity, we could examine either Dr. Stanbury or Mr. Sellar later on.

Mr. WINCH: The reason I asked that was this. At the time we adjourned the last meeting I was about to ask the question of clarification as to the time of the disaster in the United States, the time of the grant, the information that was given to the House of Commons by the Prime Minister, and the date of a letter that was read. I rather gathered that the Department of External Affairs themselves could not find out until about two months after the transaction

whether or not it had taken place, because there was no record in its own books. I think that matter should be straightened out somehow.

Mr. WALKER: Mr. Sellar, as far as you are concerned, this discussion is much ado about nothing, is it not? You are satisfied?

Mr. SELLAR: No, it is not "much ado about nothing". You have got to protect the Red Cross Society, because there is still an amount of money in its hands. You must not leave them vulnerable to some shyster bringing an action against them. That is the whole importance of this vote. The whole thing, is to protect the Red Cross Society.

Mr. WALKER: I understood there were no complaints at all, and that the Red Cross is in a good position. We are not complaining about what the Red Cross is doing. You are not complaining about it; how are they vulnerable? Who is complaining about the Red Cross, other than you in your report?

Mr. SELLAR: I report it to you because the instructions in the Financial Administration Act are to the effect that when in the course of duty I observe any transaction where any appropriation is applied for a purpose or in a manner not authorized I must report it to you.

My view is that this payment of \$50,000 to the United States was something which I do not think comes within the terms of international relief as it is commonly understood for this purpose. I think the vote must be strictly observed and that required an order in council.

Mr. FRASER: Why do you say that?

Mr. SELLAR: Because the description I read states that an international relief project is commonly understood to be one which is beyond the resources of the relief agencies of the particular country and of the country itself. We cannot say that that exists in the case of the United States.

Mr. LAMBERT: Who sets that standard?

Mr. SELLAR: I quoted from the Encyclopedia Britannica. I know nothing about it. You might quote other authorities which are quite different. I am bringing this matter to your notice because there is still money on hand and I want to know what I am to do in the future, by way of interpretation.

Mr. BELL (*Carleton*): I renew my suggestion that we hear Dr. Stanbury.

Mr. MORRIS: When you were testifying this morning, Mr. Sellar, and reading excerpts from an exchange of correspondence between Dr. Stanbury and the then prime minister—

Mr. SELLAR: I read the whole letters.

Mr. MORRIS: I am sorry, yes. But if I heard you correctly, I took from it a philosophy of public accounting which I would like to explore with you for a moment. I understood you to say you felt that the letter from Louis St. Laurent was a two-part letter, part of which in your view might have committed the government of Canada to assist the Canadian Red Cross as against any action from other donors of the \$506,000 balance.

Mr. SELLAR: Not only the \$506,000, but whatever the balance was.

Mr. MORRIS: Are you, as Auditor General, saying that as this is a public question, in your consideration of the public accounts you consider a letter from the Prime Minister of Canada to be a binding instrument for which you must have regard?

Mr. SELLAR: I said, in giving evidence, that I did not know what the effect of that letter was in law, but that I did believe that the Red Cross Society might reasonably regard it as being morally binding on the government to come to its aid in the event of trouble.

Mr. MORRIS: Thank you.

The CHAIRMAN: I think this whole question may be quickly stated as it appears in paragraph 47, which reads as follows:

Consequently, after the vote was enacted the government indicated to the Department of External Affairs that it was to arrange that it be consulted by the Red Cross Society with respect to all proposed payments and that the department was to bring special cases to the notice of the governor in council.

Mr. DRYSDALE: Mr. Sellar seemed to distinguish between international relief purposes, as those not requiring the ratification of the governor in council, and other relief purposes. It comes down to a legal interpretation of just what international relief purpose means. If this action at the time came under international relief purposes, then ratification by the governor in council was not necessary, and everything was fine.

Mr. SMITH (*Simcoe North*): Mr. Chairman, we shall have several days in which to discuss this matter with Mr. Sellar; but Dr. Stanbury is here now and I suggest we hear from him, because it is already twenty minutes after ten.

The CHAIRMAN: Is that agreed?

Agreed.

Will you please come up and occupy the witness seat, Dr. Stanbury.

Gentlemen, Dr. Stanbury is national commissioner of The Canadian Red Cross Society. He requested to be permitted to appear this morning. I take it that he has that permission.

DR. W. S. STANBURY (*National Commissioner, The Canadian Red Cross Society*): Mr. Chairman, I have with me the brief which I presented to the Secretary of State for External Affairs. I also have two audited financial statements which will go a long way to clear up the problem that has been raised. With your permission I would like to read the presentation which was made to the hon. the Secretary of State for External Affairs.

The CHAIRMAN: I think there is no objection to Dr. Stanbury's reading his presentation.

Agreed.

(*For appendices A to R hereafter referred to, see end of this day's evidence;*)

DR. STANBURY: Mr. Chairman, I read as follows:

The national officers of the Canadian Red Cross Society have been greatly perturbed to read in the public press a statement, attributed to the Auditor General, critical of our administration of the unexpended surplus of the Canadian National European Flood Relief Fund of 1953. Such a statement, unless corrected, can only reflect on the integrity of the officers and management of the Canadian Red Cross Society. As you will appreciate, this is a very serious matter for a national voluntary organization which has always enjoyed a very large measure of public confidence and support. We are sending you herewith a copy of a CP despatch which was published in the *Toronto Daily Star* for Saturday, January 31. The national officers of the Canadian Red Cross Society have no wish to enter into a public controversy and are, therefore, appealing to you as Secretary of State for External Affairs to correct this statement at source.

The society has always been most meticulous in its administration of designated funds, totalling millions of dollars, entrusted to it over the years by federal and provincial governments, as well as by a wide variety of private organizations and is naturally jealous of its reputation in this regard. This, to our knowledge, is the first instance where the bona fides of the Society has

been questioned. We feel that we have been absolutely scrupulous in our administration of the Canadian National European Flood Relief Fund, as we think you will agree a review of its history will demonstrate.

Following the disastrous floods of January and February, 1953, affecting the Netherlands, Great Britain and Belgium, the Prime Minister of Canada stated in the House of Commons:

"Perhaps the most effective and expeditious instrument that we Canadians could use to make our aid available and effective would be our own Canadian Red Cross, because of its experience in handling such situations and its intimate connections with the Red Cross Societies of the United Kingdom, Belgium and the Netherlands." (Hansard, Tuesday, Feb. 3/53)

He went on to suggest the creation of a special committee to assist in raising the necessary funds and was supported by the leaders of all political parties. (Hansard, Tuesday, Feb. 3 and Thursday, Feb. 5/53)

On February 13, 1953, the special committee to be known as the "Canadian National European Flood Relief Committee" was convened at government house in Ottawa under the chairmanship of His Excellency, the Governor General of Canada. This committee included the Prime Minister of Canada, the Leader of the Opposition, the leaders of other political parties, the provincial premiers, members of the Senate, as well as leading citizens from every part of Canada. The membership of the committee is shown in the attached schedule (Exhibit A), which I think you will agree is very representative of Canadian citizens. In addition to the above, a special campaign and public relations sub-committee was set up under the chairmanship of Mr. J. N. Kelly, of Cockfield Brown Ltd., with Mr. W. J. Dunlop of the Canadian Broadcasting Corporation, as vice-chairman.

I will not take the time to read them; but our terms of reference are laid out quite specifically in that exhibit which you will find at the bottom on page 6.

The minutes of the above mentioned meeting are attached herewith (Exhibit B) and contain terms of reference for the Canadian Red Cross Society in the administration of the fund, in accordance with the Prime Minister's telegram of February 5, 1953, addressed to the Honourable Leopold Macaulay, Q.C., then chairman of our central council, which read as follows:

Pursuant to telephone conversation with national commissioner and in accordance with the suggestion which I made in the House of Commons on February 3, I am now formally requesting Canadian Red Cross Society to assist in the establishment of a national flood relief Committee and to act as the administrative arm of the committee.

It is further suggested that any funds contributed for relief purposes be given to the committee and that the Red Cross would act for it in providing transportation and distributing relief supplies through the League of Red Cross Societies (Geneva) and the National Red Cross Societies of Great Britain, the Netherlands and Belgium.

Donations from the general public and contributions from the provincial and federal governments totalled \$3,105,880.43.

Exhibit C will indicate the source of these contributions. It is the green sheet. Of this sum the federal government provided \$1,000,000. or approximately one-third of the total. An accounting of our stewardship from February 1st, 1953, to May 31, 1955 (exhibit C) is supplemented by a report from the honorary secretary of the Canadian National European Flood Relief Committee, Mr. Charles LaFerre, dated July 15, 1955, (exhibit D) which after clearance with His Excellency, the Governor General of Canada, was circulated to all

members of the committee and submitted as well to all governments which had contributed.

From the honorary secretary's report, it will be noted that no administrative expenses whatsoever, other than the cost of printing special receipts and stationery and postage used, were charged to the Canadian National European Flood Relief Fund and in addition to bearing these substantial costs, the Canadian Red Cross Society contributed from its own resources emergency relief to a value of \$96,079.03.

With the completion of the relief operation in Europe, the Canadian Red Cross society held in trust an unexpended surplus of \$506,215.53. In July, 1955, the national commissioner, on instructions of the national officers, sought the advice of the Prime Minister of Canada regarding the disposal of this unexpended surplus, as the federal government had been the largest contributor to the fund.

After consultation with the Prime Minister and Mr. M. H. Wershof, then legal adviser to the Department of External Affairs, a brief was submitted to the Prime Minister, with copies to Mr. Wershof (Exhibit E), requesting appropriate action by the government of Canada to relieve the national officers of the society of their stewardship of these funds under their present terms of reference.

You will note in that brief that certain sales tax refunds were still due to the fund and that in due course a complete audit statement would be rendered. Such completed audit statement is contained in the exhibits. This is given under certification of our auditor, dated July 16, 1956 and is filed with the Department of External Affairs. It is the yellow sheet attached to the final audit.

Also I might remind the committee that in addition to this audit, under the Canadian Red Cross Society Act, a federal act of 1909, the society's records shall be further audited by the federal government. Originally the audit was to be conducted by the Department of National Defence, but under the Public Service Rearrangement and Transfer of Duties Act this responsibility was transferred to the Minister of National Health and Welfare. This legislation is still in force, so the Canadian Red Cross society's accounts are always subject to further audit by the Minister of National Health and Welfare.

On July 28, 1955, the Prime Minister informed the national commissioner that he had referred the matter of disposing of the unexpended surplus of the Canadian National European Floor Relief Fund to the Department of Justice and enclosed a copy of the opinion of the Deputy Attorney General (Exhibit F), on which the subsequent referral to parliament was based. This is very important from the standpoint of the society because it lays out quite clearly the situation in respect of the unexpended portion of this fund. There can be no doubt, as far as the law officers of the crown are concerned, that this is dealt with presumably in a proper manner.

Mr. WALKER: From where is the doctor now reading?

Dr. STANBURY: Page two of my brief. I was calling attention to Exhibit F, which gives the opinion of the Deputy Attorney General in respect of the proportion. It will be noted that the Deputy Attorney General deals specifically with the government's interest in the unexpended surplus of the fund in proportion to the parliamentary contribution and not the whole unexpended surplus of \$506,215.53. In the national commissioner's reply to the Prime Minister's letter dated 10th August, 1955 (Exhibit G), it was made abundantly clear that the Canadian Red Cross society was not asking the original contributors to turn over the surplus funds to the Canadian Red Cross society (i.e. for general purposes) but rather than the surplus might be used as a designated fund for international relief on a broader basis, which the society

believed would preserve the original intent of the donors. On 23rd March, 1956, the Prime Minister wrote to the national commissioner that the House of Commons has passed an item in the supplementary estimates of the current fiscal year which authorized the expenditure for international relief purposes, or other relief purposes authorized by the governor-in-council, of the unexpended surplus of the federal grant made to the Canadian National European Flood Relief Fund. This item No. 557 appears in the House of Commons Debates for Thursday, March 22, 1956, volume 98, as follows:

"557. To authorize the expenditure for international relief purposes, or other relief purposes, authorized by governor-in-council, of the unexpended portion of the grant made by the Government of Canada to the Canadian National European Flood Relief Fund by vote 572 of the appropriation act No. 2, 1953, \$1."

It is quite true that in the subsequent debate, on question from Mr. Knowles, re possible relief to suffering in Europe resulting from winter storms, the Minister of Finance (Mr. Harris) did make reference to the use of the unexpended surplus "for other European relief purposes similar, or somewhat similar, to the original purposes of the vote", but no such limitation can be found in the original authorization or in subsequent clarification and interpretation by the Prime Minister and the Department of External Affairs.

In order to avoid any misunderstanding as to interpretation, the national commissioner wrote to both the Prime Minister and to the Under Secretary of State for External Affairs on 18th April, 1956 (Exhibit H), the pertinent paragraph reading as follows:

In view of the recent discussion and Mr. Sellar's evidence, this letter becomes quite important.

With the comma placed after the word 'purposes', we understand that it is the intent of your department that the Canadian Red Cross Society is free to disburse the unexpended portion of the above mentioned fund for international relief purposes at its discretion and in accordance with international Red Cross principles, and that it would only be necessary to seek authorization from the governor-in-council for expenditure on relief of an essentially different character.

The Prime Minister made an interim reply on 23rd April, 1956, (Exhibit I).

After consultation with the Department of Justice, the Under Secretary of State for External Affairs gave us the requested clarification in his letter dated 29th June, 1956 (Exhibit J).

This again is an important letter.

It will be noted that the Under Secretary's letter refers to "international relief purposes" in general terms and in no way stipulates that disbursements must be for relief in Europe only. It will also be noted that the Under Secretary states "the government has also indicated that the Department of External Affairs and the Canadian Red Cross Society should consult on particular proposals for the use of these funds in international relief." The society has been most meticulous in observing the wishes of the government regarding consultation with the Department of External Affairs, such consultation always being prior to making any allocation or disbursement from the Fund. In order to accomplish this, in an emergency it has been frequently necessary to consult officers of the economic division of the Department of External Affairs at all hours of the day and night, Sundays and holidays, and in each instance such verbal consultation and approval has been subsequently confirmed in writing. We understand that the Auditor General has complained that there was no such consultation with the Department of External Affairs prior to our press release of 29th June, 1957 (Exhibit K)—that was Saturday, 29 June, 1957.

May I remind you this was Dominion Day week-end and it was very difficult to contact people at that time—announcing a cash gift of \$50,000 to the American National Red Cross for the victims of hurricane “AUDREY” in the United States. According to our records, we made repeated efforts to contact Mr. L. E. Couillard, then head of the economic division of the Department of External Affairs, but because of the weekend and public holiday, were unable to do so. The national commissioner, however, did speak to Mr. E. T. Galpin, duty officer in the Department of External Affairs, and through him was able to get approval from the responsible officers of the department prior to issuing the press release and informing the American National Red Cross of the gift. The arrangements were subsequently confirmed in writing. On Saturday, 29th June, 1957, at the request of the American National Red Cross, we were making every effort to have our press release issued concurrently with one from the White House by President Dwight D. Eisenhower (Exhibit L).

I may say that the original consultation over the telephone with the duty officer of the Department of External Affairs had reference to a sum of \$35,000 which, after consultation, was subsequently increased to \$50,000 and the subsequent correspondence confirms this. There is no question but that hurricane “Audrey” was at its height at the time as one can see from one of the Toronto papers of Friday, June 28. I would like to leave these with you.

The CHAIRMAN: Do you wish to have these distributed?

Dr. STANBURY: Yes; I think this shows there was a disaster at the time.

Mr. BELL (*Carleton*): What is this?

Dr. STANBURY: A photostat of the Toronto “Daily Star”.

The CHAIRMAN: It is the Toronto “Daily Star” of June 28, 1957.

Dr. STANBURY: Also I might add that during this period there was the Hungarian refugee operation. We were in telephone conversation with the American Red Cross in Washington during this period and perhaps had even more up-to-date information than the press could provide.

In his statement in the House of Commons the Acting Secretary of State for External Affairs refers to the date as June 27. Of course, the correct date when consultation took place was June 29.

Mr. BELL (*Carleton*): But your letter of September 5, 1957, says it was on July 27.

Dr. STANBURY: That is the written confirmation. There is no question there was verbal approval and consultation on the 29th. I think you will find that not only our records but also the records of the Department of External Affairs will substantiate this fact.

On July 2nd, 1957, we sent our cheque for \$50,000. Canadian, by registered post to Mr. Norman A. Robertson, who was then Canadian Ambassador to the United States, with the request that he present the cheque on behalf of the Canadian Red Cross Society, “emphasizing it is a gift of the people of Canada through the society in an attempt to express their sympathy in a tangible way”. (Please see Exhibit M.)

This action taken by the Canadian Red Cross Society with the concurrence of the Department of External Affairs was extremely popular, as evidenced by editorial comment in both English and French newspapers, as well as by radio commentaries, from all parts of Canada. We shall be glad to submit copies of this material should it be required.

On July 17, 1956, the honorary secretary of the Canadian national European flood relief committee informed His Excellency, the Governor General, as chairman, of the action taken by the government of Canada in respect to its share of the unexpended surplus of the fund, at the same time asking his advice as to what further action he should take regarding that portion of the

surplus in which the government of Canada had no interest (Exhibit N). On August 8, 1956, the secretary to the Governor General wrote to Mr. LaFerle concurring in the suggestion contained in the last paragraph of his letter. Accordingly, the honorary secretary wrote to all members of the Canadian national European flood relief committee, including those provincial governments which had contributed under date of August 10, 1956, requesting their views on the proposal outlined by him (Exhibit O). The honorary secretary made repeated attempts to canvas the views of the members of the committee. On October 20, 1956, the national commissioner reported to the Prime Minister informing him as to the result of the poll, at the same time requesting the Prime Minister's opinion as to whether he would consider that the society had now "taken all practical steps to liberalize this fund as originally suggested by you". The Prime Minister replied on October 24, 1956 (Exhibit P), his letter reading in part as follows:

I feel quite strongly that you can, without undue risk, proceed now to use the unexpended portion in the manner which has been suggested.

The honorary secretary of the Canadian national European flood relief committee informed His Excellency, the Governor General, of the replies received from the committee and the opinion expressed by the Prime Minister. The secretary to the Governor General wrote to Mr. LaFerle on November 1, 1956 (Exhibit Q), stating that His Excellency, the Governor General, concurred in the suggestion that all members of the committee should be informed as to the result of the poll and "of the fact that the residue of the fund will now be put at the disposal of the Canadian Red Cross Society for international relief purposes in any part of the world." Mr. LaFerle, as honorary secretary, then wrote to all members of the committee, including government, per attached Exhibit R.

We think you will agree that the Canadian Red Cross Society has been meticulous in discharging its trust as administrator of the above mentioned fund. We believe we have submitted adequate proof that we have adhered strictly to our terms of reference in all respects and that the \$50,000 gift to the American National Red Cross for the victims of Hurricane "Audrey" was in no way irregular. Moreover, at no time has the government of Canada stipulated that it had any interest in the total unexpended surplus of \$506,215.53, but only in the share proportionate to its original contribution, i.e., approximately one-third of the total.

The national officers of the Canadian Red Cross Society would be extremely grateful if you would take appropriate steps to correct this most unfortunate statement reflecting as it does on the reputation and integrity of the Canadian Red Cross Society.

We are taking the liberty of forwarding a copy of this letter to your colleague, the Honourable, the Minister of Finance, for his information.

I may also add additional copies were sent to the Under Secretary of State for External Affairs and to the economic division of the Department of External Affairs.

Together with the statement we have just completed, I would like to table our audited statement, which answers some of the questions which have been raised; it was certified on July 16, 1956. After July 12 this normally would be included in our annual consolidated statement and be subject to the usual audit; but under the circumstances, we asked our auditors to do an additional audit of this fund. You have before you an audited statement of receipts and disbursements for the period July 13, 1956 to December 31, 1958. Unfortunately, there is one typographical error that has crept into this because

of the haste with which the document was prepared. Of course the disbursements for Hurricane Audrey should be under 1957, and not 1958. So far as the audited financial statement is concerned, there may be a number of features on which you would like my comments.

The CHAIRMAN: Thank you Dr. Stanbury. At this stage may I request your permission to append by way of appendix exhibits A to R referred to by Dr. Stanbury in the brief he presented this morning, together with the audited statement of receipts and expenditures, and the additional statement to which he has referred this morning.

Agreed.

Mr. SMITH (*Simcoe North*): I would like to ask Dr. Stanbury a preliminary question: where has there been the slightest suggestion that the Red Cross ever misspent any of these funds? It is suggested in your brief. I have endeavoured to find out and I cannot say there ever has been the slightest criticism or suggestion anywhere that the Red Cross misspent funds.

Dr. STANBURY: I will answer your question, Mr. Smith. When the statement appeared that this fund was designated for European relief purposes only—and I am referring to the Auditor General's original report—surely if we spend it on American disaster it is tantamount to accusing us of misappropriation of funds.

Mr. HELLYER: My question may be answered in your financial statement, but I have not had the opportunity of perusing it closely. What interest was paid on this fund and what has been its disposition?

Dr. STANBURY: You will refer to the first statement, dated July 16, 1956, which is on file with the Department of External Affairs. Up until that time, in accrued interest credited to the fund, you will find the amount \$10,191.72. In addition to this, there was a sales tax refund which we normally cannot recover until a period of six or twelve months after the expenditure takes place; this amount was \$133,066.65. In the more recent statement you will find the sum of \$38,586.86 credited to the fund for the period July 13, 1956 to December 31, 1958. In this case these expenditures are net, with the explanations at the foot of the statement—the sales tax rebates having been deducted once they were received. So, with the exceptions noted at the bottom of the page, these are net expenditures.

You will notice also an item of sundry donations in the amount of \$762.71. The bulk of that is a small bequest for international relief purposes to the Canadian Red Cross Society, which we applied to the fund. There is also the sale of surplus lumber by one of the local authorities in Great Britain, this being the residue of a \$200,000 grant for the purchase of Canadian lumber then in Britain at the height of the European floods in 1953.

Mr. WINCH: What is the definition of "international relief", and how was it established—or is there such a definition?

Dr. STANBURY: I think that could raise quite an argument. I think it is generally understood. However, the term is used in many international treaties, and one I might refer you to is the convention of July 12, 1927, to establish the international relief union. It was a convention that was under the aegis of the League of Nations. In the preamble of that convention we read:

to encourage international relief by a methodical coordination of available resources and to further the progress of international law in this field.

Article 2 defines the objectives of the international relief union and may be a partial answer to your question. It reads as follows:

(1) In the event of any disaster due to "force majeure", the exceptional gravity of which exceeds the limits of the powers and resources

of the stricken people, to furnish to the suffering population first aid and to assemble for this purpose funds, resources and assistance of all kinds;

(2) In the event of any public disaster, to coordinate as occasion offers the efforts made by relief organizations, and, in a general way, to encourage the study of preventive measures against disasters and to induce all peoples to render mutual international assistance.

Perhaps that is a reasonable definition. I would like to add that at the time the gift was made to the Canadian Red Cross for the purpose stated it was a very heavy year of disasters and the American Red Cross had completely exhausted all its reserve funds. It was the heaviest disaster year in our experience. One could argue there was not need beyond the resources of the American people or government. The American government has never come into the picture as a relief agency. Similarly, we might argue we never should have accepted \$250,000 from the American Red Cross at the time of the disaster floods in Manitoba. Certainly those floods were not beyond the capacity of Canada, but they were beyond the capacity of the Canadian Red Cross Society.

Mr. WINCH: I believe all of us are in agreement on this; there is no question of need, the humanitarian nature of the gift, or the personnel and the public aspect. I think the only question that is in the minds of members of the committee is whether or not it met, under the particular circumstance—from the auditor general's point of view—the regulations as required in the making of this specific gift, as far as that portion of the federal contribution is concerned.

I presume, Dr. Stanbury, from your most exhaustive brief, it is your contention that, because you had a verbal authorization over the phone, the technicalities at the government end had been met.

Dr. STANBURY: Yes; and, of course, we had confirmation subsequently. But what I was really anxious to establish was, there was prior consultation with the Department of External Affairs before this gift was made.

Mr. WINCH: Of course, you would not have any understanding as to how the date of the 27th got in, instead of the 29th?

Dr. STANBURY: I think that is purely a typographical error. I cannot think of any other reason. The 29th is the correct date.

Mr. SMITH (*Simcoe North*): Dr. Stanbury, I refer to exhibit J, the letter from the Under Secretary of State for External Affairs dated June 29, 1956. The second paragraph of that letter contains two sentences, and it seems to me that the second sentence is almost indirect contradiction of the first.

The first is to the effect that disbursement for international relief purposes might be made without in each case obtaining authority from the governor in council. The second sentence reads: "The government has also indicated that the Department of External Affairs and the Canadian Red Cross Society should consult on particular proposals for the use of these funds in international relief."

Was there ever any clarification of that?

Dr. STANBURY: Yes, Mr. Chairman. This letter from Mr. Leger, Under Secretary of State for External Affairs, was as a result of my letter asking for legal clarification of this vote.

I think the important thing is—as the law officers did point out—the placing of the comma. The comma is after "purposes". As is clearly defined in the correspondence with Mr. Saint Laurent and Mr. Leger, it is only necessary, to consult the governor in council when it is to be used for purposes other than international relief purposes.

Mr. SMITH (*Simcoe North*): The sentence says, "...should consult on particular proposals for the use of these funds in international relief".

Dr. STANBURY: I would deal with it in two parts. The second part is not referring to consulting the governor in council. The ruling was that it was not necessary to consult the governor in council unless we wished to use it for purposes other than international relief; say, a domestic disaster.

A new phase was introduced by Mr. Leger in his letter of June 29: "The government has also indicated that the Department of External Affairs and the Canadian Red Cross Society should consult...". Well, that is nothing new. As the representatives of the Department of External Affairs will tell you, we always consult with the Department of External Affairs, even when we are dealing with our own money. We share the information that may be available from Canadian missions abroad and the information that we may have from the league, the international committee, and foreign societies. We have always done that; we always intend to do it, whether this provision remains or not.

Mr. PICKERSGILL: Dr. Stanbury, I take it, then, that you understood, from Mr. Saint Laurent's letter of April 23 and Mr. Leger's letter of June 29, what I think we in the government understood at the time about this whole vote; you understood that "international" meant anything outside Canada?

Dr. STANBURY: I would say so, sir.

Mr. PICKERSGILL: And that the distinction was made between using these funds for domestic purposes within Canada, in which case there would have to be an order in council? In the case of any international purpose, whether it followed the particular definition or not, the only people you had to consult were the Department of External Affairs?

I was going to say, before I ever read these documents, that that was my recollection—as a member of the government at the time—of what we intended, and it happens to be completely confirmed by the letters of Mr. Saint Laurent and Mr. Leger. Certainly it would be my opinion that no order in council would have been necessary in this case, and it was "international" in the sense that parliament was asked to make it international.

Mr. DRYSDALE: Personally, I am sure that the advance of \$1 million to the Red Cross followed all the legal advice given by the government at that particular time and followed all the necessary consultations.

However, the thing that is interesting me as a lawyer, is the advice from the Department of Justice. Could you indicate now whether the \$1 million advanced by the government of Canada was kept in a separate fund from the other \$2 million, or were the funds intermingled as a total of \$3 million?

Dr. STANBURY: It was part of the general fund.

Mr. DRYSDALE: There was no way of discerning between them?

Dr. STANBURY: No; as the deputy attorney general indicates, it would be proportionate to the government's interest. The total of the contributions was \$3,105,000, so the government's interest would presumably be approximately one-third, at that time.

Mr. DRYSDALE: That is the thing I do not understand, sir. On the basis of the intermingling of funds, how could you trace them on a proportionate basis, or why would you be entitled? Apparently the assumption has been, because the funds have been intermingled and because the government contributed a portion, they were entitled to take the whole funds back?

Dr. STANBURY: No; that was certainly never our interpretation, or the interpretation of the law officers.

The CHAIRMAN: Dr. Stanbury, I would like to make one or two statements. I hope they are correct. As I understand it, the whole purpose of this discussion is to call attention to the control of parliament in the expenditure of funds. That is what we are basically interested in. As I understand this discussion this morning, in effect parliament delegated the supervision of this to the Department of External Affairs, who in turn handed the administration over to the Canadian Red Cross Society.

My question is: Was there at all times full consultation with the Department of External Affairs. Secondly, have you kept the Department of External Affairs fully advised as to the particular expenditures made?

Dr. STANBURY: Yes, sir, I would say we have. The department, of course, can answer for themselves; but I think that is quite correct.

I do think there is one slight difference. I do not think any department of government has maintained that they had any more in this fund than their proportion of interest. This is approximately one-third.

Mr. WINCH: The auditor general has not, either.

Dr. STANBURY: No; the auditor general's statement now is slightly different to his statement of the 22nd, last Wednesday.

Mr. BELL (*Carleton*): Mr. Chairman, I would like to say this, because the hour is getting along. Personally, I agree with what Mr. Winch said a little while ago: neither in this committee nor elsewhere has there been even a whisper of criticism of the Canadian Red Cross Society. I think we have nothing but the highest admiration for them. Perhaps this has served a useful purpose, in enabling the society to show how very meticulous they are. Certainly this is one of the most meticulous briefs that I have had the opportunity of reading in a long time.

I think the situation has been greatly clarified by what Dr. Stanbury has said this morning, and he should feel that from no-one is there any criticism at all of the action of the Red Cross Society. On the other hand, I think we have a very important duty to uphold: the duty of adequate parliamentary control and ensuring that expenditures are made in accordance with each vote of parliament.

My own view is that this perhaps shows the danger of legislating through one-dollar votes; but that is perhaps another issue. I am of the view that the auditor general, without criticizing the Red Cross, performed his duty in drawing attention to this. Attention having been drawn, I think the only problem we, as a committee, need now consider is whether on the part of the committee, or on the part of the parliament of Canada, any action is needed which will prevent any repetition of the uncertainty that there has been in the definition—which really gets down, in some cases, to the location of a comma. But I am sure—and I certainly think that all the members of the committee are satisfied—that not from Mr. Sellar or anyone has there been a word of criticism of the Red Cross society. Perhaps, however, it has been helpful in demonstrating to us just how meticulous they are in their accounting and all other practices.

Mr. PICKERSGILL: Mr. Chairman, I would like for once to agree with everything Mr. Bell has said about the Red Cross society. I reserve my opinions about dollar votes. But with regard to what he said about the Red Cross society, I agree whole-heartedly.

Mr. FRASER: And we give them a true bill of health.

Mr. PICKERSGILL: Exactly.

Mr. WINCH: We still have a couple of questions we would like to ask the Department of External Affairs.

The CHAIRMAN: Have your accounts ever been audited by the Department of National Defence or the Department of National Health and Welfare?

Dr. STANBURY: I would say that the accounts as audited by the Department of National Defence, in the first instance, and more latterly by the Department of National Health and Welfare, could not be said to be much more than a spot audit. Each year an auditor from the department, with the trustees of the society, accounts for the securities and reviews the audited statement submitted to them.

Specific projects, on the other hand, such as the gamoglobulin project for the provision of gamoglobulin for the control of paralytic poliomyelitis, involve not only a complete federal audit, but two provincial audits as well, because it was derived from two provincial public grants. But, generally speaking, it is a spot audit and an accounting of securities each year.

The CHAIRMAN: Are there any more questions, gentlemen? I have just asked the auditor general if he has any special questions he wishes to raise at this time.

Mr. SELLAR: My problem was, and still is, what meaning does this committee intend should be given to the phrase "international relief"? That is all.

Mr. FRASER: Dr. Stanbury has mentioned that he felt it included everything outside Canada, and I think the committee feels the same way.

Mr. WINCH: I also think it might be a very good idea—and this is along the line that Mr. Bell had in mind—if in our report to the House of Commons on this matter we included a section stating that definition, so that there will be something on the record from this committee as to what it feels is the interpretation.

Mr. SELLAR: Precisely; that is what I am after, Mr. Winch. I do not care what the definition is, as long as we have one.

Mr. WINCH: Mr. Sellar would then have something to which he could refer, if not as an authority, at least as a semi-authority on the interpretation.

Mr. HELLYER: If it were approved by parliament, that would be the authority.

Mr. WINCH: Yes, if approved by parliament, that would be the authority.

The CHAIRMAN: Gentlemen, is there anything else of Dr. Stanbury? We have two other witnesses, Mr. Clark and Mr. Bruce, but we could take them at the next meeting. Dr. Stanbury indicates that he would like to be here when they are heard. What is the feeling of the committee with regard to meeting this afternoon?

Mr. BELL (*Carleton*): Unfortunately, Mr. Chairman, we have no authority to meet. I think the clerk will agree with that.

Mr. FRASER: Could we get authority now?

Mr. BELL (*Carleton*): We would have to get it passed by the house this afternoon. The last time this was up, Mr. Pickersgill took exception to the committee's securing that authority. We are now confronted with the position where we have witnesses from outside and we are unable to act as committees of parliament have normally acted in the past.

The CHAIRMAN: You are quite right. The principle is that the committee should not sit when the house is sitting.

Mr. MORRIS: Could we not hear the witness now? Mr. Winch appears to be the only one who wishes to ask any questions.

Mr. WINCH: There is always a very important meeting at 11 o'clock on Wednesdays.

Mr. MORRIS: That is right, but this may only take us a moment.

The CHAIRMAN: Perhaps we might meet at 1.30 or 2 o'clock.

Mr. WINCH: What I want to hear is the explanation, and whether any correction made here is going to be corrected on Hansard.

Mr. BELL (*Carleton*): Let us try to meet at 2 o'clock. That would give us half an hour before the house sits.

The CHAIRMAN: Very well, we shall now adjourn to meet at 2 o'clock in room 238S, which is right off the reading room.

AFTERNOON MEETING

WEDNESDAY, April 29, 1959.

The CHAIRMAN: Gentlemen, we have a quorum. It is my pleasure to introduce to you this afternoon Mr. H. F. Clark, Chief of the finance division of the Department of External Affairs who I believe is to be our witness this afternoon. Are there any questions?

Mr. WINCH: Yes. In view of the fact that, just at adjournment, it seemed that I was the only one who desired to ask questions of the Department of External Affairs, is it your desire to have the witness make a statement, or may I proceed with my questions?

The CHAIRMAN: Do you wish to make a statement Mr. Clark.

Mr. H. F. CLARK, (*Chief, Financial Division, Department of External Affairs*): I think in the interest of brevity it would be better if I responded to any questions which might be asked.

Mr. WINCH: May I first of all get it clear that in asking for a witness from the Department of External Affairs I did so wholly and solely for the purpose of verification, with no reflection whatsoever on the Red Cross. I do feel that on this occasion it is best to get all the information clarified that we possibly can as to the relationship between the Department of External Affairs and the expenditure of certain money, which we heard about this morning.

First of all, I would like to ask who in the Department of External Affairs has the authority to authorize the Red Cross to make particular expenditures? I ask that question because of the evidence given this morning by Dr. Stanbury, at page three of the Red Cross brief, when he said:

It will be noted that the Under Secretary's letter refers to "international relief purposes" in general terms and in no way stipulates that disbursements must be for relief in Europe only. It will also be noted that the Under Secretary states "the government has also indicated that the Department of External Affairs and the Canadian Red Cross Society should consult on particular proposals for the use of these funds in international relief".

Who, in External Affairs, has that authority?

Mr. CLARK: The Under Secretary of State for External Affairs.

Mr. WINCH: May I then ask as my second question, who in the Department of External Affairs has the authority to give verbal approval by telephone? I refer also to the statement made this morning by Dr. Stanbury on page three of the Red Cross brief, where in the last paragraph he said:

The national commissioner, however, did speak to Mr. E. T. Galpin, duty officer in the Department of External Affairs, and through him was able to get approval from the responsible officers of the department prior to issuing the press release and informing the American National Red Cross of the gift.

What is the authority of a verbal approval?

Mr. CLARK: Mr. Galpin as duty officer would refer this matter to the appropriate officer in the economics division who, in turn, would get in touch with the Under Secretary of State for External Affairs in order to get authorization for this particular action. In the case you refer to, Mr. Galpin was in touch with the national commissioner for the Red Cross Society. As you are aware, the national commissioner, Dr. Stanbury, telephoned the department and, it being a holiday weekend, he got in touch with Mr. Galpin who was the duty officer. Mr. Galpin, in turn, got in touch with the acting under secretary of state for external affairs, who was Mr. J. W. Holmes. As a result of that action he put a memorandum on the file.

Mr. WINCH: Who was acting as under secretary of state?

Mr. CLARK: Mr. J. W. Holmes. As a result of that conversation a memorandum was put on the file which I have here. Would you like me to read it? This memorandum is dated June 29, 1957, and is to Mr. J. F. Grandy, economic division. It reads as follows:

(see Exhibit p.2.)

(after reading)

I think this memorandum establishes that prior approval of this gift to the American Red Cross was obtained from the department on June 29, 1957.

The CHAIRMAN: Do you want to file that, Mr. Clark?

Mr. CLARK: Yes.

Mr. WINCH: May I ask the witness this question? It would seem, from the evidence given this morning, that there appears to be a situation when the House of Commons vote is one thing, and where the interpretation could be, and undoubtedly is, another thing. What is the interpretation of the Department of External Affairs of "international relief"?

Mr. CLARK: I think the words "international relief" are pretty well defined in the system of international operations generally, because the term is used in the various activities of the United Nations. The term is commonly employed in international treaties, e.g. "The Convention of July 12, 1927 to establish the International Relief Union", a convention established under the League of Nations. The preamble of the convention reads in part as follows:

"to encourage international relief by a methodical coordination of available resources and to further the progress of international law in this field".

Article 2 of the convention defines the objectives of the International Relief Union as follows:

(1) In the event of any disaster due to 'force majeure', the exceptional gravity of which exceeds the limits of the powers and resources of the stricken people, to furnish to the suffering population first aid and to assemble for this purpose funds, resources and assistance of all kinds;

(2) In the event of any public disaster to coordinate as occasion officers the efforts made by relief organizations, and, in a general way, to encourage the study of preventive measures against disasters and to induce all peoples to render mutual international assistance."

I think that is a pretty close definition of the application of the term "international relief" as it affects the operations of the Canadian Red Cross society.

Mr. WINCH: May I ask whether or not this understanding of the interpretation on the part of the Department of External Affairs was drawn to the attention of the auditor general when he questioned the authority and procedure in respect of this matter which we now have under review.

Mr. CLARK: As is customary when the auditor general publishes his report, along with the Public Accounts, the Treasury Board requests an explanation from the department, or a comment on the observations which the auditor general made. In a letter dated February 10, 1959, to the secretary of the treasury board we replied to the auditor general's observation in the following terms.

As you recall the auditor general raised two specific criticisms:

"(a) in 1956 the then Minister of Finance had informed the house that the purpose of Vote 557 was to permit the funds to be used for "European relief purposes similar, or somewhat similar, to the original purpose of the vote"; and (b) the \$50,000 grant to the American Red Cross society was announced without prior consultation with the department."

In answer to that observation we supplied the following information to the treasury board which I believe, in the normal course of events, would be turned over to the auditor general for his comment.

The CHAIRMAN: You are now about to quote from what?

Mr. CLARK: A letter dated February 10, 1959, to the secretary of the treasury board:

The wording of the vote expresses no geographical limitation regarding its employment and there is no record of an executive order having been issued to the department requiring that the funds be restricted to relief purposes in Europe. The national commissioner of the Canadian Red Cross society, Dr. W. S. Stanbury, was asked to review his correspondence transferring the funds of Vote 557 from the government of Canada to the Canadian Red Cross society for use in international relief purposes after consultation with the Department of External Affairs, and he has confirmed that there is nothing in his records to indicate that this money could not be used for relief purposes anywhere in the world. He added that, in this connection, the Canadian Red Cross society regarded the text of the vote as its guide in proposing to grant relief aid and that he was not aware of the interpretation which the then Minister of Finance placed on the vote and which the auditor general has quoted in his observation.

In respect of the second point of criticism, there was prior consultation with the Department of External Affairs before the announcement of the Canadian Red Cross society appeared in the Toronto "*Globe and Mail*" on July 1, 1957. The records of the department contain a memorandum of a telephone conversation on June 29 with the Canadian Red Cross society. The responsible officers of the department concerned consulted with the Acting Under-Secretary of State for External Affairs and, in a subsequent telephone conversation, the Canadian Red Cross society was authorized to make the announcement. Confirmation of this circumstance has also been obtained from the Canadian Red Cross society which has in its records documentation in proof of the transaction.

Mr. WINCH: May I ask for an explanation as to the question of the information having been given to the Prime Minister on the 27th instead of the 29th? At the same time, if the Department of External Affairs had complete records on this matter, why was there the exchange of correspondence between the Department of External Affairs and Dr. Stanbury in August?

Mr. CLARK: The date June 27 was a typographical error, as I have pointed out to you.

Mr. WINCH: Do you not check before you give information to the Prime Minister?

Mr. CLARK: Yes; it was checked, but unfortunately there was a mistake.

With regard to the second point, it has been established that this fund is operated by the Red Cross society. Only one third of the proceeds of the fund can be attributed to Canadian government participation and we rely on the Canadian Red Cross society to keep a record of the total amount. This fund is not an appropriation of the government of Canada and we have no right to go in and do a bookkeeping job. In fact any bookkeeping job which would be done on this fund, if such were feasible, would be done by the comptroller of the treasury. The department, however, has no authority under the Financial Administration Act.

Mr. WINCH: If you had complete records why was there the exchange of correspondence in August?

Mr. CLARK: At that time they were getting ready for the Canadian Red Cross delegation which was going to New Delhi and it was essential that the members of the delegation be in complete accord with what had been achieved in terms of international relief.

Mr. WINCH: You said you had a complete record of that before asking for a report. I am only speaking of this fund in respect of that particular grant.

Mr. CLARK: There were one or two items there on which we required further information.

Mr. WINCH: Even though you had to give authority after consultation you still did not have the information you required?

Mr. CLARK: Because it is not a fund administered by the comptroller of the treasury.

Mr. WINCH: Mr. Chairman, in view of the most helpful information which was given by Dr. Stanbury this morning, could we be told the approximate number of times the Department of External Affairs gave approval verbally before doing so officially? Is that a usual practice?

The CHAIRMAN: Mr. Winch would like to know how many times your department gave verbal consent before giving it in writing.

Mr. WINCH: Dr. Stanbury said this morning they always approach the Department of External Affairs. Could you tell the committee whether it is usual to give approval verbally before doing so officially?

Mr. CLARK: Yes, quite frequently, because in most of these situations time is of the essence.

Mr. WINCH: Is it usual to give it verbally prior to giving it in writing?

Mr. CLARK: Oh, yes; in certain instances time would not permit the procedure of having the permission in writing. For example, in the case of hurricane Audrey the matter had to be decided in a question of hours.

Mr. WINCH: Can you assure the committee that in all cases of verbal telephone authorizations the approval of the under secretary is obtained first?

Mr. CLARK: Yes.

Mr. WINCH: In all cases?

Mr. CLARK: Yes.

Mr. WINCH: In view of the fact that this question of interpretation appeared to be in the mind of the Auditor General, who is responsible to the House of Commons, could you answer this question on behalf of the Department of External Affairs: if a recommendation as to a definition of international relief went forward in a report from this committee, would it be acceptable? I ask this question because mention was made of this matter this morning. It is not

usual for the House of Commons to adopt a final report; it is only received. In order that we do not run into this problem again, would a recommendation received by the House of Commons from this committee on the interpretation of the meaning of international relief be accepted as being authoritative by your committee?

Mr. PICKERSGILL: I think I should raise a point of order at this time, Mr. Chairman. The witness before us is a civil servant; the question being asked is a hypothetical question and if it has any validity, it has to do with policy. I do not think we should expect the witness to answer questions of that nature.

Mr. BELL (*Carleton*): Where it is not policy, it is law.

Mr. PICKERSGILL: Yes, if it is not policy it is law.

Mr. WINCH: That is the very point. May I say that according to the Auditor General's remarks there has been some confusion in regard to this matter.

Mr. PICKERSGILL: If we want to follow that line of questioning, we should call the minister.

The CHAIRMAN: I think perhaps the proper thing to do—and I think the committee should consider the remarks of the Auditor General this morning—is ask for an opinion from a law officer in regard to the interpretation of the words “international relief”.

Mr. WINCH: I presume, therefore, it would also be considered a policy matter if I asked this question: if the Department of External Affairs has the sole authority of consultation with the Red Cross on these particular matters, there is then the question as to whether or not the audit should also come under the Department of External Affairs.

Mr. CLARK: Well, you have raised a question of government financing. In the ordinary sense this fund is not a department appropriation.

Mr. WINCH: We are basing it now on this \$1; who gets the \$1? I understood it went to the Department of External Affairs on this appropriation, so it is your appropriation.

Mr. PICKERSGILL: It is only an appropriation; it is never spent.

Mr. CLARK: It is a very theoretical appropriation.

Mr. WINCH: It is not, when it passes the House of Commons. It is a \$1 appropriation brought in for certain purposes; although it is only \$1, if it was \$100 million the principle is the same.

Mr. PICKERSGILL: If it is not spent it cannot be accounted for. In fact, no department ever spends, or practically never spends, its full appropriation. I assume in fact, this \$1 is never paid over to the department.

Mr. WINCH: It concerns a principle in policy.

The CHAIRMAN: Is not the point in issue whether or not this is disclosed in public accounts?

Mr. CLARK: There is no place where it will be disclosed in public accounts. So far as the question about the department spending the money is concerned, no department has control of the issuance of funds from its appropriation; the comptroller of the treasury is responsible for the issuance of funds and their accounting and the Auditor General for the auditing.

The CHAIRMAN: I am suggesting it might be preferable to have a special mention of this amount—the one-third interest which the Canadian government mentioned—in these accounts, rather than be kept in your department.

Mr. CLARK: That would leave the responsibility with the comptroller of the treasury.

Mr. WINCH: I have always understood that one of the reasons for putting in the \$1 vote is that the House of Commons has control of expenditures, and that being the basis, then it should be reported.

Mr. PICKERSGILL: I really do not think that is the reason. I think the \$1 item is a convenient way of legislating to create an authority to do something. Although the \$1 is appropriated, I have never heard of its actually being spent. The Auditor General might be able to tell us about that at some other time.

Mr. WINCH: Is not that a means by which the House of Commons can get a report in public accounts, or otherwise, of all expenditures? Is not that the basis of the \$1 vote?

Mr. PICKERSGILL: Could we not discuss \$1 votes with the Auditor General? He would have a better idea concerning that. There is one further question I would like to ask before we adjourn. Is not the real purpose of consulting the Department of External Affairs, not to control the expenditure—since the fund is in the exclusive control of the Red Cross society—but to get the views of the Department of External Affairs as to whether, having regard to Canada's relations with other countries, this is an appropriate use for a public fund of this sort?

In other words, what we want to know is whether the official advisers of the government with regard to foreign affairs put themselves in line with the general policy of the country, particularly when a third of the money is being voted by parliament and—as the auditor general indicated—it is no longer under the control of parliament?

Mr. WINCH: One-third of it is still under the control of parliament. That is admitted by Dr. Stanbury on page 3 of his brief.

Mr. SMITH (*Simcoe North*): Did not Dr. Stanbury say this morning that even in cases where they were not dealing with money contributed by the government for foreign relief, they consulted the Department of External Affairs?

Mr. CLARK: Yes, that is correct.

Mr. SMITH (*Simcoe North*): In other words, even though it was a private grant by public subscription, if they were going to spend it outside Canada they would first consult the Department of External Affairs as to the legitimacy of the claim?

Mr. CLARK: Yes, Dr. Stanbury made that statement this morning.

Mr. WINCH: My interpretation of what was said this morning was that the only authority the Department of External Affairs had was in regard to the balance of the one-third of the contribution remaining, not on the entire matter at all. I think that was also made clear by the auditor general.

Mr. PICKERSGILL: It does not seem to me that that is a correct interpretation, though Dr. Stanbury is here himself. When I was minister I had many dealings with the Red Cross society in another field entirely. My department and the Department of External Affairs was consulted a good deal about bringing refugees out of countries behind the iron curtain.

That was not done because of any question of expenditure. It was done, I think, because the Canadian Red Cross Society—I think, very properly—wanted to keep in step with the policies of the country. It seems to me that that is really what is at issue here, and not whether \$50,000 or \$45,000 should be spent.

Mr. WINCH: On that, could I say I am just pointing out—and I thought I made it clear—that I think this matter should be clarified, from the position of the authority and the responsibility of the Department of External Affairs.

In view of what was said this morning—and I understand you were here, Mr. Clark—do you feel that is the responsibility of the auditor general, in the

predicament in which he finds himself? From the information given us this morning by Dr. Stanbury and the information you have just given us, do you not feel that perhaps this matter should be referred to the Department of Justice for opinion and advice, with perhaps a strong recommendation for a clarification of this situation?

It is not only a question of protecting the Red Cross society; it is not only a question of protecting the Department of External Affairs. I think we have also to consider the question of protecting the auditor general who, by law, has got to bring certain matters to the attention of the House of Commons and this public accounts committee.

The CHAIRMAN: The auditor general did ask for the opinion of the committee this morning.

Mr. WINCH: I am asking whether that should not be done, in view of the Department of External Affairs having to handle the problem.

Mr. BELL (*Carleton*): Mr. Chairman, I do not think the witness is really in a position to answer that. That would have to be asked of the acting minister, and this committee may formulate certain views itself.

Mr. CLARK: I might say, Mr. Chairman, that this was referred to the Department of Justice in the first instance, and they did pronounce on it. If the committee feels that that definition is not sufficient to cover future circumstances, it might be referred again to the Department of Justice for clarification.

Mr. BELL (*Carleton*): I am also referring to the position of the auditor general—who has a very great responsibility—when he finds it is not clear.

Mr. WALKER: Mr. Chairman, I agree that there is some ambiguity, and it could do no harm to have the Department of Justice interpret the very phrase they originally inserted.

Mr. BELL (*Carleton*): I would agree with that; but that is not, surely, for this witness; it is a matter for the committee. Mr. Winch was asking this witness. I think the committee can reach a conclusion in that regard.

Mr. WALKER: Mr. Chairman, I move that that be done.

Mr. WINCH: I thought the witness was in very good position to give an answer.

Mr. WALKER: No; he is a civil servant.

The CHAIRMAN: Is there any seconder for Mr. Walker's motion?

Mr. WINCH: I will second it.

The CHAIRMAN: Those in favour? Those against?

Agreed.

Appendices

A to U

APPENDIX A

CANADIAN NATIONAL EUROPEAN FLOOD RELIEF COMMITTEE
(Year 1953)

- His Excellency the Right Hon. Vincent Massey,
P.C., C.H., M.A., D.C.L., LL.D., CHAIRMAN.
The Right Hon. Louis S. St. Laurent, P.C., Q.C.,
LL.D.,
Prime Minister of Canada.
The Right Hon. Thibaudeau Rinfret, P.C., LL.D.,
Chief Justice of Canada.
Mr. George A. Drew, Q.C., LL.D., M.P.,
Leader of the Opposition.
The Hon. C. G. Power, P.C. M.C., Q.C., LL.D.,
M.P.
The Hon. Leslie M. Frost, Q.C., LL.D., D.C.L.,
M.P.P.,
Premier of Ontario.
The Hon. Maurice Duplessis, Q.C., LL.D., M.L.A.,
Premier of Quebec.
The Hon. Angus L. Macdonald, P.C., Q.C., LL.D.,
D.C.L., S.J.D., M.L.A.,
Premier of Nova Scotia.
The Hon. Hugh John Flemming, M.L.A.,
Premier of New Brunswick.
The Hon. W. A. C. Bennett, M.L.A.,
Premier of British Columbia.
The Hon. Douglas L. Campbell, LL.D., M.L.A.,
Premier of Manitoba.
The Hon. Walter Jones, M.A., B.Sc.A., D.C.L.,
M.L.A.,
Premier of Prince Edward Island.
The Hon. T. C. Douglas, M.A., M.L.A.,
Premier of Saskatchewan.
The Hon. E. C. Manning, LL.D., M.L.A.,
Premier of Alberta.
The Hon. Joseph R. Smallwood, M.L.A.,
Premier of Newfoundland.
Senator Cairine Wilson, D.C.L., LL.D.
Senator Iva C. Fallis.
Mr. M. J. Coldwell, M.P.
Mr. Solon E. Low, M.P.
Mrs. Ellen Fairclough, M.P.
General H. D. G. Crerar, C.H., C.B., D.S.O.,
A.D.C., D.C.L., LL.D.
Mr. H. H. Hannam, C.B.E., B.S.A.,
Canadian Federation of Agriculture.
- Mr. Percy R. Bengough, C.B.E.
Trades & Labour Congress.
Mr. A. R. Mosher, C.B.E.,
Canadian Congress of Labour.
Mr. Gerard Picard, O.B.E.,
Confederation des Travailleurs
Catholiques du Canada.
Mrs. Allan Turner Bone, M.A.,
National Council of Women.
Mr. J. N. Kelly,
Toronto, Ontario.
Mr. Charles LaFerle,
Toronto, Ontario.
Mr. Rhys M. Sale,
Windsor, Ontario.
The Hon. F. Philippe Brais, C.B.E.,
Q.C., LL.D., M.L.C.,
Montreal, P.Q.
Mr. J. W. McConnell,
Montreal, P.Q.
Mr. R. P. Bell, O.B.E., D.C.L.,
Halifax, Nova Scotia.
Mr. Hugh H. MacKay,
Saint John, New Brunswick.
Mr. Joseph Harris, B.A., LL.D.,
Winnipeg, Manitoba.
Mr. Howard T. Mitchell,
Vancouver, British Columbia.
The Hon. W. C. Woodward,
Vancouver, British Columbia.
Mr. Allan Holman,
Summerside, Prince Edward Is-
land.
The Hon. W. M. Martin, Q.C.,
LL.D.,
Chief Justice of Saskatchewan.
Mr. J. B. Cross,
Calgary, Alberta.
Mr. Chesley A. Pippy,
St. John's, Newfoundland.

CAMPAIGN AND PUBLIC RELATIONS SUB-COMMITTEE

Chairman—Mr. J. N. Kelly

Vice-Chairman:—Mr. W. J. Dunlop

- | | |
|---------------------------------|---------------------|
| Mr. A. M. Miller | Mr. W. E. McCartney |
| Mr. J. R. Nairn | Mr. C. S. Matthews |
| Miss Byrne Hope Sanders, C.B.E. | Mr. Ian MacDonald |
| Mr. Harry Sedgwick | Mr. Gordon Ferris |
| Mr. K. A. MacGillivray | Mr. A. R. Williams |
| Mr. J. Williams | Mr. W. J. Berry |
| Mr. R. C. MacInnes | |

APPENDIX B

CANADIAN NATIONAL EUROPEAN FLOOD RELIEF COMMITTEE
MEETING

GOVERNMENT HOUSE, OTTAWA

FRIDAY, FEBRUARY 13, 1953

The Canadian National European Flood Relief Committee, under the Chairmanship of His Excellency, The Right Honourable Vincent Massey, Governor General of Canada, met at Government House, Ottawa, at 5 p.m. on Friday, the 13th of February.

In his opening remarks His Excellency expressed his gratitude to the members for their willingness to serve on the Committee and also to those attending its initial meeting. While he appreciated it was quite impossible for all members to attend at such short notice, particularly those from long distances, he was gratified by the number who had found it possible to be present and by the fact that others had been kind enough to send their personal representatives. He did not think it necessary to enlarge upon the reasons for the formation of the Committee and outlined its composition as follows:

His Excellency, The Right Hon. Vincent Massey, C.H., Chairman.	
The Right Hon. Louis S. Laurent, Q.C., LL.D., Prime Minister of Canada.	
The Right Hon. Thibaudeau Rinfret, Chief Justice of Canada.	—Unable to be present
Mr. George A. Drew, Q.C., LL.D., Leader of the Opposition.	
The Hon. C. G. Power, M.C., Q.C., LL.D., M.P. Senator Cairine Wilson, D.C.L., LL.D.	—Unable to be present
Senator Iva Fallis	—Unable to be present
The Hon. Leslie M. Frost, Q.C., LL.D., D.C.L. Premier of Ontario.	—Unable to be present but represented by The Hon. W. K. Warrender, Minister of Planning & Development and Colonel Lorne McDonald, Provincial Deputy Minister.
The Hon. Maurice Duplessis, Q.C., LL.D., Premier of Quebec.	—Unable to be present
The Hon. Angus L. Macdonald, Q.C., LL.D., D.C.L., S.J.D., Premier of Nova Scotia.	—Unable to be present but represented by Mr. S. R. Balcom, M.P.
The Hon. Hugh John Flemming, Premier of New Brunswick.	—Unable to be present but represented by Mr. W. Gage Montgomery, M.P.
The Hon. W. A. C. Bennett, Premier of British Columbia.	—Unable to be present but represented by Mr. Solon E. Low, M.P.
The Hon. Douglas L. Campbell, Premier of Manitoba.	—Unable to be present but represented by The Hon. Stuart Garson.
The Hon. Walter Jones, B.Sc.A., M.A., D.C.L. Premier of Prince Edward Island.	—Unable to be present but represented by Mr. Arthur Peake.
The Hon. T. C. Douglas, M.A., Premier of Saskatchewan.	—Unable to be present but represented by Mr. J. S. White, Provincial De- puty Minister of Social Welfare.

The Hon. E. C. Manning, Premier of Alberta.	—Unable to be present
The Hon. Joseph R. Smallwood, Premier of Newfoundland.	—Unable to be present but represented by Senator Alexander Baird.
Mr. M. J. Coldwell, M.P., Mr. Solon E. Low, M.P. Mrs. Ellen Fairclough, M.P.	—Unable to be present
General H. D. G. Crerar, C.H., D.S.O., LL.D., D.C.L.	
Mr. H. H. Hannam, C.B.E., B.S.A., President, Canadian Federation of Agriculture.	
Mr. Percy R. Bengough, C.B.E., Trades & Labour Congress.	—Unable to be present
Mr. A. R. Mosher, C.B.E., Canadian Congress of Labour.	—Unable to be present
Mr. Gerard Picard, O.B.E., Press Confederation des Travailleurs Catholiques du Canada.	—Unable to be present
Mrs. Allan Turner Bone, President, National Council of Women.	
Mr. J. N. Kelly, Cockfield, Brown & Co. Ltd.	
Mr. Rhys M. Sale, President, Ford Motor Company.	—Unable to be present but represented by Mr. G. G. Kew, Vice-President of Finance, Ford Motor Com- pany
Mr. Charles LaFerle, Toronto, Ontario.	

His Excellency then called on the Prime Minister of Canada to speak.

Mr. St. Laurent pointed out that in the House of Commons on the 3rd of February he had suggested that the most effective and expeditious way of sending assistance to the flood victims of Europe in the most acceptable and useful form was through our own Canadian Red Cross Society. He had therefore suggested that a national committee should be set up to organize a campaign for funds which would be administered by the Red Cross. With the assistance of the Canadian Red Cross, the Canadian National European Flood Relief Committee had been formed. The Prime Minister pointed out that because of the immediate need both the Government and the Canadian Red Cross Society had at once made their stores available to the victims and that he assumed these items would be included in the effort of the Canadian Committee.

The Prime Minister stated members of the Committee all knew how well the funds of the Canadian Red Cross Society were administered and how they were carefully audited by a nationally known firm of chartered accountants. Moreover under the Charter of the Society, the Canadian Red Cross Society Act, its books were subject to a further audit by the Government of Canada as well. Such additional audit by the Auditor General of Canada could always be arranged if the Committee deemed it advisable.

Mr. St. Laurent said he had received many enquiries as to whether contributions to this National fund could be deducted for income tax purposes and was very pleased to report that this was permissible subject to the usual regulations covering charitable donations.

The Prime Minister noted that the Government of British Columbia had already offered the sum of \$100,000 towards relief in Great Britain to be used for the purchase of timber. While there was no question that such a gift would meet a very real need, he hoped that it would be possible to consolidate all provincial and local funds which had already been inaugurated and to have

them handled in a manner which would bring about the best results in making it a Canada-wide effort through the aegis of this national committee, the Canadian Red Cross Society having agreed to serve as the Committee's administrative arm.

His Excellency expressed his gratitude to Mr. Charles LaFerle for his willingness to serve as Honorary Secretary of the Committee. He stated also that the Committee was most fortunate in having Mr. J. N. Kelly as Chairman of its Campaign and Public Relations Sub-committee. Both these gentlemen have great experience and ability in their respective fields.

The Governor General then called upon Dr. W. S. Stanbury, National Commissioner of the Canadian Red Cross Society, to outline the situation existing at present in the flooded areas of Great Britain, the Netherlands and Belgium.

Dr. Stanbury expressed the regret of the Chairman of the Central Council, the Hon. Leopold Macaulay, Q.C., and of the Chairman of the National Executive Committee, Mr. Harold H. Leather, M.B.E., Canadian Red Cross Society, on their inability to be present as both were on a forced vacation for health reasons.

He told how, when news of the disaster was received, cables of sympathy were immediately dispatched to the National Red Cross societies of the three countries affected, at the same time enquiring what they might need in the way of practical assistance. A cable was also sent to the League of Red Cross Societies in Geneva asking them to release from their warehouses all Canadian supplies for immediate distribution to the needy areas. The fact that the Canadian Red Cross Society had stock piled these supplies in Geneva against such an emergency made it possible for some 250 cases of new clothing, bedding and flood fighting equipment to be delivered to the Netherlands Red Cross society within a matter of hours. Canada was, therefore, one of the first countries to render practical assistance to the flood victims. Since that initial shipment, relief supplies have been flowing regularly to the Netherlands by airlift. Both Great Britain and Belgium, realizing that the Netherlands' plight was greater than their own, cabled that they were in need of no immediate assistance.

Dr. Stanbury expressed thanks to the many organizations making this rapid and effective assistance possible, TCA, KLM, Air France, BOAC, Pan-American and RCAS planes have been ferrying supplies to Europe since the first day of the disaster, all free of charge. TCA has also been picking up priority supplies from all parts of Canada and transporting them to Dorval Airport where shipments are consolidated for overseas. To date all supplies have been sent by air. He stated that the Canadian Red Cross society were now only beginning to send less urgently needed supplies by sea. The Canadian United Kingdom Eastbound Freight Conference and the Canadian Continental Eastbound Freight Conference had offered the service of all their member steamship lines in providing free ocean transportation for relief supplies. The Canadian Automotive Transportation Association was providing free trucking service and only today transferred 8,000 lbs. of supplies from Malton to Dorval airport. The two telegraph companies were giving free telegraph service in Canada during the emergency. The Canadian Pacific and Canadian National Railways were providing free freight service to the Atlantic seaboard.

On February 4th the first RCAF North Star laden with relief supplies for the Netherlands took with it three senior staff members of the Canadian Red Cross society to provide essential liaison in the extensive relief operations which could then be envisaged, Miss Margaret Wilson, Executive Secretary, Colonel Walter Reynolds, National Director of Disaster Services and Mr. Fred Edge of the Public Relations Department. Dr. Stanbury expressed the society's

gratitude to the Canadian Embassies at the Hague and Brussels and the Canadian High Commissioner's office in London, not only for the practical advice and assistance given Red Cross personnel, but for the free cable service provided through the Department of External Affairs. This has enabled Red Cross to receive detailed reports from the stricken areas as well as daily bulletins of the priority relief needs, these needs having first been checked with the Canadian Embassy and governmental relief agencies in the country concerned. Dr. Stanbury gave a brief summary of the conditions in each of the flooded areas as outlined in the attached "situation reports", (Appendix No. I).

Dr. Stanbury stated that the Canadian Red Cross Society welcomed the formation of the Canadian National European Flood Relief Committee as proposed by the Prime Minister in the House of Commons on the 3rd of February as it had been the Society's experience that uncoordinated relief was not only ineffective but embarrassing to the recipients. He referred particularly to the misdirected efforts of volunteer agencies in the collection of old clothing and the despatch of supplies without clearance with the agency responsible for rendering aid in the disaster areas. He gave a brief summary of the items already despatched to the Netherlands by airlift which included 3,000 army blankets and 1,000 mattresses (released by the Department of National Defence), 2,820 bed sheets, 5,335 pillow cases, 5,000 pillows, 12,000 hip waders, 5,000 oilskins, 2,000 heavy work boots, 3,300 men's, women's and children's shoes, 50 outboard motors, 3,000 gallon thermos jugs and 82 cases of made up clothing.

His Excellency called upon Mr. J. N. Kelly, Chairman of the Campaign and Public Relations Sub-Committee, who outlined plans already developed by his Sub-Committee for an intensive appeal. (Appendix No. II).

Mr. Kelly also submitted a statement "The Structure and Purpose of the Canadian National European Flood Relief Committee". (Appendix No. III). Mr. E. J. Dunlop, Vice-Chairman of this Sub-Committee, outlined his programme for campaign publicity in terms of radio. He announced that His Excellency had very kindly consented to address the people of Canada at 8:55 on Sunday evening over the Trans-Canada network.

The Governor General again called on Dr. Stanbury to say a few words regarding the policy of the Canadian Red Cross Society in disaster operations.

Dr. Stanbury recalled that the Canadian Red Cross during the recent war and since had administered a great many designated funds, many of them of considerable size. In order to avoid any misunderstanding, he felt it was important that the terms of reference for such administration should be made quite clear and submitted the following memorandum for the consideration of the Committee with the request that, if approved, it be incorporated into the minutes of the meeting:

At the request of the Right Honourable, the Prime Minister of Canada, contained in his telegram of the fifth of February, 1953, addressed to the Honourable Leopold Macaulay, Q.C., Chairman of the Central Council of the Canadian Red Cross Society, the Society agreed to serve as the administrative arm of a Canadian National European Flood Relief Committee proposed by the Right Honourable, the Prime Minister of Canada in the House of Commons on the 3rd of February. The Society agreed to place all its administrative resources at the disposal of said Committee for the purchasing, warehousing, transportation and distribution of relief supplies through the League of Red Cross Societies (Geneva) and the National Societies of Great Britain, the Netherlands and Belgium. It is understood by the Society that relief is to be distributed on the basis of need as may be determined by the Canadian Red Cross Society in consultation with the League of Red Cross Societies

(Geneva) and the National Societies of Great Britain, the Netherlands and Belgium. It is understood that the Canadian National European Flood Relief Committee will transfer all monies raised from the people of Canada or contributed by municipal, provincial and federal governments of Canada to the Canadian Red Cross Society as a designated fund to be administered by the said Society in the manner aforementioned. While the Canadian Red Cross Society is prepared to place all its administrative resources and those of its international Red Cross affiliates at the disposal of the Canadian National European Flood Relief Committee without any charge on the fund whatsoever, it is understood, however, that the Canadian Red Cross Society may deduct its actual audited disbursements relative to administration which it is in a position to hold at a minimum level. It is also understood that disbursements from this fund will include the purchase of raw materials to be made up into clothing, bedding and other articles by volunteer workers of the Canadian Red Cross Society as may be required from time to time for relief in the disaster areas.

Mr. G. G. Kew, commenting on Dr. Stanbury's report made reference to the fact that all relief needs were being checked by Canadian diplomatic representatives abroad after consultation with the foreign government concerned before being cabled to the Canadian Red Cross Society. He asked whether this additional procedure should not be incorporated into the terms of reference as submitted by the Canadian Red Cross Society. Dr. Stanbury stated the Canadian Red Cross Society would have no objection to such an addition but pointed out that the Society had no authority to make such stipulation without prior consultation with the Secretary of State for External Affairs. He stated that Canadian Red Cross representatives abroad would continue to confer daily with the Canadian Embassy or the High Commissioner's office and trusted that this invaluable liaison might be continued with the approval of the Department of External Affairs. The Prime Minister assured the Committee that most certainly Canadian diplomats would continue to render every assistance in an advisory capacity and would provide the necessary liaison with the foreign governments concerned. He did not think it proper, however, that Canadian diplomatic representatives should actually serve on any foreign relief committee or in any way be responsible for determining the actual distribution of relief.

As there were no further questions regarding the terms of reference as submitted, the Chairman stated that he assumed the Committee was agreeable to having Dr. Stanbury's memorandum included in the minutes.

On the motion of Mrs. Allan Turner Bone (President, National Council of Canadian Women) the Committee unanimously agreed to have the memorandum inserted in the minutes as terms of reference for the Canadian Red Cross Society. The Governor General enquired whether the Committee members had any further questions on the material already submitted, expressing the hope that the Committee would not feel that too much initiative had been taken prior to this meeting. He felt that all would agree that time was the essence and it was necessary to launch the appeal with as little delay as possible.

A question was raised as to what goal would be set for this fund campaign. It was generally agreed that it was unwise to set a goal until the extent of the ultimate need was more definitely established.

The Hon. Stuart Garson said that the Premier of Manitoba was concerned as to the suggestion that contributions should be made through the various branches of the chartered banks as he feared that this procedure might interfere with the local fund raising organization already well established in

Manitoba. The Prime Minister suggested that arrangements might be made for the banks to report to such local committees and in this way the local organization would receive credit for the funds collected. Mr. Kelly, in supporting the Prime Minister's suggestion, also agreed that the wording on the postcard appeal addressed to all householders could be prefaced to read "If there is no canvass already operating in your community, make your donation at any chartered bank, etc."

The Prime Minister commented that there had been some suggestion that the surplus funds raised for the Manitoba and Fraser Valley Floods, and for the Rimouski and Cabano disasters should be turned over to this Committee. He felt that this would be unwise at the present time. The Committee was agreed that consideration of this question should be deferred until the appeal of the Canadian National European Flood Relief Fund was well established.

Mr. Drew enquired whether any plan had been established for the allocation of monies raised among the three countries involved in the disastrous floods. Dr. Stanbury suggested that such consideration should be deferred until complete reports of the flood damage were available and that allocation could then be made on the basis of need. He assured the Committee that these reports would be assembled as quickly as possible once the pertinent information could be gathered from governmental sources and private relief agencies in Europe by Canadian Red Cross Society representatives now abroad.

In reply to a question raised by Mr. White of Saskatchewan whether Red Cross branches were to take an active part in the official campaign both Mr. Kelly and Dr. Stanbury pointed out that this was not a Red Cross appeal, the Canadian Red Cross Society being merely the administrative arm of this Committee. It was emphasized that the appeal should be truly national in character involving all governments as well as national voluntary organizations. The need was so great and so urgent that there was plenty of room for the participation of everyone.

Senator Cairine Wilson stated that she had been in communication with a representative of the National Headquarters of the Salvation Army, that organization already having contributed \$10,000 toward flood relief in Great Britain. The Salvation Army wished her to assure His Excellency that they did not wish to appear uncooperative with the national effort but that they had certain obligations within their own international organization. The position of the Salvation Army in this regard was appreciated by the Committee.

There being no further business, the meeting was adjourned to be reconvened at the call of the Chair.

THE CANADIAN NATIONAL EUROPEAN FLOOD RELIEF FUND
STATEMENT OF CONTRIBUTIONS AND DISBURSEMENTS

As at May 31, 1955

CONTRIBUTIONS			DISBURSEMENTS				
	General Contributions	Provincial Government Contributions	Total	Netherlands	Britain	General	Total
ALBERTA.....	\$ 76,739.27	\$ 65,800.00	\$ 142,539.27				
BRITISH COLUMBIA.....	226,753.91 (i)	—	226,753.91				
MANITOBA.....	223,651.68	54,300.00	277,951.68				
NEW BRUNSWICK.....	32,077.73	8,000.00	40,077.73				
NEWFOUNDLAND.....	127,825.42	—	127,825.42				
NOVA SCOTIA.....	22,905.51	10,000.00	32,905.51				
ONTARIO.....	701,366.07	100,000.00	801,366.07				
P. E. I.	4,443.89	—	4,443.89				
QUEBEC.....	269,650.36 (ii)	35,000.00	304,650.36				
SASKATCHEWAN.....	96,628.24	50,000.00	146,628.24				
N. W. T. & YUKON.....	684.35	—	684.35				
UNITED STATES.....	54.00	—	54.00				
	<u>1,782,780.43</u>	<u>323,100.00</u>	<u>2,105,880.43</u>				
DOMINION GOVERNMENT.....			<u>1,000,000.00</u>				
			<u>3,105,880.43</u>				
				SUPPLIES			
				Clothing.....	\$ 136,918.90	\$ 40,173.39	\$ 177,092.29
				Bedding—Purchased..	246,594.80	72,842.32	319,437.12
				Raw			
				Material..	107,604.20	33,765.96	141,370.16
				Linen and Other			
				Household Supplies	52,479.62	940,645.75	993,125.37
				Outboard Motors....	11,225.13	—	11,225.13
				Timber.....	—	200,000.00	200,000.00
				Agricultural Tools....	281,491.68	—	281,491.68
				Farm Machinery.....	400,685.23	—	400,685.23
					<u>1,236,999.56</u>	<u>1,287,427.42</u>	<u>2,524,426.98</u>
				EXPENSES			
				Freight, Cartage and			
				Packing Expense...	20,511.53	36,286.46	56,797.99
				Printing Receipts,			
				Stationery and			
				Postage.....	—	—	6,356.55
							<u>6,356.55</u>
				TOTAL SUPPLIES AND			
				EXPENSES.....	<u>1,257,511.09</u>	<u>1,323,713.88</u>	<u>2,599,664.90</u>

(i) Includes \$100,000.00 from 1950 B.C. Flood Fund

(ii) Includes Anonymous contributions of \$200,000.00 in Government Bonds

SUMMARY

Total Contributions.....	\$ 3,105,880.43
Total Disbursements.....	2,599,664.90
	<u>\$ 506,215.53</u>

APPENDIX D

The Canadian National European Flood Relief Fund

95 Wellesley Street East

TORONTO, ONTARIO

Kingsdale 7505

July 15, 1955.

TO ALL MEMBERS OF THE CANADIAN NATIONAL EUROPEAN FLOOD
RELIEF COMMITTEE:

My dear—

I have pleasure in sending you herewith a final report of the receipts and disbursements made on behalf of the Canadian National European Flood Relief Fund by the Canadian Red Cross Society up to May 31, 1955. You will note that donations from the general public and contributions from the provincial and federal governments total \$3,105,880.43 of which \$2,599,664.90 have been disbursed.

In accordance with the terms of reference given to the Canadian Red Cross Society by our Committee expenditures were made after consultation with the League of Red Cross Societies and the National Red Cross Societies of Great Britain and the Netherlands. In each instance requirements were checked with the responsible government agencies of the country concerned in order to avoid duplication and overlapping. Canadian diplomatic representatives abroad gave invaluable assistance in this regard and gave their advice and assistance freely and readily to the representatives of the Canadian Red Cross Society. It will be recalled that at the inception of the disaster the Canadian Red Cross Society sent two representatives, Miss Margaret Wilson, its Executive Secretary, and Colonel W. B. G. Reynolds, then National Director of Disaster Services, to Europe in order to secure first hand information as to the most urgent need of the flood victims. Colonel Reynolds remained at The Hague from February 6th to June 7th, 1953 serving not only as the representative of the Canadian Red Cross Society but as the League of Red Cross Societies' co-ordinator for all foreign Red Cross relief to the Netherlands. It should be pointed out that none of the expenses of the Canadian Red Cross representatives were charged to the fund and that, moreover, these disbursements were kept to a minimum due to the hospitality of Canadian diplomatic representatives abroad, of the National Red Cross Societies concerned and overseas transportation provided through the courtesy of the Royal Canadian Air Force.

The policy of the Canadian Red Cross Society, in line with the sentiments of the Committee expressed at its initial meeting in Ottawa, has been to buy relief supplies of Canadian manufacture wherever this was possible and in the few exceptional instances where this could not be achieved to purchase within the Commonwealth. In the implementation of this policy the Canadian Red Cross Society has had the expert assistance of technical advisers from the Department of Trade and Commerce.

In pursuance of the above-mentioned policy every effort has been made to bring relief to the disaster victims as efficiently, economically and as rapidly as possible. Many of the supplies required in the flooded areas were manufactured from raw material by hundreds of volunteer workers in the Red Cross Society's workrooms in all parts of Canada. It was, therefore, possible to deliver the completed articles to the disaster areas at the cost of the raw

materials only. The whole hearted co-operation of the Canadian National Railways, the Canadian Pacific Railway, the domestic services of the Trans-Canada Airlines and the Ontario Automotive Transport Association in providing free carriage enabled the Society to consolidate these shipments at air and ocean ports at no cost whatsoever to the Canadian National European Flood Relief Fund. During the emergency phase of the disaster all airlines operating out of Dorval carried relief supplies on a courtesy basis and these airlines were supplemented by special flights of the Royal Canadian Air Force scheduled through the co-operation of the Department of National Defence. The Royal Dutch Airlines also transported goods out of the port of New York, Trans-Canada Airlines and American Airlines providing a shuttle service from Canada. The steamship lines of The Canadian United Kingdom Eastbound Freight Conference and The Canadian Continental Eastbound Freight Conference provided free ocean transport to British and Dutch ports up to the 4th of August and continued to carry the necessary supplies for rehabilitation at a discount of 20% off contract rates. Throughout the emergency period free domestic telegraph service provided by the Canadian National and the Canadian Pacific Telegraph Companies enabled the Society to co-ordinate the work of all its provincial divisions.

I have endeavoured to keep the Committee informed regularly of our activities during the emergency phase of the disaster but our efforts toward rehabilitation were necessarily delayed until the extent of the damage and the needs of the disaster victims could be properly surveyed by responsible governmental authorities in consultation with the National Red Cross Societies of Great Britain and the Netherlands. These needs were carefully surveyed by the League of Red Cross Societies in order that each country might contribute to the over-all plan according to its resources. In the Netherlands, for example, three projects were submitted by the League of Red Cross Societies for consideration:

1. *Textile Project*: This was designed to provide all the household textiles such as bedding, table linen, towels, etc. for 12,000 Netherland families whose homes had been devastated by the floods. The responsibility for re-equipping 3,600 of these families was accepted by the Canadian Red Cross Society on your behalf.

2. *The Prefabricated Building Project*: This project was undertaken by the national societies of Sweden, Norway and Finland. Because of the special design of buildings required in the disaster area the Canadian Red Cross Society decided not to participate in this project following advice from technical experts of the Central Mortgage and Housing Corporation.

3. *Farm Tools and Agricultural Machinery Project*: After discussion with experts from the Department of Trade and Commerce it was decided that the project was eminently suited to Canadian participation. On the advice of the Netherlands Ministry of Agriculture, through the Netherlands Red Cross Society, it was decided to issue a kit of twenty hand tools to some 15,000 rural families as well as to provide farm machinery of specific types suited to agricultural operations in the Netherlands. Great care was taken to insure adequate servicing of this machinery following delivery and special arrangements were made through the Netherlands Ministry of Agriculture for the cooperative use of this equipment. As with all other supplies purchased by the Canadian Red Cross Society contracts were let to Canadian manufacturers on the basis of competitive tender.

It should be noted that the Canadian Red Cross Society has kept its administrative expenses to a minimum, only items directly related to the disaster operation being charged against the Canadian National European Flood

Relief Fund. All such administrative costs as purchasing, warehousing and accounting have been absorbed by the Canadian Red Cross Society.

In addition to the above-mentioned contributions of the Canadian Red Cross Society, the Society has, from its own resources, given substantial aid to the disaster stricken countries. As will be recalled, the Society maintains a stockpile of new made-up clothing and bedding as well as other relief supplies in the League of Red Cross Societies' warehouse in Geneva. This enabled it to provide the first foreign emergency relief to reach the Netherlands. In addition to this initial consignment of thirty-eight cases valued at \$4,131.80, the Society has since consigned made-up clothing and bedding to Great Britain and the Netherlands valued as raw material only at \$54,584. In addition to this it has made a contribution of \$10,000 toward the necessarily increased administrative costs of the Netherlands Red Cross Society. Furthermore, the Canadian Junior Red Cross has contributed cot sheets, blankets, pillows, pillow cases and babies' diapers, to Great Britain, valued at \$12,358.23 and children's shoes and carry-all bags to the Netherlands at a cost of \$15,005.00. In other words the Canadian Red Cross Society from its own resources has contributed relief to the flooded areas, over and above that provided through the Canadian National European Flood Relief Fund, to a value of \$96,079.03.

I trust that this final report will be satisfactory to all members of the Committee and that they will share with me my personal appreciation for the work which has been accomplished on our behalf by the Canadian Red Cross Society.

Yours sincerely,

Charles LaFerle,

Honorary secretary.

APPENDIX E

July 15, 1955.

MEMORANDUM

TO The Right Honourable Louis St. Laurent, P.C., Q.C., LL.D.
Prime Minister of Canada

FROM Dr. W. S. Stanbury, National Commissioner,
Canadian Red Cross Society

RE: Canadian National European Flood Relief Fund

I am sending you, herewith, a statement of contributions and disbursements of the above-mentioned fund as of the 31st May, 1955 (Exhibit "A") which indicates an unexpended surplus of \$506,215.53. Certain sales tax rebates are still outstanding and may amount to something in the neighbourhood of \$100,000. which will, of course, accrue to the fund. We do not foresee any further expenditures. Our unexpended surplus is due to many factors, including free ocean and air transportation, the work of volunteers and the fact that all administrative charges other than those directly related to the disaster operation have been absorbed by the Canadian Red Cross Society. In addition to absorbing the administrative charges related to purchasing, warehousing and accounting, the Canadian Red Cross Society expended over \$96,000 of its own funds in emergency relief to the Northeastern European area prior to the inauguration of the fund.

Origin and Development of Fund

Following the disastrous floods of January and February 1953, the Prime Minister of Canada stated in the House of Commons "Perhaps the most effective and expeditious instrument that we Canadians could use to make our aid available and effective would be our own Canadian Red Cross because of its experience in handling such situations and its intimate connections with the Red Cross Societies of the United Kingdom, Belgium and The Netherlands" (Hansard Tuesday, February 3, 1953). He went on to suggest the creation of a special committee to assist in raising the necessary funds and was supported by the leaders of all political parties (Hansard, Tuesday, February 3, Thursday, February 5th, 1953). On February 13, 1953, the special committee, to be known as "The Canadian National European Flood Relief Committee", was convened at Government House, Ottawa, under the Chairmanship of His Excellency the Governor General of Canada. This committee included the Prime Minister of Canada, the Leader of the Opposition, the leaders of other political parties, the Provincial Premiers and members of the Senate, as well as leading citizens from every part of Canada. The membership of the committee is shown in the attached schedule (Exhibit "B"). In addition to the above, a special Campaign and Public Relations Sub-Committee was set up under the chairmanship of Mr. J. N. Kelly of Cockfield, Brown Ltd., with the assistance of Mr. W. J. Dunlop of the Canadian Broadcasting Corporation as Vice-Chairman.

The minutes of the above-mentioned meeting are attached herewith (Exhibit "C") and contain terms of reference for the Canadian Red Cross Society in the administration of the fund in accordance with the Prime Minister's telegram of the 5th February, 1953, addressed to the Honourable

Leopold Macaulay, Q.C., then Chairman of the Central Council, Canadian Red Cross Society, which read as follows:

Pursuant to telephone conversation with National Commissioner and in accordance with the suggestion which I made in House of Commons of February 3, I am now formally requesting the Canadian Red Cross Society to assist in the establishment of a National European flood relief committee and to act as the administrative arm of the committee.

It is further suggested that any funds contributed for relief purposes be given to the committee and that the Red Cross would act for it in providing transportation and distributing relief supplies through the League of Red Cross Societies (Geneve) and the National Red Cross Societies of Great Britain, The Netherlands and Belgium."

Under the general supervision of the Campaign and Public Relations Subcommittee, splendid co-operation of press, radio and motion picture industries was obtained. Leaders of Organized Labour, as well as the Canadian Chamber of Commerce, sponsored the appeal and the Association of Canadian Advertisers donated considerable newspaper space and radio time. In addition to the above, a postcard appeal, made possible through the co-operation of the Postmaster-General and Her Majesty's Printer, was delivered to over three million households in Canada, 2,562,000 in English and 832,000 in French (per attached Exhibit "D"). Where a general canvass for funds was not envisaged, arrangements were made through the Canadian Bankers' Association for branches of all chartered banks in Canada to receive donations. Receipts were issued in a form prescribed by the Department of National Revenue which would be valid for income tax exemption, utilizing the already established privilege of the Canadian Red Cross Society in this regard (per attached Exhibit "E"). The final accounting of our stewardship (Exhibit A) is supplemented by a report from the Honorary Secretary of the Canadian National European Flood Relief Committee, Mr. Charles LaFerle (per attached Exhibit "F") which can be circulated to all members of the Committee should the Prime Minister so desire. Our final accounting, once outstanding sales tax rebates have been received, will, of course, be audited by the Society's auditors, Messrs. Dick, Bond, Hetherington and O'Loane, and under the Canadian Red Cross Society Act is subject to a further audit by the Government of Canada as well.

Disposal of Unexpended Surplus

The National Officers of the Canadian Red Cross Society are desirous of being relieved of holding these funds in a dormant stage and request that appropriate action be taken to relieve them of their stewardship under their present terms of reference.

It has been suggested that the unexpended surplus should be turned over to the Canadian Disaster Relief Fund incorporated which was set up by Parliament under the Canadian Disaster Relief Fund Act R.S.C. Chapter 59, 1953. Moreover, it should be noted that, under Section 6 (3) of the above-mentioned act, this fund can only be utilized to meet disaster needs in Canada. Moreover, the administration of this fund is not geared to deal with an emergency situation such as is constantly met by the Canadian Red Cross Society at home and abroad. We would respectfully suggest that the addition of the unexpended surplus to the Canadian Disaster Relief Fund Incorporated would not preserve the original intent of the donors, who made their subscription for international relief and on the understanding that it would be administered by the Canadian Red Cross Society in accordance with well

established Red Cross principles laid down by the League of Red Cross Societies and the International Red Cross Conferences from time to time.

The National Officers of the Canadian Red Cross Society are quite prepared to continue their administration of these unexpended monies as a designated fund if the terms of reference could be expanded beyond Great Britain, The Netherlands and Belgium, to include all countries where international aid is required on an emergency basis. Quite apart from the appeals we receive through the League of Red Cross Societies, the Department of External Affairs not infrequently requests us to assist in international disasters which have been brought to their attention through our diplomatic missions abroad. Our experience would indicate that, excluding major disasters such as the North-eastern European floods, disbursements for relatively minor disasters and emergency international relief could liquidate the unexpended surplus within two or three years. This, we believe, would be highly desirable, as it is our experience that unexpended surpluses tend to discourage giving in subsequent appeals. Because of such unexpended surpluses in the Fraser Valley Flood Fund and the Manitoba Flood Relief Fund, certain major corporations refused to subscribe to the recent Hurricane Hazel Fund.

The National Officers wish to have it clearly understood that they are not asking that the unexpended surplus of the Canadian National European Flood Relief Fund should be turned over to the Canadian Red Cross Society, but rather are they offering to continue the administration of the unexpended portion of the fund for the purposes of international relief, which we believe would preserve the original intent of the donors who gave for this purpose under a limited designation, but on the understanding that the monies would be administered by the Canadian Red Cross Society. Should it be decided to accept this offer of the Canadian Red Cross Society, all future gifts from this fund would be designated "gift from the people of Canada" through the Canadian Red Cross Society. In other words, the Canadian Red Cross Society would serve merely as an agent in this regard.

The Canadian Red Cross Society has had considerable experience in the administration of designated funds on behalf of other organizations, both in times of peace and in times of war, as will be indicated in the attached schedule (Exhibit "G"). The National Officers are quite willing to administer the residue of the Northeastern European Flood Relief Fund on the same basis as they have done heretofore, absorbing all administrative costs such as purchasing, warehousing and transportation, not directly related to the fund.

All of which is respectfully submitted.

W. S. Stanbury, M.D.,
National Commissioner.

APPENDIX F

Office of the Prime Minister
Cabinet du Premier Ministre
Canada

Ottawa, July 28, 1955.

Dr. W. S. Stanbury, M.B.E.,
National Commissioner,
Canadian Red Cross Society,
95 Wellesley Street East,
Toronto, Ont.

Dear Dr. Stanbury:

The matter of disposing of the unexpended surplus in the account of the Canadian Red Cross Society to the Canadian National European Flood Relief Fund was submitted for an opinion to the Deputy Minister of Justice and I am enclosing for you a copy of his opinion.

It was brought before Council this morning and we decided that we would have in the next estimates a nominal item along the lines of that suggested by Mr. Varcoe in that opinion.

Of course, we cannot act until the next session but you may use the information I am thus giving you with others, if you find it of any convenience to do so.

With warm personal regards,

Yours sincerely,
Louis S. St-Laurent.

DEPARTMENT OF JUSTICE, CANADA

OTTAWA 4, July 26, 1955.

Dear Mr. St-Laurent:

Re: Canadian National European Flood
Relief Fund

You asked me for an opinion on the following question:

In 1953, a voluntary Committee consisting of the Governor General, yourself, the Premiers of the several provinces and many prominent Canadian citizens was established for the purpose of raising and administering a relief fund in connection with the flood disaster in the United Kingdom, Holland and Belgium in the Winter of 1952-53. This fund was known as the Canadian National European Flood Relief Fund, and, by Item 572 in the Schedule to Appropriation Act No. 2, 1953, Parliament appropriated One Million Dollars as a grant to the fund.

The Committee decided that all moneys raised from the people of Canada or contributed by the municipal, provincial and federal governments of Canada should be administered by the Canadian Red Cross Society. The moneys

appropriated by Parliament were, accordingly, paid over to the Canadian Red Cross Society in accordance with the procedure applicable in the case of the expenditure of public moneys of Canada. These moneys, along with other contributions to the fund, were placed in a chartered bank in the name of the Red Cross Society in trust for the European Flood Relief Fund.

It would now appear that there is a balance remaining in the fund of \$506,215.53 which has not been expended and the Society proposes that the balance in question be utilized by the Society where international aid is required on an emergency basis. You have asked me whether an Order-in-Council could now be made which would authorize the Canadian Red Cross Society to hold and use for such international relief purposes that part of the balance which may be regarded as having been contributed by Parliament.

The question is whether the Government of Canada has an interest in the unexpended surplus of the fund in proportion to the Parliamentary contribution. If there is such an interest, it would constitute a debt due to the Government of Canada which would be payable to the Consolidated Revenue Fund and could not be released or otherwise disposed of without the authority of Parliament. An Order-in-Council in this connection would be ineffective and superfluous.

If, however, the Crown in right of Canada has no interest in this balance for the reason that an outright grant or gift to the Red Cross Society has been made, it would not be necessary to seek the approval of Parliament.

Ordinarily, the law in the provinces governed by the Common Law would seem to be that when funds are held in trust for a particular purpose, there may be a resulting trust of the remaining funds in favour of the contributors. Whether there is or is not such a resulting trust depends on the intention of the contributors, and in particular, whether they intended to part with their money out and out or intended that the surplus, if any, of their contributions should be returned to them when the immediate object of the fund should have come to an end.

However, there is a distinction to be noted if the immediate object is a general charitable object, for in that case, if it can be shown in the circumstances that there was a general charitable intent on the part of the contributors, the surplus will be applied, *cy-pres*, under the direction of the Court. It has been judicially held, for example, that in cases of a fund raised primarily by street collections, *i.e.* tag days, there was deemed to be an intention to part with the money out and out with the result that the Court could direct that an unexpended surplus could be utilized for an object similar to that originally contemplated.

Notwithstanding that there was here undoubtedly a charitable object, I doubt whether a court would be justified in taking the view that Parliament expressed a general charitable intention—as distinct from a particular charitable intention—when it authorized this contribution. In this case, therefore, I would advise that there is an implication that the grant is for the purpose of the European Flood Relief Fund and for that purpose only, with the result that Parliament intended that the money should be returned if it could not be used for that purpose.

The result of this view is that the use of these funds for the broader purpose of international relief generally would have to be authorized by Parliament. This could, in my opinion, be done by an item in the Estimates in the following terms:

To authorize the expenditure for international relief purposes, or other relief purposes authorized by the Governor in Council, of the unexpended portion of the grant made by the Government of Canada to the Canadian National European Flood Relief Fund by Item 572 in the Schedule to Appropriation Act No. 2, 1953

..... One Dollar.

Yours truly,

(signed) F. P. Varcoe,
Deputy Attorney-General.

APPENDIX G

THE CANADIAN RED CROSS SOCIETY
TORONTO, Ont.

August 10, 1955.

My dear Mr. Prime Minister:

I am extremely grateful to you for your very cordial letter of 28th July, enclosing an opinion from the Deputy Minister of Justice on the disposal of the unexpended surplus of the Canadian National European Flood Relief Fund.

I must apologize for the delay in replying to your letter, but during the summer vacation it is often difficult to discuss problems with our responsible National Officers.

Our National Officers are unanimous in accepting your proposal to deal with the problem in the next estimates and are extremely grateful to you and your colleagues for the prompt way with which you dealt with this matter. No doubt, the solution you have found will be a very useful precedent in approaching the various provincial governments which have contributed to the Fund.

Should the matter come up for debate in the House of Commons, we are most anxious that it should be made abundantly clear to all that the Canadian Red Cross Society is not asking the original contributors to turn over the surplus funds to the Canadian Red Cross Society, but rather are they anxious to express their willingness to administer the surplus as a designated fund for international relief on a broader basis which, they believe, would preserve the original intent of the donors.

Again assuring you of our appreciation of your co-operation and courtesy in this matter, I am,

Yours sincerely,

W. S. Stanbury, M. D.,
National Commissioner.

The Right Honourable Louis St. Laurent, P.C., Q.C., LL.D.,
Prime Minister of Canada,
Ottawa, Ont.

APPENDIX H

THE CANADIAN RED CROSS SOCIETY
Toronto, Ontario

18th April, 1956.

Dear Mr. Ritchie:

Re: Residue Northeastern European Flood Relief Fund

We should greatly appreciate clarification of Section 557 appearing in the House of Commons Debates of 22nd March, 1956, which reads as follows:

"To authorize the expenditure for international relief purposes, or other relief purposes authorized by the governor in council, of the unexpended portion of the grant made by the government of Canada to the Canadian national European Flood relief fund by vote 572 of the Appropriation Act No. 2, 1953, \$1."

With the comma after the word "purposes" we understand that it is the intent of your Department that the Canadian Red Society is free to disburse the unexpended portion of the above mentioned Fund for international relief purposes at its discretion and in accordance with international Red Cross principles and that it would be only necessary to seek authorization from the Governor in Council for expenditure on relief of an essentially different character.

I trust that this is the case as it would thereby enable us to act promptly during the impact of any international disaster in collaboration with the League of Red Cross Societies and the national Red Cross Society or Societies which might directly be concerned. We would, of course, automatically consult with representatives of your Department as we have always done in the past.

Delays in meeting disaster needs often lead to a great deal of confusion as requirements are constantly changing. Moreover, such delays do not give the optimum kudos to the Government of Canada or to the Canadian Red Cross Society. This is well illustrated in our recent difficulties in determining the Lebanese requirements.

With regard to Lebanon, your information is no doubt more complete than ours but I have felt that the enclosed confidential letter from the Under Secretary General of the League of Red Cross Societies might be of assistance to you and that I would be justified in sharing it with you on a confidential basis.

We cabled the League of Red Cross Societies yesterday as follows:

RE LEBANON ONE RCAF AIRCRAFT AVAILABLE APRIL TWENTYSIX CARRYING THE DRUGS AND BALANCE BLANKETS TO MAXIMUM PAYLOAD EIGHTYFIVE HUNDRED POUNDS STOP CONSIGN AIR MOVEMENTS UNIT RCAF AIR FIELD HANGAR STOP LIAISE CANADIAN JOINT STAFF SIXTYSIX ENNISMORE GARDENS KENSINGTON STOP AS NO FURTHER AIRCRAFT AVAILABLE SHIP BALANCE BLANKETS BY SEA AT OUR EXPENSE STOP JUNIOR RED CROSS APPROVES EXENDITURES PER YOUR 162 STOP CAN JUNIOR PURCHASE BE MADE EUROPE

You will note that due to the lack of aircraft we have instructed the League to send the balance of the relief supplies by sea and we presume that this freight will be a legitimate charge against the residue of the fund. The League has informed us that they have already sent \$5,000. worth of our drugs by air from Zurich but have not as yet indicated whether by commercial or USAAF=planes.

I trust that the above matter may be clarified at an early date.

Yours sincerely,

W. S. Stanbury, M.D.,
National Commissioner.

Under Secretary of State for External Affairs,
Ottawa, Ont.

Attn. A. E. Ritchie, Esq.,
Economic Division.

APPENDIX I

Office of the Prime Minister
Cabinet du Premier Ministre
Canada

Ottawa,
April 23, 1956.

Dr. W. S. Stanbury,
National Commissioner,
The Canadian Red Cross Society,
95 Wellesley Street East,
Toronto, Ontario.

Dear Dr. Stanbury:

Thank you for your letter of March 27 which relates to the unexpended portion of the federal grant to The Canadian National European Flood Relief Fund.

While any expenditure from this fund for relief purposes within Canada would require the authorization of the Governor-in-Council, there is some doubt that such authorization would be required for similar expenditures for international relief purposes.

I understand that a legal opinion is presently being sought of the Department of Justice and that the appropriate officials of the Department of External Affairs who have already been in touch with you about this matter will inform you what that opinion is.

Yours sincerely,
Louis S. St. Laurent.

APPENDIX J

OFFICE OF
THE UNDER SECRETARY OF STATE
FOR EXTERNAL AFFAIRS

Ottawa, June 29, 1956.

CONFIDENTIAL

Dear Dr. Stanbury:

Re: *European Flood Relief Fund—Use of Unexpended Portion*

I regret that we have not been able to indicate earlier the Government's decision on the interpretation of the item which appeared in the estimates concerning the use of the unexpended portion of the Canadian Government's contribution to the European Flood Relief Fund.

The Government has confirmed that disbursement might be made by the Canadian Red Cross Society for international relief purposes without obtaining authority from the Governor in Council in each case and that such authorization would be necessary only if and when it was proposed to use funds for other relief purposes. The Government has also indicated that the Department of External Affairs and the Canadian Red Cross Society should consult on particular proposals for the use of these funds in international relief.

It is my understanding from the letter you wrote to the Prime Minister on March 27th that you would be agreeable to this procedure and I understand you will now be getting in touch with other contributors to the Fund regarding the release of the unexpended portion of their contributions.

Yours sincerely,
Jules Léger.Dr. W. S. Stanbury,
The Canadian Red Cross Society,
95 Wellesley Street East,
TORONTO, Ontario.

APPENDIX K

CANADIAN RED CROSS NEWS SERVICE

95 Wellesley St.—Toronto 5

PRESS RELEASE.

SATURDAY, June 29, 1957.

A cash gift of \$50,000 was announced today by the Canadian Red Cross Society to assist victims of Hurricane Audrey in the United States.

Marshall Stearns, chairman of the national executive committee of the Canadian Red Cross Society, announced the money is being forwarded to the American National Red Cross in Washington.

"The toll of death, injury and destruction is staggering. With our gift we send the sympathy of the Canadian people," he said. "Several years ago, at the time of the Manitoba floods, the American Red Cross generously donated \$250,000 to assist our relief operation and that gift has never been forgotten by the Canadian Red Cross and the people of Manitoba."

"The funds of the American Red Cross have been seriously depleted by the many disasters which have faced the United States since the first of January and it is our hope that our gift, even in a small way, will assist their humanitarian work in this most recent disaster."

Mr. Stearns added that this is an interim gift and the Canadian Red Cross Society will be ready and willing to consider further assistance once the total impact of the disaster has been completely assessed.

APPENDIX L

CANADIAN RED CROSS NEWS SERVICE

95 Wellesley St.—Toronto 5

PRESS RELEASE.

SUNDAY, June 30, 1957.

President Eisenhower has personally thanked the Canadian Red Cross Society for its gift of \$50,000 to the American Red Cross to assist victims of Hurricane Audrey.

The gift was announced yesterday by Marshall Stearns, chairman of the national executive committee of the Canadian Red Cross Society.

Appreciation for the gift was expressed in a telegram received today at national headquarters of the Society in Toronto: "As honorary chairman of the American Red Cross I want to personally thank you for the prompt and generous gift of the Canadian Red Cross Society. It demonstrates anew the close ties of friendship that bind our two countries. Dwight D. Eisenhower."

APPENDIX M

Second July 1957

Registered—Special Delivery

Dear Mr. Robertson:

I am sending you herewith our cheque for \$50,000. Canadian (Fifty Thousand Canadian Dollars) in favour of the American National Red Cross as a contribution from the people of Canada through the Canadian Red Cross Society for the care and rehabilitation of the victims of the most recent disaster, 'Hurricane Audrey', which has visited the United States. With this gift goes our most sincere sympathy.

I have already sent you a copy of our press release of Saturday, 29th June, and am enclosing herewith personal messages of appreciation to the Chairman of our National Executive Committee from the President of the United States, Mr. Dwight D. Eisenhower, who is also Honorary Chairman of the American National Red Cross, and from Mr. E. Roland Harriman, Chairman of the Board of Governors of the American Red Cross.

The Economic Division of the Department of External Affairs has been informed of the action we have taken and concurs. We should be extremely grateful if you could present this cheque on our behalf on a suitable occasion, which could be arranged between the Embassy and the American National Red Cross, as suggested in my teletype message to Mr. James T. Nicholson, Executive Vice President of the American National Red Cross, per enclosed.

As you are no doubt aware, the American National Red Cross is currently campaigning for funds to meet the many disaster situations which have plagued the United States since the beginning of the year and to this campaign President Eisenhower is giving his wholehearted support. We should be extremely grateful if you undertake this presentation on behalf of the Canadian Red Cross Society, emphasizing that it is a gift of the people of Canada through the Society in an attempt to express their sympathy in a tangible way.

Yours sincerely,

W. S. Stanbury, M.D.,
National Commissioner

His Excellency Norman A. Robertson,
Canadian Ambassador to the United States of America,
Washington, D.C.

APPENDIX N

THE CANADIAN NATIONAL EUROPEAN FLOOD RELIEF FUND.

17th July, 1956

Your Excellency:

Re: *Residue Canadian National European Flood Relief Fund*

As you are aware, in July 1955 I wrote to all members of the Canadian National European Flood Relief Committee sending them a report of the receipts and disbursements made on behalf of the Canadian National European Flood Relief Fund by the Canadian Red Cross Society as of 31st May, 1955. At that time no conclusion was reached as to the disposal of the unexpended surplus. Since then certain sales tax refunds, as well as earned interest, has been credited to the account so that as of 12th July, 1956, the unexpended balance stands at \$624,461.90 as indicated in the attached statement certified by the Society's auditors, Messrs. Dick, Bond, Hetherington and O'Loane.

As you will recall, the Prime Minister of Canada was primarily responsible for the initiation of the Fund and received the support of all political parties for the proposals he made in the House of Commons in February, 1953. The national officers of the Canadian Red Cross Society, desirous of being relieved of the responsibility of holding the residue of this Fund in a dormant state, had preliminary conferences with the Prime Minister regarding his views on the matter, informing him that the Canadian Red Cross Society would be glad to continue the administration of the Fund if its terms of reference could be expanded to include all countries where international aid might be required from time to time.

In respect to the Government of Canada's share of the unexpended portion of the Fund, the House of Commons dealt with the matter on the 22 March, 1956, as reported in the House of Commons Debates, Section 557 of that date, which reads as follows:

To authorize expenditure for international relief purposes, or other relief purposes authorized by the Governor in Council, of the unexpended portion of the grant made by the Government of Canada to the Canadian National European Flood Relief Fund by vote 572 of the Appropriation Act No. 2, 1953 \$1.

In clarification of the above, the Under Secretary of State for External Affairs wrote to the Canadian Red Cross Society on the 29th June, 1956, as follows:

The Government of Canada has confirmed that disbursement might be made by the Canadian Red Cross Society for international relief purposes without obtaining authority from the Governor in Council in each case and that such authorization would be necessary only if and when it was proposed to use funds for other relief purposes.

The Government also indicated that the Department of External Affairs and the Canadian Red Cross Society should consult on particular proposals for the use of these funds in international relief, a procedure that is always followed in every case where the Society contemplates expenditure for international relief from its own funds as well as from designated funds.

In view of the action already taken by the Government of Canada in respect to its share of the unexpended portion of the Fund, I should be grateful for

your advice as to whether we should now approach other members of the Committee, including the representatives of the Provincial Governments, as to their views on the disposal to be made of the balance. It would be my hope that the Committee might concur in the sentiments already officially expressed by the Government of Canada and that surplus funds now already held in trust by the Canadian Red Cross Society could be made available for international relief purposes to meet disaster requirements of a character similar to those for which the Fund was originally raised. Should you concur in this suggestion I would immediately communicate with the members of the Committee. I enclose a draft letter for your comments and criticisms.

I am, Your Excellency's most obedient servant,

Charles LaFerle,
Honorary Secretary.

His Excellency, the Right Honourable
Vincent Massey, C.H., M.A., D.C.L., LL.D.,
Governor General of Canada,
Chairman, Canadian National European Flood Relief Fund.

APPENDIX O

THE CANADIAN NATIONAL EUROPEAN FLOOD RELIEF FUND

10 August, 1956.

To all members of The Canadian National European Flood Relief Committee:
My dear—,

In July 1955 I sent you a report of the receipts and disbursements made on behalf of the Canadian National European Flood Relief Fund by the Canadian Red Cross Society, as of the 31st May 1955. At that time no decision had been reached regarding the disposal of the unexpended surplus. Since then certain sales tax refunds, as well as earned interest, has been credited to the account so that as of the 12th of July 1956 the unexpended balance stands at \$624,461.90 as indicated in the attached statement certified by the Society's auditors, Messrs. Dick, Bond, Hetherington and O'Loane.

The national officers of the Canadian Red Cross Society, desirous of being relieved of the responsibility of holding the balance of this Fund in a dormant state, had preliminary conversations with the Prime Minister of Canada concerning its disposal. As you will recall, the Prime Minister was primarily responsible for the initiation of the Fund in which he received the support of all political parties. The Government of Canada was our largest single contributor, its donation representing approximately one-third of the total raised. The national officers of the Canadian Red Cross Society informed the Prime Minister that they would be glad to continue the administration of the Fund if its terms of reference could be expanded to include all countries where international aid might be required from time to time. Not only does the Society receive regular appeals for such international aid from the League of Red Cross Societies but through the Department of External Affairs as well. The Society's experience would indicate that, excluding major disasters such as the North Eastern European Flood, disbursements for relatively minor disasters and emergency international relief would liquidate the unexpended surplus within two or three years. This, we believe, would be highly desirable as, in our experience, unexpended surpluses in relief funds tend to discourage giving in subsequent appeals. Moreover, as the North Eastern European Flood Relief Fund was raised for a disaster beyond our own shores, it would seem appropriate that the balance should be expended on similar disasters requiring international assistance.

As you are aware, the Government of Canada concurred in this view, as indicated in Section 557 of the House of Commons Debates for the 22nd of March 1956 which reads as follows:

To authorise expenditure for international relief purposes, or other relief purposes authorized by the Governor in Council, of the unexpended portion of the grant made by the Government of Canada to the Canadian National European Flood Relief Fund by vote 572 of the Appropriation Act No. 2, 1953, \$1.

In other words, the Government of Canada has authorised disbursements by the Canadian Red Cross Society for international relief purposes, without obtaining authority from the Governor in Council in each case, such authority being necessary only if and when it was proposed to use the fund for other relief purposes, say a disaster within our own country.

The action taken by the Government of Canada as outlined above disposes of approximately one-third of the unexpended balance. Rather than call a special meeting of the Committee, His Excellency, as Chairman, has authorized me to poll its membership for their opinion as to the disposal of the remaining portion of the Fund donated privately or by Provincial Governments. In doing so, His Excellency has expressed the hope that the members of the Committee may see fit to concur in a formula similar to that adopted by the Government of Canada as such disposal of the unexpended surplus for international relief purposes would seem to preserve the original intent of the donors. The Canadian Red Cross Society has an extensive experience, as well as unexcelled facilities through its international affiliations, in administering designated funds of this type and we believe that it would be appropriate to accept the offer of the Society to administer the unexpended portion of the fund on behalf of the people of Canada.

I should greatly appreciate your views on the proposal as outlined.

Charles LaFerle,
Honorary Secretary.

APPENDIX P

Office of the Prime Minister
Cabinet du Premier Ministre
Canada

Ottawa,
October 24, 1956.

Dr. W. S. Stanbury, M.B.E.
National Commissioner,
The Canadian Red Cross Society,
95 Wellesley Street East,
Toronto, Ontario.

Dear Dr. Stanbury:

I have your letter of the 20th instant and I think you are entitled to consider that the members of the Committee who have not replied to your communication do not object to the manner in which that communication indicated it was intended to dispose of the unexpended portion of the Fund.

I feel quite strongly that you can, without any undue risk, proceed now to use the unexpended portion in the manner which has been suggested.

With warm personal regards, I am,

Yours sincerely,
Louis S. St. Laurent

APPENDIX Q

GOVERNMENT HOUSE
OTTAWA

November 1st, 1956.

Dear Mr. LaFerle,

The Governor-General has asked me to thank you for your letter of the 27th October, and to inform you that he concurs in the suggestion that you now inform all members of the Committee of the result of the poll, and of the fact that the residue of the Fund will now be put at the disposal of The Canadian Red Cross Society for international relief purposes in any part of the world.

His Excellency has asked me to thank you also for all the trouble you have taken in bringing this project to a satisfactory conclusion.

Yours sincerely,
Lionel Massey,
Secretary to the Governor-General.

Charles LaFerle, Esq.,
Honorary Secretary,
The Canadian National European Flood
Relief Fund,
95 Wellesley St. E.,
Toronto, Ont.

APPENDIX R

THE CANADIAN NATIONAL EUROPEAN FLOOD RELIEF FUND

NOVEMBER 5th, 1956.

TO ALL MEMBERS OF THE CANADIAN NATIONAL EUROPEAN
FLOOD RELIEF COMMITTEE

My dear—,

You will recall that on August 10th, I sent you a letter concerning the disposal of the unexpended surplus of the Canadian National European Relief Fund. On October 2nd I sent a reminder to members who had not replied to the first letter. On October 27th, I notified His Excellency, The Governor-General that a large majority had now concurred in the suggestion that the total amount of the unexpended surplus should be made available for international relief under the administration of the Canadian Red Cross Society. The following is the text of a reply from His Excellency's Secretary:

“ The Governor-General has asked me to thank you for your letter of the 27th October, and to inform you that he concurs in the suggestion that you now inform all members of the Committee of the result of the poll, and of the fact that the residue of the Fund will now be put at the disposal of the Canadian Red Cross Society for international relief purposes in any part of the world.

His Excellency has asked me thank you also for all the trouble you have taken in bringing this project to a satisfactory conclusion.”

Now that our Committee has finally concluded its work I am sure that His Excellency would wish me to thank you for your splendid co-operation and for all your efforts in connection with the Canadian National European Flood Relief Fund.

Yours sincerely,

CHARLES LA FERLE,
Honorary Secretary.

THE CANADIAN RED CROSS SOCIETY INTERNATIONAL RELIEF FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS

FOR THE PERIOD JULY 13, 1956 TO DECEMBER 31, 1958

RECEIPTS

Balance of "The Canadian National European Flood Relief Fund" per audited statement as at July 12, 1956.....		\$ 624,461.90
Sundry donations.....	\$ 762.71	
Sale of surplus lumber in England.....	12,352.80	
Interest to December 31, 1958.....	38,586.88	
		<u>51,702.39</u>
		676,164.29

DISBURSEMENTS

International relief provided through the International Red Cross organizations, National Societies of the Red Cross, Red Crescent, Red Lion and Sun, for the following emergencies:

1956		
August.....	Afghanistan—earthquake.....	\$ 2,000.00
August.....	Iran—flood.....	10,000.00
August.....	India—flood.....	25,000.00
August.....	Middle East conflict.....	10,000.00
		<u>47,000.00</u>
1957		
January.....	Thailand—fire.....	5,000.00
May.....	Turkey—earthquake.....	5,000.00
June.....	Burma—fire.....	5,000.00
July.....	Iran—earthquake.....	10,000.00
August.....	Turkey—earthquake.....	10,000.00
August.....	Indonesia—flood.....	6,182.89
September.....	Pakistan—flood.....	15,000.00(A)
September.....	Tunisia—Algerian refugees.....	25,000.00(C)
September.....	Poland—relief.....	10,000.00(D)
October.....	Spain—Valencia flood.....	8,035.20
		<u>99,218.09</u>
1958		
January.....	Peru—earthquake.....	6,200.00(E)
February.....	Ceylon—flood.....	33,521.05
April.....	Tunisia—relief.....	5,000.00
June.....	Thailand—cholera epidemic.....	5,000.00(B)
July.....	Poland—flood.....	4,000.00
July.....	USA—Hurricane Audrey.....	50,000.00
July.....	USA—Expenses case workers Hurricane Audrey.....	2,180.99
September.....	Pakistan—smallpox epidemic.....	12,846.58
December.....	Lebanon—dried milk.....	5,546.10
		<u>124,294.72</u>
		270,512.81
Balance December 31, 1958.....		<u>\$ 405,651.48</u>

Balance unexpended December 31, 1958 returned to Fund in 1959

(A) Pakistan—flood.....	\$ 3,403.03
(B) Thailand—cholera epidemic.....	1,484.76
	<u>\$ 4,887.79</u>

Accounts over-expended December 31, 1958 pending receipt of sales tax refunds

(C) Tunisia—Algerian refugees.....	\$ 2,333.97	Dr.
(D) Poland—relief.....	937.41	Dr.
(E) Peru—earthquake and flood.....	705.95	Dr.
	<u>\$ 3,977.33</u>	Dr.

THE CANADIAN NATIONAL EUROPEAN FLOOD RELIEF FUND STATEMENT OF CONTRIBUTIONS AND DISBURSEMENTS

As At July 12, 1956

CONTRIBUTIONS

	General Contributions	Provincial Government Contributions	Total
ALBERTA.....	\$ 76,739.27	\$ 65,800.00	\$ 142,539.27
BRITISH COLUMBIA.....	226,753.91 (i)	—	226,753.91
MANITOBA.....	223,651.68	54,300.00	277,951.68
NEW BRUNSWICK.....	32,077.73	8,000.00	40,077.73
NEWFOUNDLAND.....	127,825.42	—	127,825.42
NOVA SCOTIA.....	22,905.51	10,000.00	32,905.51
ONTARIO.....	701,366.07	100,000.00	801,366.07
P. E. I.....	4,443.89	—	4,443.89
QUEBEC.....	269,650.36 (ii)	35,000.00	304,650.36
SASKATCHEWAN.....	96,628.24	50,000.00	146,628.24
N. W. T. AND YUKON.....	684.35	—	684.35
UNITED STATES.....	54.00	—	54.00
	<u>\$ 1,782,780.43</u>	<u>\$ 323,100.00</u>	<u>\$ 2,105,880.43</u>
DOMINION GOVERNMENT.....			1,000,000.00
TOTAL CONTRIBUTIONS.....			<u>\$ 3,105,880.43</u>

(i) Includes \$100,000.00 from 1950 B.C. Flood Fund

(ii) Includes Anonymous contribution of \$200,000.00 in Government Bonds

W. S. STANBURY, M.D.
NATIONAL COMMISSIONER.H. E. SNIDER
CHIEF ACCOUNTANT.HES/1b
Toronto, July 16, 1956.

DISBURSEMENTS

	Netherlands	Britain	General	Total
SUPPLIES				
Clothing.....	\$ 136,918.90	\$ 40,173.39	—	\$ 177,092.29
Bedding—Purchased.	246,594.80	72,842.32	—	319,437.12
—Raw Material.	107,604.20	33,765.96	—	141,370.16
Linen and Other				
Household Supplies	52,479.62	940,645.75	—	993,125.37
Outboard Motors....	11,225.13	—	—	11,225.13
Timber.....	—	200,000.00	—	200,000.00
Agricultural Tools....	281,491.68	—	—	281,491.68
Farm Machinery.....	400,685.23	—	—	400,685.23
	<u>1,236,999.56</u>	<u>1,287,427.42</u>	<u>—</u>	<u>2,524,426.98</u>
EXPENSES				
Freight, Cartage and Packing Expense....	20,511.53	36,286.46	12,083.38	68,881.37
Printing Receipts, Stationery and Postage.....	—	—	6,356.55	6,356.55
TOTAL SUPPLIES AND EXPENSES.....	<u>\$1,257,511.09</u>	<u>\$1,323,713.88</u>	<u>\$18,439.93</u>	<u>\$2,599,664.90</u>

SUMMARY

Total Contributions.....	\$3,105,880.43
Total Disbursements.....	2,599,664.90
	506,215.53
Add: Sales Tax Refunds, etc.....	\$ 133,066.65
Interest Earned.....	10,179.72
	143,246.37
	649,461.90
Deduct: Grant—League of Red Cross Societies for Relief of victims of earthquake in Lebanon as approved by the Dominion Government.....	25,000.00
Balance as at July 12, 1956.....	<u>\$ 624,461.90</u>

We have examined the above statement of Contributions and Disbursements of the Canadian National European Flood Relief Fund for the period February 1, 1953 to July 12, 1956. The contributions shown are in agreement with the amounts recorded by the National Office of The Canadian Red Cross Society as received from the Provincial Committees and Banks which acted as collection agencies, and from governments and individuals. All disbursements from this fund were examined by us.

Dick, Bond, Hetherington & O'Loane
Chartered Accountants.

INTERNATIONAL RELIEF FUND.

Year	Country	Conditions	Type of Relief
1956	Afghanistan.....	Earthquake—at least 1,000 homes destroyed. At least 5,000 persons homeless	Tents purchase by League.
	Iran.....	Floods—inundation scattered over area—300,000 sq. km. 180,000 to 200,000 homeless	Tents purchased by League.
	India.....	Floods. Half million homeless. Floods worst on record.	Drugs purchased and shipped by League. External unwilling ask for RCAF plane as facilities at disposal of League.
	Middle East Conflict		Drugs and medical supplies purchased and distributed by ICRC.
1957	Thailand.....	Fire—9,000 homeless.....	Blankets and clothing purchased by League.
	Turkey.....	Earthquake—500 homes destroyed; 14,000 homeless	Tents, blankets and drugs purchased by League.
	Burma.....	Fire—25,000 persons homeless.....	Blankets and clothing purchased by League.
	Iran.....	Earthquake—nearly 1,000 killed, 250 seriously injured, 480 villages destroyed, 15,000 dwellings destroyed.	Tents purchased through League.
		N.B. We originally appropriated \$5,000 and, at the request of External, doubled the amount.	
	Turkey.....	See above—two earthquakes happened in quick succession so that the League purchases were all made at once.	Tents, blankets, and drugs purchased by League.
	Indonesia.....	Flood—160,000 people homeless....	Drugs airlifted to London—Courtesy of B.O.A.C.
	Pakistan.....	Thousands of villages destroyed by floods.	Drugs airlifted courtesy T.C.A. and Pakistan International.
	Tunisia.....	Algerian refugees.....	Blankets and women's and children's clothing shipped from Canada.
	Poland.....	Repatriates from U.S.S.R..... (Confidential)	Shipped from Canada Jackets, trousers and shoes for 550 men.
	Spain.....	Floods—nearly one million victims.	Drugs airlifted—courtesy C.P.A.
1958	Peru.....	Earthquake (Special appeal from Canadian Ambassador)	Blankets airlifted courtesy C.P.A.
	Ceylon.....	Hundreds of thousands homeless (floods)	Medical supplies airlifted R.C.A.F.
	Tunisia.....	Condition of population almost worse than that of refugees.	Cotton purchased by League to be made into clothing in Tunisia.
1958	Thailand.....	Serious epidemic of cholera.....	Cholera vaccine airlifted courtesy American Air Force.
	Poland.....	Floods—60,000 victims.....	Men's boots purchased by League.
1957	United States....	Hurricane Audrey'.....	Cash and Disaster Workers.
	Pakistan.....	Serious epidemic of smallpox.....	Two to three million doses vaccine.
	Labanon.....	5,000 undernourished infants and children in areas affected by civil disturbances.	Purchased ten tons dried whole milk.

EXHIBIT P-2

To Mr. J. F. GRANDY, Economic Division

Unclassified

June 29, 1957

Re: Our telephone conversation June 29, 1957—Canadian Red Cross offer of Flood Relief Assistance to U.S. Red Cross

As I explained in our telephone conversation, Dr. W. S. Stanbury, President of the Canadian Red Cross telephoned the Department this morning concerning the wish of the Canadian Red Cross to make an offer today of assistance to the U.S. Red Cross for relief to the victims of Hurricane Audrey. Dr. Stanbury explained that the American Red Cross had contributed two hundred seventy-five thousand dollars to flood relief in Manitoba several years ago, that its campaign for ninety million dollars fell short by some twenty million dollars this year, and that while the offer might well be declined with thanks the Canadian Red Cross desired to make at least the gesture of offering a sum of about thirty-five thousand dollars to assist relief operations in the southern States.

2. I mentioned that Mr. Holmes saw no objection to the proposed offer and you agreed that I might inform Dr. Stanbury that it would be in order to proceed. I therefore telephoned Dr. Stanbury and indicated that the Department agreed with the course of action which he had outlined.

E. T. GALPIN,

Jr. Duty Officer.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

TUESDAY, MAY 5, 1959

WITNESS:

Mr. Watson Sellar, Auditor General for Canada.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),
and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	Morissette	Winch
Fraser	Morris	Wratten
Godin	Morton	
Grenier	Murphy	

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 6, 1959.
(M.8)

The Standing Committee on Public Accounts met at 9.35 a.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: MM. Bell (*Carleton*), Bruchesi, Campbell (*Lambton-Kent*), Campeau, Charlton, Chown, Hales, Hellyer, Keays, Lambert, Macdonald (*Kings*), Macnaughton, McGee, McGregor, Morissette, Morton, Pickersgill, Pratt, Smith (*Calgary South*), Smith (*Winnipeg North*), Stefanson, Stewart, Walker, Winch, and Wratten.

In attendance: Mr. Watson Sellar, Auditor General for Canada.

The Chairman informed the Committee that he had received from the Canadian Red Cross Society a letter of appreciation for the hearing they received before this Committee on April 29. In addition he advised that the Society had supplied him with photostatic copies of the cheque, authorization and receipt therefor in connection with a donation made to the American Red Cross Society to assist the victims of Hurricane Audrey. (*Identified as Exhibit P-3*)

The Committee resumed consideration of the Auditor General's Report, Mr. Sellar answering questions thereon.

Paragraphs 51 to 64 were considered.

On Paragraph 65—*Unspent Family Allowances*—It was suggested that this matter should be brought to the attention of the Department of National Health and Welfare and that a spokesman for that Department be requested to appear before this Committee to explain the authority for the operations mentioned in Paragraph 65.

On Paragraph 71, 72—*Air Transport Tariff Rates*—The Committee reviewed the difficulty experienced by contractors in making refunds to the Government due to provisions of the Aeronautics Act. The question of gaining further information thereon was referred to the Steering Committee.

On Paragraphs 73-77—*Cost of a Motor Vessel*—A suggestion that the Department of Defence Production and the Maritime Commission be asked to supply the Committee with additional information on this subject was referred to the Steering Committee.

Paragraphs 78 to 85 were considered.

On Paragraphs 86-88—*Unusual Transportation Costs*—A suggestion that the documents relating to these paragraphs be called for by the Committee, was referred to the Steering Committee.

At 11.00 a.m. the Committee adjourned until 9.30 a.m. Wednesday, May 13, 1959.

E. W. Innes,
Acting Clerk of the Committee.

EVIDENCE

WEDNESDAY, May 6, 1959.

9:30 a.m.

The CHAIRMAN: Gentlemen, at the last meeting we had a witness, Dr. Stanbury, from the Canadian Red Cross Society. He wrote me a letter in which he thanks the committee for a very pleasant reception here. At the same time he left with us some photostatic copies of a cheque to the American Red Cross Society, the authorization for that cheque and the receipt from the American Red Cross. May I suggest these simply be filed in the committee records as *Exhibit P-3*.

We should start this morning with paragraphs 52 and 53 which should be read together. Our witness, of course, is Mr. Sellar. These items concern the payment of interest to contractors, chiefly in Ottawa.

52. Another interest payment arrangement is also noted. A Treasury Board Minute of 1st October 1957 reads:

The Board, in connection with works under contract chargeable to Vote No. 359 "Ottawa—Construction of Public Buildings", and to Vote No. 373 "Prince Edward Island—Construction of Harbour and River Works", authorizes the payment of interest at the rate of five per cent per annum on the amounts owing to contractors, and unpaid due to limitations of Interim Supply, from the time when such claims become payable until payment can be made when further Interim Supply is provided.

In April 1957 assent was given to a Supply Bill which granted one-half the amount of each of the two items in order to provide funds during the period of the general election and until Parliament could again consider monetary needs of the Crown. Parliament met on 14th October and further grants of supply were made on 24th October when the Minute became inoperative.

53. By relying on the Minute, interest payments totalling \$5,530 were made with respect to twelve contracts in the Ottawa area—the largest cheque was for \$1,383 and the smallest for \$5.74 (no payments were made with respect to any work contract in Prince Edward Island). Section 38 of the Financial Administration Act stipulates that:

38. It is a term of every contract providing for the payment of any money by Her Majesty that payment thereunder is subject to there being an appropriation for the particular service for the fiscal year in which any commitment thereunder would come in course of payment.

Consequently, the contracts making no provision for interest, an implication is that the Crown was under no liability to pay.

Mr. Sellar, why did you call our attention to these two paragraphs?

Mr. WATSON SELLAR (*Auditor General of Canada*): For two reasons, sir. One is that they are exceptional. I never have had a case where a collective group of contractors in a particular area, working for a particular department, had been singled out. I have had individual cases; but this is the first group of cases.

Secondly, from the constitutional viewpoint, it has always been regarded that it is contrary to the best interests of parliament that the government be

allowed to have public works done other than by means of appropriations. In this case work was continued after the appropriation had been exhausted by encouraging the contractors to borrow money from banks.

It is not a large item; it is not a big amount. There were twelve cheques issued; none in the province of Prince Edward Island. In the case of the twelve in Ottawa, all are reputable and well-to-do firms. I assume they all had taken into consideration the calculation they might be held up a little for money. It was decided, for one reason or another, to give them some money.

Two years ago I brought up a similar case in respect of the post office being constructed in Winnipeg. The only other case I can remember in relatively recent history was back in the 'thirties when the government of the day arranged with Sir Herbert Marler, the minister to Japan, that he would construct the legation there and the government would buy it back from him in due course, with the payment of interest.

Mr. BELL (*Carleton*): Do you not think there should be some legislative action taken to meet just the precise situation which arose here in respect of these twelve contracts? That work had to be kept going. I happen to know one contractor was on the point of bankruptcy. It was a very close call. Unless some undertaking of this type had been made, the work would have ground completely to a halt. Some of it was quite important work, I think. I agree with the only comment made here. It seems to me there ought to be some effective measure for contending with these situations which are bound to arise periodically.

Mr. SELLAR: I do not disagree with you from the viewpoint of hardship, and I might say, from the viewpoint of common sense. On the other hand, throughout the British commonwealth, they have always leaned backwards on the proposition that only when there is money available may a contractor be paid. The money is to be made available by parliament; it is simply a condition to preserve control by parliament of the public purse.

Mr. LAMBERT: Do you not think you sometimes are paying rather dearly for a question of principle?

Mr. SELLAR: I have nothing to do with principle; I am simply an auditor.

Mr. LAMBERT: Merely because a practice has existed does not give it any greater authenticity, if it is wrong in its basic premise.

Mr. SELLAR: No. I might, however, give you an example. Back during the first war, the government of Canada requisitioned a ship out on the Pacific coast. They did not take it; they just requisitioned it. It took a long time to decide the hire. The owner got fed up and sued the government. He went to the Supreme Court of Canada for interest. The Supreme Court unanimously threw it out on the ground that in law he had no claim whatsoever against the crown.

Mr. LAMBERT: In so far as the government doing business with a company is concerned, do you not feel that time is worth money? That is one thing I am appalled at; that is, the conception of time and its relation to money. Every time you delay matters in respect of contracts, the man at the other end is going to make you pay for it. That does not appear to be overly impressed in the minds of persons here in Ottawa.

Mr. SELLAR: You could accomplish that by repealing the section in the Financial Administration Act.

Mr. LAMBERT: I would support Mr. Bell in trying to get something which will cover this type of situation.

Mr. BELL (*Carleton*): I would like to make it clear I agree with the principle Mr. Sellar set forth and disagree with Mr. Lambert in his principle. I do, however, suggest some legislative provision to meet this situation.

Mr. SELLAR: I quite agree with you; but it is a matter of practice. I am noting this for your attention. I am not excited by it; there is only \$5,000 involved. The work was done. My concern is that many contractors in other parts of the country did not receive like treatment.

The CHAIRMAN: I think Mr. Lambert was pointing out that frequently government payments are very slow.

Mr. LAMBERT: Obviously there has to be a decision and appropriation made for a job. I do not say that a deputy minister or an officer of the crown should be able to enter into engagements with a contractor without the appropriation having been made. This, however, points up a principle, in so far as I am concerned, that it costs an awful lot to the government to do business because of certain things.

And furthermore the contractor has to pay for the time. Financially, he has to negotiate it with the bank. Was any payment made to the contractor in Prince Edward Island?

Mr. SELLAR: No; there was no payment to any contractor in Prince Edward Island.

The CHAIRMAN: I suppose in principle he has a right to come and collect.

Mr. SELLAR: It is now so long past that if any contractor had a claim it would have been in. I think you can assume there were none.

The CHAIRMAN: Is there anything else in respect of paragraphs 52 and 53? Paragraphs agreed to.

54. *Selection of Appropriation to Charge.* The following expenditures are noted because they will probably recur. There is an Indian reserve on Walpole Island in the St. Clair River and the Indian agent and others reported that erosion along the shoreline was taking place. A public Works Department engineer, after making an investigation, concluded that:

The aggravated condition of the past few years is due: one-third to commercial navigation, one-third to abnormally high levels and one-third to normal erosion which takes place along the bank of any body of water.

In the audit it was observed that: (a) the Department of Transport declined to assume any financial responsibility for erosion caused by shipping, (b) previous remedial work had been done as a charge to a vote administered by Public Works, (c) the Department of Public Works was prepared to recognize the work as a departmental obligation but its vote for the purpose was committed to such a degree that it could not bear the cost. It appears that \$90,000 may have to be spent on protective works over a period of three years and a contract for \$32,799 was awarded in 1957-58. It was negotiated by the Department of Public Works, but the Department of Citizenship and Immigration absorbed the cost as a charge to its appropriation reading:

Indian Agencies—Construction or Acquisition of Buildings, Works, Land and Equipment.

55. The audit concern is the propriety of so charging the cost when a Public Works appropriation reads:

To provide for remedial works where damages are caused by, or endanger, navigation or Federal Government structures and to complete protection works already under way—\$750,000.

It would seem that by this text Parliament fixed departmental responsibilities and financial boundaries. Moreover, it seems reasonable to assume that a parliamentarian checking the Public Accounts to ascertain amounts spent on remedial works would not expect a charge of this nature to be recorded against an appropriation administered by the Department of Citizenship and Immigration.

The CHAIRMAN: Paragraphs 54 and 55 should be read together. The principle is enunciated at the end of paragraph 55.

Mr. BELL (*Carleton*): Does that not raise a general issue which we would have to consider, and that is the language in certain of the votes. That is really the point here; is it not?

Mr. SELLAR: That is really the point here; whether or not you intend to limit a certain type of work to a certain vote. That is all.

Mr. BELL (*Carleton*): I think in our report we will have to say that this committee believes the language of certain votes ought to be more precise and more in conformity with the actual purpose for which the vote is intended.

Mr. SELLAR: Might I add an observation to what Mr. Bell said. I might say that a similar question arose in the United Kingdom some years ago. The public accounts committee had to deal with it. It was in connection with the purchase of a piece of land for the parliament building. There was a vote for the building and also a vote for legal costs in connection with the purchase of land. The question was whether it should be charged to the cost of the building or the vote for the purchase of land. The test which the public accounts committee used was, where would we as members look in the public accounts for the cost. That was the test they applied.

Mr. BELL (*Carleton*): It seems to me to be a sensible test.

The CHAIRMAN: Is there anything else on those paragraphs? If not, the next matter is the special pension plans.

56. *Special Pension Plans*. The Main Estimates for 1957-58 included a new item reading:

133. Government contributions to Pension Plans for employees engaged locally outside Canada—\$100,000.

The Public Service Superannuation Act specifically bars "an employee engaged locally outside Canada" from becoming a contributor under that Act, yet the text of this vote has been relied on to provide authority to initiate two pension schemes. Accordingly, doubt is entertained as to the regularity of the resulting charges to Consolidated Revenue Fund. Details of the two schemes are now given by way of information.

57. On 7th March 1957, Order in Council P.C. 1957-26/290 authorized the Minister of Finance to contract for a group annuity policy with a Canadian insurance company for the Government's locally engaged employees in the United States. Under this scheme, the employee contributes 5% while the Government is to pay:

- (a) the amount necessary each month to complete purchase of annuity credits for future service, after application of employees' contributions and employer's withdrawal credits;
- (b) the full amount required to purchase past service benefits by contributions made once annually over a period not greater than five years subsequent to April 1, 1957.

In ordinary circumstances the annuities are to take effect at age 65 and "are to be paid for a period certain of 60 months or until the death of the employee, whichever is later". The Order in Council ends with this direction:

Contributions payable by the Government of Canada are to be charged to the appropriation for this purpose included in the Estimates of the Department of Finance.

58. Another Order in Council, P.C. 1957-38/1387 of 19th October 1957, is brief, taking the form of accepting a Treasury Board recommendation.

that the High Commissioner for Canada in the United Kingdom be authorized to apply to the Sun Life Assurance Company of Canada for a group policy, to provide a superannuation scheme for locally engaged employees in the United Kingdom and in Ireland in the service of Her Majesty the Queen in right of Canada, in accordance with rules approved by the Treasury Board.

59. As at 31st March 1958, there were 434 employees covered by the plans, with employees' contributions in the year amounting to \$33,000. Contributions by the Government in the fiscal year were \$32,000 for current service and \$34,000 for past service.

The CHAIRMAN: There the point is that employees working outside of Canada are not supposed to be insured by the Canadian government. Is that right?

Mr. SELLAR: No; not exactly. Employees outside of Canada, excluded by legislation from pension protection are the non-rationals. The point is: should it be within the discretion of the government, without asking the consent of parliament to introduce a plan providing them with pensions? That is the point.

The CHAIRMAN: And here two plans were introduced; one in the U.S.A. and one in the United Kingdom.

Mr. SELLAR: Both by entering into contracts with an insurance company and both providing for a deduction of 5 per cent of salary, with the government making a matching contribution. One reason why I brought this up was that in 1947 parliament legislated to provide a pension scheme for ambassadors, ministers, high commissioners and consuls-general who were not contributors to any superannuation plan.

That legislation takes up several pages in the revised statute. In this case, there is no legislation whatsoever. In one sense the type of thing is comparable; in another, it is more troublesome because you cannot tell what is the legislation in other countries in respect of the pension treatment to be given their nationals after they reach a certain age.

You might be interested in knowing the number of persons covered by these policies. Under the United States policy, 114 persons are covered, and under the United Kingdom policy there were 320.

The CHAIRMAN: And the cost is set out in paragraph 59.

Mr. SELLAR: Yes, sir. Of course, we could not complete an audit of the United Kingdom one because we did not have a copy of the contract. As a matter of fact, a copy of the contract arrived in this country only a few weeks ago.

Mr. BELL (*Carleton*): Can you tell me the doubt of which you speak in paragraph 56? What is your suggestion?

Mr. SELLAR: May I refer you to the appropriation act for the year just finished, 1959. There is an item in it which I think wholly meets the needs. If you will permit me I will read it. It is item 668:

To authorize the treasury board to make regulations to provide for a hospital care insurance plan for

(a) employees of Her Majesty in right of Canada (and their dependents), and

(b) dependents of members of the R.C.M.P. and of members of the regular forces,

if such employees or members have been appointed as such in Canada and are serving outside Canada; the regulations to provide for compulsory contributions to the plan and that persons included in the plan may continue to be so included for such period after returning to Canada as the regulations prescribe; government contribution to the plan for the present fiscal year—\$15,000.

That was just to give those outside Canada the hospital insurance we now have. You have enough words there suitably to authorize the government to do this. In the other case, you are simply appropriating a little money. I imagine that treasury board will in future use a text like this.

Mr. BELL (*Carleton*): I have some doubts about that. As the committee knows, I am not too fond of legislation through appropriation acts. I would hope this type of thing would be done through the Public Service Superannuation Act by way of amendment which would get the legislation in the place where it ought to be.

Mr. SELLAR: That would be a one per cent higher rate than these people are contributing. In some respects it would be a little less generous treatment; in some, a little more generous.

Mr. BELL (*Carleton*): I am not suggesting, necessarily, that the Public Service Superannuation Act in its entirety should be applied to these people; but a part of it.

Mr. SELLAR: Yes.

Mr. CHARLTON: What about the case of a person who is on superannuation here and moves to a foreign country, still in the government employ: would his contribution reduce from six to five per cent?

Mr. SELLAR: No; these are for non-nationals who are not now contributing at all.

Mr. CHARLTON: It is a special class, where 60 months' or five years payment gives them the benefit of the pension? That is all they have to pay to be entitled to a pension?

Mr. SELLAR: They have to contribute for a certain number of years to get this.

Mr. CHARLTON: Sixty months, or five years.

Mr. SELLAR: Is it?

Mr. CHARLTON: And contribute 5 per cent instead of 6 per cent?

Mr. SELLAR: Yes.

The CHAIRMAN: Is there anything else, gentlemen, on those paragraphs? Paragraphs 60 to 64, inclusive, deal with the Unemployment Assistance Act. Mr. Sellar, in paragraph 61 you seem to summarize it slightly, "Audit opinion is that the statute includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration."

Then, later on, in paragraph 62, "Whether the definition of 'homes for special care' is too broad or too narrow is something outside the audit, but the definition needs clarification if disagreements with provinces are to be avoided". Would you care to elaborate on that?

60. *Unemployment Assistance Act*. When this legislation was introduced the Minister sponsoring the Bill stated:

I think I can say we will be able to write 'finis' to the deadlock which has existed in this country for a decade or more on the subject of the responsibility of the several governmental jurisdictions for what we call residual assistance, and that henceforth there will be an assurance of organized assistance to persons in need in any part of Canada who cannot qualify for help under any of the existing social welfare measures such as unemployment insurance, supplementary benefits, old age assistance, disability pensions and so on. By this legislation we will eliminate the obstacle presented in the past by the fact that each jurisdiction has argued that responsibility belonged to another level of government. Now no excuse will

exist for denying assistance to those in need in any province which has entered into an agreement with the federal government. (Debates, 27th June 1956)

There was general acceptance of the aims of the Bill, but a degree of dissatisfaction existed with respect to the drafting, a leading member of the Opposition, for example, describing it as "a hodge-podge of generalizations" which "leaves everything wide open".

61. The Federal Government's share of expenditures in 1957-58 exceeded \$8 million and agreements with provinces have been in operation sufficiently long to permit appraisal of the workings of the Act. Audit opinion is that the statute includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration.

62. As the purpose of the legislation is to provide needy unemployed persons with aid in addition to that provided by existing social welfare measures, the Act takes notice of the probability that many will be inmates of institutions or, in the language of section 4, in "homes for special care". This expression is defined by the Act to mean:

nursing homes, hostels for indigent transients, homes for the aged, poor houses, alms houses, and hostel facilities provided for the aged within housing projects constructed under the National Housing Act.

When the Bill was in committee, the Minister drew a distinction between institutions receiving provincial assistance and those operated by the province. Using a nursing home to illustrate, he said that the intent of the legislation was that it apply only to inmates of a nursing home:

maintained by a church or by a municipality in conjunction with a church or by a voluntary organization; or an old age pension home, either one operating on its own under the old basis or one under the National Housing Act. In other words we seek to include those institutions that are not normally considered as provincial and for which the patients receive assistance through the provinces.

Whether the definition of "homes for special care" is too broad or too narrow is something outside the audit, but the definition needs clarification if disagreements with provinces are to be avoided.

63. Section 4 lists costs to be excluded from any claim by a province and then enumerates some permissive costs having marginal characteristics. Experience has been that a clear line of demarcation is difficult to draw. For example, among costs that may not be recognized are:

payments made in respect of medical, hospital, nursing, dental and optical care, drugs and dressings, funeral expenses and travelling expenses.

On the other hand, among the costs that may be recognized are:

payments made to or on behalf of persons who are inmates of homes for special care and who would not normally be cared for in general, acute, chronic or convalescent hospitals, tuberculosis sanatoria, mental institutions, institutions for incurables, orphanages or child welfare institutions.

Extracting medical costs that constitute part of the service that a nursing home provides for its inmates can be a source of friction; alternatively, if not done, a problem is presented to federal officers certifying that a claim of a province is within the provisions of the Act. It would be in the common interest were the intent of Parliament more specifically stated.

64. It was observed that income from old age security pensions, old age assistance or war veterans' allowances was not being fully applied as an offset against expenditures, when costs of a provincial home for special care formed the basis of a claim against the Federal Government. This seems inconsistent with section 4 of the Unemployment Assistance Act, the intent of which appears to be that costs become shareable only after the full amount of the public payment to the individual has been taken into calculation.

Mr. SELLAR: Mr. Chairman, this audit note might reasonably be regarded as a caveat put in by us because we are worried over the future application of this act. It stems from the trouble that this is the only piece of welfare legislation, to my knowledge, where the contract text is a schedule to the act. In consequence, it is the law of the contract, with the text providing that in the event of any disagreement between either party, reference is to the Exchequer Court.

The result is that what is everybody's business is nobody's business, and I am worried over the application that may be given to this act, particularly as the text can, in certain cases, result in larger payments by the government of Canada than by the province. In other words, we agree to absorb one half of the province and the municipal outlay, while the province does not always accept the same share of the municipal costs.

Then there is this point: I assume that, while we have to depend, to a great extent, on a certificate of the provincial auditor, there are no instructions to the provincial auditor in the agreement, and in our travelling around the country we find differences in audit practices. As a matter of fact, there are differences in administration across Canada, both in the provinces and in the dominion government.

I do not think that this committee can do anything about the act; but I do think that, if and when this act is before the House of Commons for amendment some time, careful consideration should be given to whether or not it is not somewhat of a straitjacket that should be freed in the interests of the municipalities, the recipients and the dominion government. I leave out the provinces, because I assume they can look after themselves.

The CHAIRMAN: Are there any questions on these paragraphs, gentlemen? If not, shall we go to paragraphs 65 and 66, unspent family allowances?

65. *Unspent Family Allowances.* Section 5 of the Family Allowances Act provides that the allowances are to be applied "exclusively towards the maintenance, care, training, education and advancement of the child". Although this is the *raison d'être* of various child placing agencies, the Department of National Health and Welfare has directed that allowance moneys paid to them as guardians of children "must be used to provide extras not normally the responsibility of the agency acting as a parent", and that amounts received are to be deposited by the agencies in special bank accounts. In the event of the death of the child directly concerned, any balance at credit is required to be transferred to the accounts of other children of the same family in care of the agency or, if there be none, to the other family allowances accounts.

66. The power to enforce this directive may be debatable, but it is its consequences that attracted audit notice. For example, one agency now has over \$140,000 accumulated and has it invested in various securities, some paying as high as 6%, with each child's account credited only with the equivalent of bank interest, the balance apparently being available for application towards administrative costs.

Mr. BELL (*Carleton*): What agency is it that has \$140,000 accumulated?

Mr. SELLAR: I can give you the name. If this committee wants me to give names, I will give names; but I am generally told to keep quiet about names. I can give you the names or, if you wish, I will just refer to the identification by locality. It is in the province of Quebec.

Mr. BELL (*Carleton*): This is a children's welfare organization, is it?

Mr. SELLAR: I imagine that is so; it is a religious order. But there are also children's aid societies in certain of the maritime provinces that also have monies.

I used this particular one because it is the largest amount; but I do not like to name it, because there are others and it would be unfair to pick this one out and say it is only in this one. It happens in various places.

Mr. WINCH: Do you mean that the monetary payment paid to an agency for the care and assistance of a child is not being used in that period for the purpose for which the money has been voted by the House of Commons: is that basically what this means?

Mr. SELLAR: In a sense, yes. Let me put it this way: any of these agencies that have orphan children, and so on, are supposed to give them all the necessary care. Then they get the children's allowance of \$5, \$6, or \$7, as the case may be.

The argument is that this money is to provide for the special needs of the child, to give them the little luxuries that it otherwise would not get. In England, for example, they do not pay any allowances for children in orphanages. We do. My complaint is—if you can use the word "complaint" in a reasonable way—that the Family Allowances Act does not contemplate building up a reserve fund for a family, but is for providing for the immediate needs of a particular child. That is the real point.

As it is now, they are accumulating some money. Suppose there are three orphan children from a family in an institution: if one dies, the credit goes to the other two, and so on. That is not provided by the act.

The CHAIRMAN: How can we bring this to the attention of the organizations concerned?

Mr. SELLAR: You do not need to bring it to the attention of the organizations concerned, because they are acting under a directive issued by the Department of National Health and Welfare. It is the Department of National Health and Welfare you should ask to justify the directive, if you think it is in error.

Mr. MORTON: Mr. Sellar, are you saying that this extra interest that they are putting to their own use has been authorized by the Department of National Health and Welfare? This money is money in trust for the children. They are receiving 6 per cent interest on that money, and yet the child's account is only being credited with the bank interest, which may be $2\frac{1}{2}$, or 3 per cent, as the case may be. There is a difference there.

Is the department authorizing that this extra interest be not credited to the children, as it should be?

Mr. SELLAR: I am slow in answering you, sir, for this reason: I know that the particular agency to which I referred is a successor of a previous one. At the time of the change over it had certain investments of these funds, and the department said, "Do not sell those investments at a loss. Keep them to maturity". I do not know what the department said at the same time with respect to interest and for that reason I hesitated in answering you, sir.

Mr. WRATTEN: If they are not using this money to look after these orphans, how are they caring for them: where do they get their funds from to provide care for the children?

Mr. SELLAR: Orphanages are provided with funds in various ways. This is extra money.

The CHAIRMAN: They are making 3 per cent; they are spending 3 per cent? They get 6 per cent, of which they spend 3 per cent on the child, so to speak, and they keep 3 per cent?

Mr. SELLAR: Their view is that the directive says bank interest should be credited. If they earn better than bank interest, they are entitled to keep it.

Mr. WRATTEN: Do they turn this money over to the children when they get to be of age?

Mr. SELLAR: I presume so. Remember, it is no longer public money, so we do not follow it.

Mr. WRATTEN: Do you have a record that they have done it, or have not done it?

Mr. SELLAR: You will have to ask the Department of National Health and Welfare about that. I have no information and have never asked.

The CHAIRMAN: We are assuming quite a bit.

Mr. MORTON: Mr. Chairman, has Mr. Sellar authority to ask the department under what authority they permit this extra interest to be transferred?

Mr. SELLAR: They issued this directive. What authority?

Mr. MORTON: Yes.

Mr. SELLAR: I cannot find any.

Mr. WINCH: This matter interests me. My understanding has always been that the reason this act was brought into being was so that there would be this allowance month by month for the assistance and taking care—and, as you put it, providing little more comfort—of a child. The fact that one agency has built up \$140,000 shows that the money is not being used month by month.

Is that not a contravention, at least of the spirit of the act? The child is not getting the benefit month by month of this money which is granted by the House of Commons. That does not seem right to me. There may be some other explanation; but it does not seem right to me.

Mr. KEAYS: Mr. Chairman, would it not be the case that the agency is a good administrator, and that the agency has received provincial grants which have allowed them to give to the child the amount of family allowances which they have given them?

In that case you are giving to the child what he should have and, probably, a little more. The cost of administering the fund compensates for that 3 per cent extra which they are receiving.

Mr. MORTON: Mr. Chairman, we are not going into whether they are wrong in principle in doing that, but what we are questioning here is that they are doing something at present which they have not the authority to do. The next question is, should they be given that authority? I think that is what Mr. Sellar is saying here. They are doing something for which he could not find authority and I would imagine, if this committee has any power, we should ask the department for that authority. If not, the situation should be reviewed, and then there should be some consideration given to the question of whether authority should be given to them to deduct this amount in consideration of administration costs; but, at the present time, they are doing it without authority.

I do not think we are going into the merits, or that we are condemning them for the situation, as a matter of administration; but I think we are questioning whether they are doing that with proper authority.

The CHAIRMAN: Is that the point?

Mr. SELLAR: Yes, my point is well stated by you, but might I put on the record two little quotations from the act? The money is paid to the parent. "Parent" is defined by the act as being:

A father, stepfather, adoptive father, mother, stepmother, adoptive mother, foster mother or any other person who maintains or has the custody of a child, but does not include an institution.

"Institution" has such meaning as may be prescribed in the regulations.

I quote from section 5 of the act:

The allowance shall be applied by the person receiving the same exclusively towards the maintenance, care, training, education and advancement of the child, and, if the Minister or such officer as is authorized by the regulations in that behalf is satisfied that the allowance is not being so applied, payment thereof shall be discontinued or made to some other person or agency.

That is what you are referring to, Mr. Winch?

Mr. WINCH: I thought it was quite clear that is what it was for. It may be their right, but in accord with the terms of the act this action is contravening the spirit of the act. Let us put it that way.

The CHAIRMAN: The attention of the Department of National Health and Welfare should certainly be called to this section. Is that not the point at issue?

Mr. WRATTEN: I think that is what we are all interested in finding out, whether the youngsters are going to have the benefit of the \$140,000. Why should they not get it?

Mr. SELLAR: The Department of National Health and Welfare is the only department that can inform you.

Mr. WRATTEN: I think we should draw their attention to this section of the act, and get a ruling on it.

Mr. MCGREGOR: Could we not have someone from the department to explain this?

The CHAIRMAN: If that is your desire.

Mr. WRATTEN: I think that would be better, Mr. Chairman.

Mr. WINCH: I think so too.

The CHAIRMAN: Is there anything else concerning that section for the moment, gentlemen? If not, let us go to sections 67 to 70 inclusive, "War pensions". That concerns cases which have been cited by Mr. Sellar.

67. *War Pensions*. Section 5 of the Pension Act, c. 207, R.S., grants the Canadian Pension Commission "full and unrestricted power and authority to . . . adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension". Nonetheless, notice is now taken of the application given to section 38 of the Act. In certain circumstances, the section permits pensions to parents of deceased members of the forces if in dependent condition (defined in the Act as "the condition of being without earnings or income sufficient to provide maintenance"). Subsection (5) provides that these pensions be "subject to review from time to time and shall be continued, increased, decreased or discontinued in accordance with the amount deemed necessary by the Commission to provide a maintenance for such parent . . .".

68. Where a pension award is sought by a parent who falls into a dependent condition subsequent to the death of a son, the prime requisite to qualify is, by subsection (3) of section 38, that he or she be

"incapacitated by mental or physical infirmity from earning a livelihood". However, in many instances awards are continued although the pensioner later obtains full-time employment and earns in excess of the amount deemed necessary by the Commission to provide maintenance. The Commission relies on subsection (7) which stipulates, *inter alia*, that "the pension to a widowed mother shall not be reduced on account of her earnings from personal employment". To illustrate: the Commission refused in 1945 to make an award to a widowed mother because she was earning \$12 a week and thereby considered "not incapacitated from earning a livelihood". In 1946 when her employment ceased, an award of \$25 monthly was granted and continues to be paid although information of record indicates she is now earning \$180 a month. In another case, a widowed mother was awarded a pension in 1953 which continues to be paid although in 1954 she obtained a Civil Service appointment and now occupies a classified position with a starting salary of \$2,130. In both instances the Commission's decision not to disturb the pension was based on the view that subsections (3) and (5) are subordinate to (7).

69. Although section 38 of the Act implies the application of a means test, there is no direction pertaining to the notice to be taken of personal assets—apart from the income therefrom—that might be used to provide maintenance. To illustrate: a pension may continue in payment to a widowed mother who also receives old age security pension and (a) owns a home free of encumbrance and (b) possesses securities of substantial value.

70. Because of the difficulty in reconciling the various subsections and because present-day social legislation differs so materially from that which existed some forty years ago when section 38 was enacted, attention is now drawn to the matter.

The CHAIRMAN: Mr. Sellar, you obviously put these paragraphs in for a purpose. I know we have read the paragraphs, but would you like to elaborate upon them?

Mr. SELLAR: Yes, sir, I will be very brief. I do not expect this committee to take any action whatsoever. This was really addressed to the House of Commons in the event that at some time in the future you have the Pension Act before you for amendment.

The point is simply this: the act now provides that the pension to a widowed mother shall not be reduced on account of her earnings from personal employment. That was put in in 1919, when the best job a widowed mother ordinarily could get was that of a housekeeper or hired help in a home. A great many things have happened since then.

I do not suggest for a moment that any change be made as far as present awards are concerned; but I think future awards should be subject to the same tests as are like pensions generally, namely a sort of means test. However, I do not expect your committee to take any action on this information. This was really addressed to the House of Commons.

The CHAIRMAN: You cite a case in paragraph 68 which is, to say the least, quite interesting. This refers to a payment to a person earning a fairly substantial monthly income; in fact, a double payment.

Mr. SELLAR: It is quite legal, sir, as the act now reads.

She was in a dependent situation and had a low income when the pension was awarded. The fact that her position has improved is immaterial because of the particular wording in subsection (7). Because of it she is entitled to a pension for life. I do not think it is altogether reasonable, but I do not suggest that any pensions that are now in effect should be varied. However, I do think you should consider it from the point of view of future awards.

The CHAIRMAN: I notice in paragraph 67 it says:

. . . the Pension Act grants the Canadian Pension Commission "full and unrestricted power and authority . . .

In the use of that power and authority they have continued certain pensions, though it is questionable whether that was the original intention of the act.

Mr. SELLAR: Yes, but when you come to subsection (7) of section 38, it says:

The pension to a widowed mother shall not be reduced on account of her earnings from personal employment.

The pension commission has only jurisdiction when the award is made in that particular type of pension.

The CHAIRMAN: Then, your purpose is to direct our attention and that of the pension commission itself to these extraordinary powers; is that it?

Mr. SELLAR: Yes, sir. When you say "our" I am really thinking in terms of the House of Commons as a whole, and not just this committee.

The CHAIRMAN: Yes. Is there anything else on these paragraphs, gentlemen? If not, let us go to paragraphs 71 and 72.

71. *Air Transport Tariff Rates.* This paragraph treats with two cases where contractors are willing to refund to the Government amounts totalling about \$93,000, but a statute stands in the way. In the spring of 1956 the Department of Defence Production chartered helicopters for use in the transport of freight and personnel required on the Mid-Canada Early Warning Line project. The aircraft were chartered for only a short period because it was expected that the R.C.A.F. would take over the work. That not occurring, the helicopters continued in use throughout the summer and fall. This materially reduced costs to the contractors, so in the summer of 1956 the Department negotiated with them to substitute with retroactive application rates that would have been paid under the approved tariff if the contracts had originally been entered into for the longer periods.

72. Air rates are, by the Aeronautics Act, subject to the approval of the Air Transport Board, and once a rate is approved the carrier may not reduce charges without the consent of the Board. The proposed new agreement was therefore brought to the notice of the Board by the Department. The Board declined to approve, apparently because, unless an approved tariff provides for retroactive adjustments, the extension of the period of the agreement is not cause for automatic concurrence by the Board. In money, the consequence is that one company has around \$73,000 and another about \$20,000 which they would willingly refund to the Crown were that not a breach of the law.

The CHAIRMAN: This is a very interesting case, where contractors are willing to refund to the government, but a statute stands in the way. The Air Transport Board declined to approve of the refund. Is that correct, Mr. Sellar?

Mr. SELLAR: Yes, sir. I might add for your information, sir, that the department has devised ways and means of getting around this difficulty so far as present contracts are concerned.

When they make a deal they have to go to the Air Transport Board for confirmation of the rates; the agreement provides that the rates are subject to adjustment where the period of service is longer or the amount of flying is greater than the basis of the contract contemplated, when made. They are now legally getting "kick-backs"; before they could not get any.

The CHAIRMAN: Why would the board refuse to take back a refund of \$93,000 which two contractors were perfectly prepared to refund?

Mr. SELLAR: I think in that case, Mr. Chairman, you would have to ask the board itself for an explanation; but it is on the general principle that rates structures should not be susceptible to special concessions, to any user, by indirect transactions between the transport company and the user subsequent to the event.

You may recall, it is reported that John D. Rockefeller made a large part of his fortune from "kick-backs" made by railways and shipping companies; but that is a great many years ago.

Mr. WALKER: This problem has now been solved?

Mr. SELLAR: Yes, but not in so far as this money is concerned.

Mr. WALKER: It is still outstanding?

Mr. SELLAR: The only part of this money we are getting back is that which we derived by way of taxation.

Mr. WALKER: What do you suggest should be done?

Mr. SELLAR: I think they should have done the sensible thing and let them get the money back. However, the law officers of the transport board decided otherwise. I know the Department of Defence Production fought this case; they fought hard over it.

I do not mind telling you that I told the Minister of Finance I felt I was duty-bound to bring this to the attention of parliament; and I know that he went into it.

Mr. WALKER: Will this require special legislation, in your opinion, to get this back?

Mr. SELLAR: My opinion is not worth anything on that particular subject. In the opinion of the Air Transport Board it would require special legislation.

Mr. WALKER: What would happen if they did take it back; would anybody complain? They could have taken it back.

Mr. SELLAR: The government is willing to take it back.

Mr. WALKER: There is supposed to be a regulation that the money should not go back. What harm would be done if it was taken back?

Mr. SELLAR: I cannot see where there could be any harm done, except that someone might say they acted in contravention of the act.

Mr. WALKER: If they got a directive from the minister to take the money back there would not be anybody who could complain, would there?

Mr. SELLAR: I do not imagine so.

Mr. WALKER: When we are making our report I guess we had better look into that, Mr. Chairman.

Mr. MCGEE: What is involved other than the question of principle?

Mr. WALKER: The question of principle, as I understand Mr. Sellar, is that the board do not wish to make any special concession on their rates, because it might set a precedent.

Mr. SELLAR: After they have established the rate.

Mr. WALKER: Yes, after they have established the rate.

Mr. SELLAR: That does not provide for any adjustments.

Mr. WALKER: If it did so it would open the way in the future for what you have described as "kick-backs".

Mr. SELLAR: Yes, Mr. Walker, under the new agreements they are providing for adjustments.

Mr. MCGREGOR: I wonder if you know whether this particular instance concerned a long period or a short period?

Mr. SELLAR: These contracts were for moving material up to the mid-Canada early warning line—you know, that radar line. It was expected that the R.C.A.F. would take over, with these two companies flying their planes for, possibly, six weeks. They have the cost of moving in their planes, equipment and everything else. Therefore they quoted a high rate. Instead of being out by June, they were still there late in October, and I think in one case until November. Therefore, their overhead cost was much less and they were willing to turn over the excess profit.

Mr. MCGREGOR: They had a contract for a short period?

Mr. SELLAR: Yes, sir.

Mr. MCGREGOR: It was extended into a longer period?

Mr. SELLAR: Yes.

Mr. MCGREGOR: They were entitled to revise that contract. Have you any figures showing the cost, the rates they were charged on this first contract, or what was the cost of the second contract?

Mr. SELLAR: I have some, sir.

Mr. MCGREGOR: I beg your pardon?

Mr. SELLAR: I can give you some. I am quoting from a letter. I do not have the contract. The cost of the aircraft was \$18,000 per month, plus payment by the crown of \$40 per month per flying hour for gasoline and oil to cover positioning, and \$22 an hour for gasoline and oil for flying, plus the travelling expenses of the carriers' crews.

The new basis was that the rate would be as follows: If a plane is used from one to three months, it would be \$18,000; four to five months, \$17,000; six months, \$16,000; seven months, \$15,000; and eight months, \$14,000. They were going to make that retroactive over the whole length of the service by the contract.

Mr. LAMBERT: Are you aware of any other situations, as a result of contracts having been entered into by, say, the Department of Transport or any other agency or department of the government, in respect of construction, where there is a negotiation for a lower price once the contract has been completed; that is on an invited tender basis and a case where this regulation would stand in the way of a refund being made to the government.

Mr. SELLAR: This regulation could only apply to a flying contract.

Mr. LAMBERT: Oh, yes.

Mr. WALKER: This situation which is set out in paragraph 72 cannot occur again. It is simply an adjustment of the present impasse with which you are concerned?

Mr. SELLAR: It could happen again if the contracts are not worded carefully.

Mr. WALKER: You say there is now a clause in the new contracts?

Mr. SELLAR: They are putting it in the new contracts. I have a sample which my men gave me the other day to show how it is working.

Mr. WALKER: They have done this as a result of your uncovering this.

Mr. SELLAR: Do not give me any credit. The Department of Defence Production were on their toes about this from the outset. Give them the credit. They have been fighting.

Mr. MCGEE: What is the cost of a helicopter? Are we going to discuss this further with some witness?

The CHAIRMAN: Not this section.

Mr. MCGEE: Is it proper to ask what is the cost of a helicopter and also what that rental of \$18,000 a month was originally?

Mr. SELLAR: I could not say.

The CHAIRMAN: Why do you not call the department and ask them?

Mr. MCGEE: I am informed that a helicopter such as the type for which the government was paying \$18,000 a month to hire costs something in the order of \$50,000. This would seem an unusually high rental fee to me.

Mr. PICKERSGILL: Would Mr. McGee tell me where he has been buying his helicopters for \$50,000?

Mr. MCGEE: Has the hon. member any idea what a helicopter would cost?

Mr. PICKERSGILL: If you told me the kind of helicopter it is, I might be able to tell you.

Mr. MCGREGOR: I think these figures seem to be a little out of order. I think we should go into this thing further. I think we should have the opportunity of calling witnesses in order to investigate this question.

The CHAIRMAN: Will you leave this to the steering committee to see how best to approach it?

Mr. MCGREGOR: As long as you do it.

The CHAIRMAN: We will bring you an answer at the next meeting.

Mr. PICKERSGILL: I apologize for coming in late and for not having been here during the previous discussion. Perhaps I might put a question. Is it not true that under the regulations of the air transport board many of these rates are fixed and there is no one bidding on the job who can in fact bid below the rates fixed by the air transport board.

Mr. MCGREGOR: That might be the answer, but we should find it out.

Mr. PICKERSGILL: I do not know whether or not the auditor general knows the answer. However, it was my impression that was the case.

Mr. SELLAR: In this instance a particular rate was fixed by the air transport board for this contract.

Mr. MCGREGOR: For this particular job?

Mr. SELLAR: Yes.

Mr. PICKERSGILL: Does that not always have to be done? Does not the air transport board always have to approve all these contracts?

Mr. MCGREGOR: We did not build very many mid-Canada lines.

Mr. PICKERSGILL: There have been others.

Mr. MCGREGOR: Not as good as the mid-Canada.

The CHAIRMAN: Paragraphs 73 to 77 could also cause quite a little stir.

73. *Cost of a Motor Vessel.* A vote in a 1954-55 Appropriation Act was for \$250,000 to start construction of an auto ferry (with estimated cost shown as \$1,086,000 in the Estimates) to ply between Wood Islands, P.E.I., and Caribou, N.S. A ferry service was already in operation, the Government of Canada annually contributing \$158,000 towards its support.

74. The Appropriation Act received assent on 26th June 1954, but it was not until 31st March 1955 that Treasury Board authorized a contract to be negotiated with a builder recommended by the Canadian Maritime Commission, work to proceed on a "price to be negotiated basis", with the proviso that:

although the eventual cost of the vessel is estimated at \$1,500,000, the expenditure under the contract is to be limited to \$1,000,000 pending completion of price negotiations...

The next pertinent Treasury Board Minute is dated 24th October 1956, and approved a contract at cost plus a fixed fee of \$85,000, with a cost ceiling of \$1,420,000. However, on 1st February 1957, the Board increased the ceiling to \$1,950,000.

75. The amount being still an under-estimate of cost, on 18th July 1957 the Board increased the sum available to \$2,462,930 "because of design changes and modifications introduced by the Department of Transport". Another Treasury Board Minute, dated 7th November 1957, once more increased the contract amount, this time to \$2,935,500, because of: "(a) unrealistic character of earlier estimates; (b) modifications which develop in the requirement; (c) delays in construction due to late steel deliveries (d) limited experience of contractor in production of a vessel of this complexity." Finally, on 24th April 1958, Treasury Board added \$224,557 "required to meet increased costs", bringing the total authorized to \$3,160,057.

76. The Department of Transport accepted the vessel on 25th April 1958. Up to the close of the 1957-58 fiscal year, payments under the contract amounted to \$3,079,000. In addition, there are the payments to the firm of naval architects responsible for the plans and specifications and supervision of construction. This firm received a fee of 11½% plus certain out-of-pocket expenses, etc., and to the end of 1957-58 had been paid \$372,060. Thus a project, originally listed in the 1954-55 Estimates as having an ultimate estimated cost of \$1,086,000, has cost more than three times that amount, and without the records disclosing the need to proceed without negotiating for a firm price contract after tenders had been invited.

77. It is noted above that in 1954-55 the Government was contributing \$158,000 towards the support of the service between Wood Islands and Caribou. Before the *Lord Selkirk* was completed the subvention had been increased to \$163,000. In April 1958, the Department of Transport arranged with the company operating the service that it charter the *Lord Selkirk* on the basis that the company mans, operates, insures, maintains and keeps the vessel in repair. In addition, the company is annually to pay (a) an amount representing 4% of the actual cost of construction—the life of the vessel being estimated at 25 years, and (b) 3½% interest on the unrecovered portions, from time to time, of the cost of construction. The subsidy was increased to \$567,000 for 1958-59, subject to reduction if the operation should prove profitable.

The CHAIRMAN: This is in respect of the cost of a motor vessel. Would you care, Mr. Sellar, to expand on this?

Mr. SELLAR: There is not a great deal I can add to what is in there. I might say, in respect of paragraph 74 where it mentions a fixed fee of \$85,000, that has been increased to \$130,000 by executive order of March 26, 1959.

I have secured the operating record of the ferry. While it was running only part of the year 1958, that is the calendar year, there was a very substantial increase in the traffic. For example, automobiles increased from 23,800 to 39,900 in numbers. Trucks increased from 6,300 to 8,600, and passengers from approximately 85,000 to 137,000. On the other hand, all operating expenses went up. It remains to be seen, on a full year, whether or not the ship is well worth while. The ferry operators would like a second one constructed.

The CHAIRMAN: So also, I understand, would the local members. However, in justice to that last statement, let me say the traffic is very substantially increasing; is it not.

Mr. SELLAR: Yes, it is very substantially increasing.

The CHAIRMAN: It is a matter of service to Newport.

Mr. BELL (*Carleton*): However, it has nothing to do with the matter which the auditor general raises.

Mr. HELLYER: Which ship is it?

Mr. SELLAR: The *Lord Selkirk*.

Mr. BELL (*Carleton*): Who is the builder of the *Lord Selkirk*?

Mr. SELLAR: The name is Ferguson, but I do not know whether it is Ferguson shipyards; it is at Pictou.

An hon. MEMBER: It is Ferguson shipyards.

Mr. MCGREGOR: Are we to go into the cost of the boat and why it has cost so much over and above the other? Are we supposed to go into that cost?

The CHAIRMAN: Are there any questions in respect of these paragraphs?

Mr. LAMBERT: I am interested in paragraph 75. In respect of this item, it seems as if somebody just looked at a cloud when they started out on this thing. We start with an estimate of \$1,086,000. We end up with \$2,935,000 in November of 1957. There are submissions there on the basis of the unrealistic character of earlier estimates, modifications and delays in construction due to the late steel deliveries, and the limited experience of contractors. Those few words hide quite a lot. Has any investigation been made into, first of all, the decision as to building this vessel on this basis, and then going along with these improper specifications?

Mr. SELLAR: Well, Mr. Lambert, I assume you are addressing the question to me.

Mr. LAMBERT: Yes.

Mr. SELLAR: You will notice the words you quote are in quotation marks. They are taken from the treasury board minute. Therefore you would have to ask those who wrote them for the meaning which they want given. All I can say is that this contract was awarded on cost-plus fixed fee basis.

I also understand that the vessel was of a very special type. I am not sufficiently versed in marine engineering to be specific. I understand, however, it is a type of vessel which can be propelled from both ends, and that the naval architects retained for the job regarded it as an entirely new scheme and novel in their experience. All those things may have entered into it.

Then, as to the selection of the Pictou shipyard I, of course, know nothing, save that in the debates of the House of Commons of March 3 of this year, in answer to a question, the Minister of Transport announced that the contract for the Bell Island ferry had been awarded to Ferguson Industries of Pictou, Nova Scotia. Therefore, this company apparently is regarded as being competent to construct another boat.

The CHAIRMAN: Apparently on both sides of the fence.

Mr. WALKER: Is it not just another instance of negotiating without first having contract and then letting it go on and on?

Mr. SELLAR: Mr. Smith of Calgary, at a former meeting, referred to the cost of certain vessels for the navy which are on a cost-plus basis. This is another of those instances where there was a cost-plus award. Let us be fair to the Department of Defence Production, again. This contract was awarded in the name of the Department of Defence Production but to be administered by the Department of Transport.

The Department of Defence Production did not want any part of that contract, because they said they had no control over it; therefore, the section of their act which permits the awarding of contracts without calling for tenders should not have been applied.

Mr. WALKER: Was this new contract you have spoken of with regard to the Ferguson Company, at Pictou on a cost-plus basis?

Mr. SELLAR: No; lowest bidder—fixed price.

Mr. WALKER: Why has this continued in this way? After the tenders have been invited, surely they could fix a firm price, could they not? There were no tenders at all on this?

Mr. SELLAR: All that I know, sir, is that the ferry people had considered building a vessel. They got certain plans and had approached certain people as to a possible price. They had not gone beyond that when the government decided that it would construct the vessel.

Then the Maritime Commission was asked to survey and recommend a yard, and it recommended this Pictou yard.

Mr. MORTON: It would appear that the government paid for the experiment of this new type of vessel.

Mr. SELLAR: My humble opinion is that we paid a lot for this. But my prime concern to you, as a member of parliament and as a member of this committee, is that it does not seem to me fair in principle that an item should be put in the estimates, estimating an ultimate cost of, say, \$1 million, when the real cost is three times that amount. I think we should have closer estimating figures in the estimates.

Mr. WALKER: It is like the Welland canal, for which the original estimate was \$1.3 million, but which finally cost more than \$27 million.

Mr. SELLAR: I do not know whether these comments are objectionable or not; but I do think that, in fairness to the House of Commons, they should be more careful in estimating the ultimate cost of buildings and projects of various kinds when they put the figures in the estimates. If they cannot put in a reliable figure, for goodness sake leave it out.

Mr. PRATT: Do you know who the architects were?

Mr. SELLAR: Milne, Gilmore and German.

Mr. PRATT: Of Halifax?

Mr. SELLAR: No—Montreal. They may have offices in Halifax; I do not know.

Mr. PRATT: Would those people not be responsible enough, when charging 11½ per cent fees, to estimate properly the cost of a boat they design?

Mr. SELLAR: I have not been in contact with them. You would have to ask either the Department of Transport or the Department of Defence Production about that.

The CHAIRMAN: It is a new type of design, of course; you mentioned that.

Mr. SELLAR: It is a different type of design. Please do not regard me as an authority on this subject, because I can get out of my depth very quickly when it comes to discussing types of ships. If you want the information, you should ask the Department of Defence Production or the Department of Transport, or both.

Mr. PICKERSGILL: Was the Department of Defence Production involved in this?

Mr. SELLAR: Yes; the contract was awarded in the name of the Department of Defence Production.

Mr. PICKERSGILL: I am a little puzzled by that, though perhaps I ought to know.

Mr. LAMBERT: I believe Mr. Sellar did say that the treatment given to this was to take advantage of the Department of Defence Production facilities to go for a cost-plus contract, which the Department of Transport could not do.

Mr. SELLAR: Without advertising for tenders.

Mr. PICKERSGILL: I see.

Mr. BELL: Do you have the treasury board minute with you that you speak of in paragraph 75? Does it outline any additional reasons for the so-called "unrealistic character of earlier estimates" and the other items that are mentioned in there; or are those just recitals in—

Mr. SELLAR: I have not the treasury board minute before me, but I think it goes no further than the quotation I gave. I imagine there was a long supporting explanation, but this was summarized by the secretary of the treasury board into the minute.

Mr. CHARLTON: What are the usual architect's fees?

Mr. SELLAR: Frankly, I do not know; but I was a little startled to see 11 per cent.

Mr. CHARLTON: It is 11½ per cent.

Mr. SELLAR: I was a little startled; but I do not know.

Mr. CHARLTON: It was 11½ per cent on the cost.

Mr. SELLAR: Yes.

Mr. CHARLTON: In this case the architect could allow the cost to go up and get still a little more money.

Mr. SELLAR: Of course, that is the weakness of these things.

Mr. PICKERSGILL: Mr. Chairman, I think it would be very interesting to the committee if we could have someone from the Department of Transport and the Maritime Commission come here at a subsequent meeting and give us a history of this project. I think it would be very illuminating to the committee. I would suggest that that be taken into consideration by the steering committee.

The CHAIRMAN: Then will you leave that with the steering committee?

Mr. MCGREGOR: Mr. Chairman, I would say that is a very good suggestion, and I think we should follow that through.

The CHAIRMAN: Shall we go on, gentlemen, for the present?

Mr. MCGEE: Mr. Chairman, if we have concluded this particular discussion for the time being, I would like to revert to a former matter we were discussing in connection with these helicopters.

At least one article appeared in *Saturday Night* dealing with the waste and extravagance involved in the building of the mid-Canada line, which was due—according to the writer—mainly to the lack of coordination of the various ministries and authorities involved.

The point that interests me in this particular case is that apparently we have air transport tariff rates—a government appointed board—setting up minimum standards, minimum fees, for rentals such as helicopters. And certainly there must be other aspects of this matter which are affected in the same way.

The principle is that you have one government board setting a minimum figure, below which no one can bid. It seems to me that the public interest is not best served, in terms of getting work done for the least amount of money—which is the theory of the bidding system—if the lower bidders are prevented from bidding by the specific action of another government board. I am wondering if this is so in this case. Are there any other examples that the auditor general might know of, where the same principle is operating?

Mr. SELLAR: Mr. McGee, I think you may be in error—I do not say you are—in assuming that this rate was fixed by the Air Transport Board before the contract was awarded.

Mr. MCGEE: I am going on your statement in this regard.

Mr. SELLAR: I think the rate was fixed after the department had secured prices and had selected—I assume—the lowest; but I do not know.

I assume it would select the company that it decided would be the most proficient, and then the board was approached to fix a rate. But it was after operations proceeded that they found the price was too high, and both sides wanted to reduce it. That is my understanding of it. I do not think the board fixed the price before the contract was awarded.

Mr. McGEE: What relationship would the price that they would fix bear to the actual? Did they just confirm these prices, or did they set something other than what was included in the tender?

Mr. SELLAR: I think—I am guessing, of course—that they would take the contract agreement and agree that “X” dollars a month for flying on this particular service would be the tariff rate.

Mr. PICKERSGILL: Mr. Chairman, I wonder if Mr. Sellar happens to know this. I do not know that this would be knowledge that would be given to him in his professional capacity; but does he happen to know whether any agreement that the government of Canada enters into with any air carrier has to be approved by the Air Transport Board before the treasure board will accept it?

Mr. SELLAR: I do not know that, sir.

Mr. PICKERSGILL: I think that is the case, but I am not absolutely certain.

Mr. MCGREGOR: We can go into that later.

The CHAIRMAN: Yes. Shall we proceed with paragraphs 78 and 79, which should be read together. Those paragraphs are in connection with Air Force contracts.

78. *Air Force Contracts.* Two contracts negotiated by the Department of Defence Production are now noted because doubt is entertained with respect to the interpretation given later amendments. The first is a cost-plus contract, awarded in May 1956, covering the preparation for storage, removal from storage and preparation for flight or delivery to the R.C.A.F. of aircraft, aero engines and other major equipment in stored reserve at various R.C.A.F. units in Eastern Canada. The contractor's charges also included amounts relating to the maintenance and servicing of R.C.A.F. hangars and shop equipment. The contract was amended in January 1958, to authorize “performance of work related to or associated with execution of above tasks as directed”, by the commanding officer of an Air Force repair depot and this has been interpreted as regularizing retroactively the unauthorized expenditures referred to above, which totalled over \$100,000 to January 1958. The doubt is whether the amendment is within the Executive authorization to contract.

79. The other contract was with respect to jet engine repair and overhaul for the R.C.A.F. overseas. An amendment provides that when the requirements of the ‘green strip’ practice necessitate additional stripping, etc., an extra £ 225 per engine would be paid. The expression ‘green strip’ in aviation jargon is ordinarily regarded as meaning that, as an added safety precaution, one engine in every ten passing tests after overhaul should be additionally stripped, rebuilt and retested. The contractor did not interpret the contract in this manner, charging £ 225 for each of 170 engines rejected on inspection after overhaul and requiring further work to put them in acceptable condition. The billings were paid accordingly, but prior to the year-end recovery action had been commenced.

Mr. BELL (*Carleton*): Has any action been taken to recover since that time?

Mr. SELLAR: In connection with paragraph 78?

Mr. BELL (*Carleton*): Paragraph 79. You say at the end “. . . prior to the year-end recovery action had been commenced”. Have you any indication of what the result of that has been?

Mr. SELLAR: We have recovered approximately \$30,000. A new agreement has been made which now gives the interpretation of the "green strip" that the department intended in the first instance.

Mr. BELL (*Carleton*): So, in effect, that has been concluded?

Mr. SELLAR: In effect, that has been concluded, assuming \$30,000 was a fair return.

Mr. WALKER: So we do not need to consider this?

Mr. SELLAR: I do not think so. In connection with paragraph 78, a new contract has been made. My point is that the officers did not have the authority to make the first one, and a new contract has been made by proper authority for the present year. So, as far as I am concerned, the purposes of these two sections have been served.

The CHAIRMAN: Are there any other questions, gentlemen? If not, let us go to paragraphs 80 to 84 inclusive.

80. *Non-Productive Payments.* Some cases are now noted where obligations were incurred in a legal manner but the public did not benefit from payments made in the fiscal year 1957-58.

81. A ten-year lease was signed by the Department of Public Works in 1949 for approximately 21,000 square feet of office space in a Toronto building. The annual rental was \$53,400 and the space was occupied by the Department of Citizenship and Immigration until May 1957, when it moved into larger rented quarters. Although part of the premises was sublet in February 1958, the net cost to the Crown for unoccupied space amounted to approximately \$50,000 before a quit-lease was obtained in May 1958.

82. A ten-year lease negotiated in Hamilton in 1948 also involved approximately 21,000 square feet of space—at an annual rental charge of \$42,108. The space was secured to provide accommodation while a new public building was being constructed. The new building was completed in 1955 and, since then, the rented premises have remained unoccupied except for about 5,000 square feet used by an R.C.A.F. recruiting unit—and an additional 3,000 square feet sublet to a university during a six months' period at a rate less than half that paid by the Department.

83. A firm of architects was retained in 1955 to prepare plans and specifications and supervise construction of a Post Office building in Quebec City. The agreed fee was 5% of the cost of the project, then estimated at \$2,500,000. The City originally concurred in the selection of the site, but the municipal planning authorities later took exception to a building being erected there because that would interfere with a re-planning of the area. After the Government agreed to seek a new site in March 1956, the architects were instructed to discontinue work on the plans. They submitted an account for \$108,579 but Treasury Board, in January 1958, authorized payment of \$86,677 as full and final settlement.

84. In 1953 a contract was signed for the construction of a small vessel for the Navy. It provided for a fixed price of \$120,548, the Government providing various items of machinery, etc. The contract called for completion in six months, but three years elapsed before delivery was made. A departmental explanation includes:

The principal contributing factor for this delay was occasioned by non-delivery of vital equipment supplied on a "free issue" basis. This equipment included propellers, shafting, electrical equipment and numerous other items of auxiliary machinery and components.

Certain items of this equipment failed to perform when it was supplied and had to be renewed. In addition other items required refurbishing due to the length of time it was necessary to hold them in storage. The foregoing, together with changes in specifications, increased costs of materials and labour rates have all contributed to the increased costs in construction.

Having considered this, in July 1957 Treasury Board authorized a compensatory payment of \$23,170 to the contractor over and above the contract price of \$120,548.

The CHAIRMAN: Paragraph 80 sets out the general principles, "Some cases are now noted where obligations were incurred in a legal manner but the public did not benefit from payments made in the fiscal year 1957-58".

Then you give examples in paragraphs 81, 82 and 84; is that right?

Mr. SELLAR: Yes sir. My real reason for these paragraphs is to seek to obtain from this committee a direction whether, in its opinion, when an expenditure is legally made but for which no benefit results, it should be set out in the public accounts in such a way that you can identify it. It is required in England: it is not required here.

Mr. BELL (*Carleton*): Personally, I think so. I think the auditor general has very properly drawn these illustrations to our attention, and my own view is that I hope he will continue to do so.

In respect to paragraph 81, the building in Toronto, have you any indication of what action was taken by the department to try and sublet this space?

Mr. SELLAR: They advertised it in the papers and they placed it with real estate firms.

Mr. BELL (*Carleton*): Do you know which real estate firms?

Mr. SELLAR: No, I have not the names here; I would have to get them for you. I will get the names, sir.

Mr. PICKERSGILL: I wonder if you could also get, at the same time, the descriptions of the buildings concerned.

Mr. SELLAR: The equipment of the building?

Mr. PICKERSGILL: No; the descriptions of the buildings—where they were, what they were called.

Mr. BELL (*Carleton*): I wonder if the hon. member could tell us why the original building was not big enough?

Mr. PICKERSGILL: Perhaps it was not big enough because in those days we were having a great deal of immigration.

Mr. WALKER: Why would the department sign a 10-year lease without any prospect of using the space?

Mr. SELLAR: I do not know; I can give you the name of the building, if you want it. The first building was the Austin building, on Church Street. The rate was \$2.54 a square foot, and the area was 21,064 square feet.

Then they moved to 175 Bedford Road, into a space of 38,616 square feet, at \$2.67 a square foot.

Mr. MCGREGOR: Which was the larger of the two—the first, or the second?

Mr. SELLAR: The second was the larger of the two.

Mr. MCGREGOR: By how much?

Mr. SELLAR: By approximately 17,000 square feet.

Mr. PICKERSGILL: Mr. Chairman, does Mr. Sellar happen to have the name of that building on Bedford Road?

Mr. SELLAR: No, sir.

The CHAIRMAN: Is there anything else, gentlemen? If not, let us go to paragraph 85, printing of non-public technical journals. The principle here is that the prior sanction of parliament is a requisite in any arrangement where a department will make a grant-in-paid payment to an association or society. The example you cite here is a long-standing arrangement, is it not?

85. *Printing of Non-Public Technical Journals.* It is generally accepted that the prior sanction of Parliament is a requisite in any arrangement where a department will make a grant-in-paid payment to an association or society. In the course of the audit now being reported on, an unusual arrangement of long standing attracted attention. The Agricultural Institute of Canada, formerly the Canadian Society of Technical Agriculturists, is being assisted by the Department of Agriculture arranging that its scientific journals be printed by the Queen's Printer, with the charges paid by the Department. In summary form, the facts are:

- (a) In 1933 the Canadian Society of Technical Agriculturists sought financial aid from the Department of Agriculture because the National Research Council and others were discontinuing grants to the Society and membership support was declining.
- (b) In 1934 the Society began printing a review consisting of current news topics, while the cost of printing scientific material in *The Canadian Journal of Agricultural Science* was assumed by the Department of Agriculture (with editing and other costs still borne by the Society).
- (c) In 1957-58 payments for eight editions of agricultural scientific journals (under three different titles) were made, press runs generally being in excess of 2,500 copies. The Queen's Printer's charges totalled \$18,619, recorded as follows:

Vote	Amount
8	Science Service, Botany\$ 210
10	Science Service, Entomology 1,606
11	Science Service, Forest Biology 4,096
12	Experimental Farms, Administration 6,002
15	Branch Experimental Farms, Operation 2,081
22	Production Service, Live Stock 4,624

- (d) Members engaged in research—approximately one-half of the membership—receive the journals without charge. Moneys received from subscribers by the Society are turned over to the Department and amounted to \$2,581 in 1957-58.

Mr. SELLAR: Yes, sir; it has existed for over 20 years, and the audit office did not discover it until this last year. Our tests did not pick it up.

It is a grant-in-aid in kind and, of course, our view is—and this has always been the practice of parliament—that a grant-in-aid should be set out in the estimates. In this case it was not set out anywhere and, moreover, the expenditures were spread over a large number of votes, so nobody knew exactly where they stood.

This year the treasury board has ordered the total costs be brought together in a single vote and is going into the whole matter thoroughly with the intent of deciding on a general policy for the future. However, as yet no decision has been made.

My complaint, of course, Mr. Chairman, is that it is human nature among civil servants—technical civil servants—to want to see in print these and

other articles they write. This seemed to be a very convenient way of doing it. I do not say that is the case, but that is what I suspected. However, action is being taken.

Mr. BELL (*Carleton*): As I understand it, any costs in the estimates during these years are included in the details which are shown.

Mr. SELLAR: No, it was just part of the printing.

The CHAIRMAN: The situation has now been cleared up?

Mr. SELLAR: Yes, slowly, but we are hopeful that it will be completely cleared up.

Mr. WALKER: Have we skipped over paragraph 83, Mr. Chairman?

The CHAIRMAN: We can always revert if you wish.

Mr. WALKER: Why would the architects be paid \$80,000 for a job which they never completed? They were to receive five per cent on an estimated project that cost \$2½ million. I understand the plans were scrapped and the architects put in a bill of \$108,000, and it was settled for \$86,000. Why would they be entitled to that?

Mr. SELLAR: That was for work performed in preparing plans. This money was paid to the architects for several months' services in the preparation of plans. Therefore, they were entitled to some compensation for what they had done.

Mr. WALKER: On the quantum meruit plan?

Mr. SELLAR: They had asked for \$108,000. The department bargained with them and they got a settlement of approximately \$80,000.

Mr. WALKER: What is the object of raising the matter in item 83?

Mr. SELLAR: Just because you have no return for the expenditure; that is all.

Mr. BELL (*Carleton*): Is there any way in which we can protect against a repetition of the situation which is set forth in item 83?

Mr. SELLAR: You cannot protect against a government changing its mind.

The CHAIRMAN: Here it was the city which changed its mind.

Mr. SELLAR: But the government was in control, and they "played ball" with the city and changed its mind too.

Mr. MORTON: As a matter of interest, did the government proceed with the new post office on a new site?

Mr. SELLAR: I cannot say they have proceeded with it, but when I was last in Quebec city—which was Christmas of last year—I asked a man at the station to point out to me the new site, and he did so. As far as I could see work had not proceeded to any extent there.

Mr. MORTON: I wonder if the same architects are employed?

Mr. SELLAR: No, they are different architects.

Mr. HELLYER: I think the explanation would be, Mr. Chairman, the fee is divided into certain separate amounts on an apportionment basis: a certain amount is paid for supervision of construction; and a certain amount is paid for preparation of plans, and so on. In that case you could determine the extent to which work performed relates to the amount paid.

In some cases where it is not spelled out, it would be a larger amount, and then it is broken down. This may or may not have included any part of the supervision of construction.

Mr. SELLAR: I do not think, Mr. Hellyer, there had been any construction work commenced, but there had been a lot of work done in the preparation of plans. I know the Department of Public Works made a direct examination of the work that had been done in the course of reaching a settlement.

Mr. WALKER: General Young does not pay too much out on these things; he is very careful.

Mr. SELLAR: I would not limit it to any particular deputy minister; I think they all try to be careful.

The CHAIRMAN: Is there anything else, Mr. Walker?

Mr. WALKER: That is all; but I do not agree with that last comment.

The CHAIRMAN: Let us go to paragraphs 86 to 88 inclusive, which contain some very interesting information on transport costs.

86. *Unusual Transportation Costs.* An expenditure of \$29,140 was incurred to transport, by chartered aircraft, 113 members of a Newfoundland militia unit to Camp Petawawa and return. It was observed that: (a) the men were in camp less than a week and (b) it was estimated that transport could have been provided by the R.C.A.F. for about \$7,000 less, though not as comfortably as in the chartered aircraft.

87. A number of cases were observed where charges for moving furniture and effects of Service personnel were patently unrealistic, although permissive under the regulations. In one case, the cost of moving the furniture and effects of an R.C.A.F. officer from one house to another, a distance of approximately half a mile, within the confines of Rockcliffe Air Station, amounted to \$314. The movers account reads:

To packing at old residence, unpacking and setting up at new residence—

8 Barrels	@ \$7.00 each.....	\$56.00
1 Box	@ 5.50	5.50
32 Cartons	@ 1.75 each.....	56.00
18 Cartons	@ 2.75 each.....	49.50
1 Crate	@ 4.00	4.00
5 Wardrobes	@ 5.00 each.....	25.00
		196.00

To removal of household effects from Cottage Row to Rigel Road—

Van and 4 men—

10½ hours @ \$11.50 per hour.....	<u>117.88</u>
	<u>\$313.88</u>

In the audit it could not be established why extensive packing was necessary or why Service vehicles were not used.

88. Another like account attracted attention; this time the amount was \$341 and the move from Billings Bridge, Ottawa, to Uplands Air Station, five miles away. At the other extreme was \$3,831 paid for moving an officer's effects from Ottawa to Vancouver. This was done by moving van although a rail movement would have cost about \$1,000 less.

Mr. BELL (*Carleton*): Personally, I would like to see all the documents in connection with these three paragraphs. They are not in your possession, and I suppose you would have to call somebody from the department.

Mr. SELLAR: Yes, you would have to call them from the department. I have a document with me but it is a later case that one of my boys brought to my attention.

Mr. BELL (*Carleton*): During this same fiscal period?

Mr. SELLAR: No.

Mr. BELL (*Carleton*): During another fiscal period?

Mr. SELLAR: In the last fiscal year.

Mr. WALKER: Could we take it up with the steering committee and call the necessary witnesses later? Then, in the meantime, we could finish with Mr. Sellar.

The CHAIRMAN: Yes, I was hoping to do that.

Is there anything in these three paragraphs that you wish to draw to our attention? It is pretty well stated in the text.

Mr. SELLAR: Yes, I do not want to be monotonous, but I again come back to this, that we have not developed in this country a technique about living with the permanent forces in time of peace, we still regard them as special citizens.

In the removal expenses now referred to, if a civilian employed by one of the armed forces lived in one house, and was ordered to move to another, he would have to pay his own expenses; but if the occupant of that house was a man in uniform the government would pay the cost of moving him. That is my objection.

For instance, taking myself as the civil servant, if I move from one part of the city of Ottawa to another, because my office had been moved, that would be my own liability. I take my own possessions and I actually hire and pay the packer. But if a member of the services is moved—even if it is within Rockcliffe barracks, as I have here—they bring in an outside trucker, after the commanding officer and the serviceman have asked for bids.

They bring in a commercial trucker. He takes the full responsibility, packs all possessions in barrels and cartons and moves them—in this case a very short distance—and they unpack it and so on.

The reason for that is if you want insurance on your possessions you must agree to having it done by the employees of the mover.

If you are prepared to assume your own risk and do your own packing, then the cost is much less. But it is invariably the rule in the armed forces to hire an outside trucker and to insure even for local moves.

Mr. LAMBERT: Mr. Chairman, on that I would like to ask some questions.

I do not think it is quite fair in certain aspects. First of all, if Mr. Sellar is prepared to risk his furniture and he can put up with the complaints of his wife that either the dishes are broken or the furniture has been scratched, then he could say "All right, we will use the servicemen, with the services of a stake truck or broken down lorry". But, as to extensive packing, that might be a question. In my opinion, I would say you could break dishes just as easily by carting them 50 feet as you could by 50 miles in a truck. If you have been told you are moving then, I do not think there is any choice. Surely if a civil servant is compulsorily moved from one end of Ottawa down to, say, Smiths Falls, he does not have to spend his own money on removal expenses?

Mr. SELLAR: No.

Mr. LAMBERT: Where are you going to draw the line?

Mr. SELLAR: I said, if he is moved within his city, within his community.

Mr. LAMBERT: That is his own choice?

Mr. SELLAR: Just the same as with service people. I drew a distinction between treatment to an employee of the army who is a civilian and an employee of the army who is in uniform.

Mr. LAMBERT: I would like to know, Mr. Chairman, if in his particular case it was a voluntary move or a compulsory move.

Mr. SELLAR: Which one?

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

WEDNESDAY, MAY 13, 1959

WITNESSES:

Mr. E. A. Driedger, Q.C., Assistant Deputy Minister, Department of Justice; Dr. G. F. Davidson, Deputy Minister of Welfare, National Health and Welfare Department; Mr. D. A. Golden, Deputy Minister, Defence Production Department; Mr. J. R. Baldwin, Deputy Minister, Department of Transport; and Mr. L. C. Audette, Q.C., Chairman, Canadian Maritime Commission.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),
and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pratt
Broome	Hellyer	Regier
Bourget	Johnson	Robichaud
Bruchesi	Keays	Smith (<i>Calgary South</i>)
Campbell	Lahaye	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Valade
Denis	McGregor	Villeneuve
Dorion	McMillan	Walker
Drysdale	*Martineau	Winch
Fraser	Morissette	Wratten
Godin	Morris	
Grenier	Morton	

Antonio Plouffe,
Clerk of the Committee.

*Replaced Mr. Murphy on May 6.

ORDER OF REFERENCE

WEDNESDAY, May 6, 1959.

Ordered,—That the name of Mr. Martineau be substituted for that of Mr. Murphy on the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 13, 1959.

(9)

The Standing Committee on Public Accounts met at 9.30 a.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Bruchesi, Campbell (*Lambton-Kent*), Campeau, Drysdale, Fraser, Hanbidge, Hellyer, Macdonald (*Kings*), Macnaughton, Martineau, McGee, McGregor, Morissette, Morris, Morton, Pickersgill, Pratt, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Villeneuve, Winch and Wratten—(25).

In attendance: Mr. Watson Sellar, Auditor General For Canada; Mr. E. A. Driedger, Q.C., Assistant Deputy Minister, Department of Justice; Dr. G. F. Davidson, Deputy Minister of Welfare, National Health and Welfare Department; Mr. L. C. Audette, Q.C., Chairman, Canadian Maritime Commission; Mr. D. A. Golden, Deputy Minister, Defence Production Department; Mr. J. R. Baldwin, Deputy Minister, Department of Transport; Mr. E. B. Armstrong, Assistant Deputy Minister, (Finance) Department of National Defence.

The Committee resumed consideration of the Auditor General's Report.

Mr. Watson Sellar was called, and tabled answers to questions of Messrs. Fraser and Bell asked at a previous meeting.

The Chairman informed the Committee that, as agreed, representatives of the following Departments were in attendance, namely, Justice, Health and Welfare, Defence Production, Transport, National Defence and the Canadian Maritime Commission.

The Committee reverted to *Paragraphs 46 and 49*, and Mr. Driedger was called. He made a brief statement on "International Relief," was examined and retired.

On Paragraphs 65 and 66,

Dr. G. F. Davidson was called, made a statement, was questioned, and retired.

On Paragraphs 71 and 72,

Mr. D. A. Golden was called, and briefly examined.

The Committee requested that Mr. Golden table the contract under scrutiny by the Committee.

Mr. Baldwin was called, made a statement, and was examined.

On Paragraphs 73 to 77,

Mr. Audette was called, and made a statement. His examination was begun.

At 11.00 o'clock, Mr. Audette's examination still continuing, the Committee adjourned until Wednesday, May 20th to again hear him, Messrs. Baldwin and Golden and representatives from National Defence and Air Transport Board.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

May I suggest for the sake of consecutive order that we revert to the paragraphs that we were examining, and in that order, the first being paragraphs 46 and 49 of Mr. Sellar's report which deal with the application given to the dollar vote. The Department of Justice have sent Mr. Elmer A. Driedger, assistant deputy minister, to help us try to understand the words "international relief". I now call on Mr. Driedger.

You will recall, if you refer to page 149 of the evidence, that we were trying to get an understanding and if possible a definition of the words "international relief". We had the advance of an opinion some years ago given by the Department of Justice. It appears at page 171 of the evidence. It was an opinion given by Mr. Varcoe, on the basis of which a vote was drafted.

That was some time ago, and events have changed in the interval. It was on your suggestion that Mr. Driedger has come here this morning to tell us what he thinks about the matter.

You have read the evidence, Mr. Driedger?

MR. ELMER A. DRIEDGER (*Assistant deputy minister, Department of Justice*): Yes, Mr. Chairman, I have read the evidence and the paragraph in question. The problem here, as I understand it, is to interpret the expression "international relief purposes" in this particular vote item.

As it has been indicated to the committee, that item is founded upon or taken from a letter written by the then deputy minister of Justice, Mr. Varcoe, back in 1955. I am sure you gentlemen will appreciate that at this stage it is probably impossible for me to say what somebody who is no longer here, when he wrote a certain letter four or five years ago, meant by a particular thing. I am afraid I cannot say what was in his mind.

This letter incidentally has now become a statute; at least the item is now in the statutes, and the question we have to resolve is a question of statutory interpretation.

The starting point of course for the interpretation of all statutes is the fundamental rule that the words must be construed in their ordinary sense. I might say that I would not presume to give the committee an authoritative interpretation. I am afraid I cannot do that. But I can express to you my personal views. I can also say that I discussed this matter with the deputy minister of justice, and that the views I am about to express are his also.

As I said, the fundamental rule in the construction of statutes is the starting point that the words must be construed in their ordinary sense. I have examined our files on this matter, and I have examined the vote item, and I have been unable to find anything that would suggest that this expression must be construed in any way other than its ordinary sense.

If we look at the dictionaries we will find the definition of the word "international" is simply what the word itself says: inter-national, between nations. The definition contained in the Oxford dictionary is existing, constituted or carried on between different nations, pertaining to relations between nations. The word "international" is used in that sense for example when we speak of international trade, trade between two nations. That is its ordinary sense.

In this particular phrase "international relief purposes"—in my view anyway,—the ordinary sense is that it is relief which comes from a source in one country and goes to some place in another country. That is international relief. That I should think is what the word means in its ordinary sense.

MR. PRATT: Could the witness give us any other meaning of the word?

MR. DRIEDGER: It is rather a difficult assignment.

MR. PRATT: That is what I thought.

MR. DRIEDGER: This is the dictionary meaning that I gave you. It was the first meaning given in the two volume Oxford dictionary. But I am sure

that if you went through the definition and perhaps picked Murray's Oxford dictionary, you might well find other meanings. I do not know, but this is the first meaning that is given, and I suppose it is the primary meaning of the word. I did not go beyond that.

The CHAIRMAN: If you will refer to page 133 of the evidence, you will find that Mr. Sellar gave his interpretation of what it meant.

Mr. DRIEDGER: Yes, I saw that.

The CHAIRMAN: Do you agree or disagree with that?

Mr. DRIEDGER: I do not know whether I would care to put it on that basis. I say that I have not found anything in the files to indicate that this expression was used in anything other than its ordinary sense. I am afraid I would not care to comment on that view. I just do not know.

The CHAIRMAN: Let me put this more clearly: if words must be given their ordinary meaning, this is what the evidence says:

If that definition is apt, the test is not that an expenditure has been made in any country other than Canada, but that the government and its relief organizations is of the opinion that an international appeal for funds is necessary, so they can give immediate relief to their citizens.

Is that your general understanding?

Mr. DRIEDGER: As I have indicated to you, the word in its ordinary sense means between nations. This view that is expressed here on page 133 is, I believe, founded on the quotation which precedes it.

The CHAIRMAN: That is right.

Mr. DRIEDGER: As I mentioned before, I have not found anything in our material and in our files to indicate that that was before the department at that time or was taken into account. I cannot say that it was or was not.

Mr. DRYSDALE: May I ask a supplementary question, not connected with international relief. Mr. Varcoe gave his opinion on the return of the money, and I think that this was the difficulty: that there was approximately \$3 million of which the government contributed \$1 million and various private contributors contributed \$2 million; then there was half a million dollars left.

The fund had been apparently intermingled, and it was stated in the evidence at page 145, where Dr. Stanbury said:

Dr. Stanbury: No: as the deputy attorney general indicates, it would be proportionate to the government's interest. The total of the contributions was \$3,105,000, so the government's interest would presumably be approximately one-third at that time.

My question is why, if that is the analysis—why was not one-third of the half a million dollars not returned to the government, and the other two-thirds kept in trust, in court?

Mr. DRIEDGER: I am sorry, but I am afraid I cannot answer a question like that, having to do with the handling.

The CHAIRMAN: I am sorry; we should not have interrupted you. Did you have something else?

Mr. DRIEDGER: I do not think so.

The CHAIRMAN: Is that the sum total of it?

Mr. DRIEDGER: I think so.

The CHAIRMAN: Are there any further questions?

Mr. WINCH: I would like to ask, whether or not in the view of the witness and the Department of Justice, there is any need to have any kind of a motion or a regulation in respect of the statutes to make it clear? Is it clear enough? You say it is governed by statute.

Mr. DRIEDGER: That is my view. In my view it is clear. I am expressing only my own view.

Mr. WINCH: The term is used in the statute?

Mr. DRIEDGER: It is used in an item in the estimates which has become part of the Appropriation Act. It is in the statute.

Mr. WINCH: Your point is that because certain terminology is used in an estimate, then it becomes a statutory authority as to the use of those words?

Mr. DRIEDGER: No. I mean only this, that this item now is part of the Appropriation Act; therefore we are interpreting not a letter written by Mr. Varcoe: we are interpreting a statute.

Mr. WINCH: That is my point. Perhaps I am not putting it clearly. There now is an item of \$1 in the estimates. The purpose of that \$1 is international relief. Because there is an item of \$1 and it is under the heading "International Relief" in your opinion does that give an interpretation as to what it is because those words have been used in an estimate and not in an enactment, shall we say, of parliament.

Mr. DRIEDGER: I am afraid I do not quite understand your question. This is now an enactment.

Mr. PICKERSGILL: And has been for several years. It is part of the law of Canada. This is not an estimate at all; it is part of the Appropriation Act for that year and is just as good law as is any other law.

Mr. FRASER: The witness said this is his opinion. Is it the opinion of the Department of Justice?

Mr. SMITH (*Simcoe North*): He said that.

Mr. DRIEDGER: I said I had discussed this with Mr. Jackett, the deputy attorney-general. The view I was about to express is also his view.

Mr. FRASER: This is a view of the Department of Justice?

Mr. DRIEDGER: Yes.

Mr. FRASER: I think, Mr. Chairman, we should take it at that.

The CHAIRMAN: Is there anything else? If not, thank you very much indeed, Mr. Driedger.

May I at this point call your attention to paragraphs 65 and 66, "Unspent Family Allowances". I am glad to say our witness is Dr. George Davidson, the deputy minister.

Mr. WINCH: I think I have seen him somewhere else in Canada.

The CHAIRMAN: He is well known to all of us.

On page 201 of the evidence you will see Mr. Sellar said this:

You do not need to bring it to the attention of the organizations concerned, because they are acting under a directive issued by the Department of National Health and Welfare. It is the Department of National Health and Welfare you should ask to justify the directive, if you think it is in error.

You will recall we were concerned about the interest earned by certain organizations throughout the country.

Mr. WINCH: And being held in trust for a family instead of one person, and if that one person died.

The CHAIRMAN: That is right. Would you like to start with your questioning of Dr. Davidson? Dr. Davidson, have you read the evidence?

Dr. G. F. DAVIDSON (*Deputy Minister of Welfare, Department of National Health and Welfare*): Yes, sir.

The CHAIRMAN: At the moment would you like to do a little justifying?

Dr. DAVIDSON: I would be very glad to, sir. I think possibly there are a number of points which arise out of the testimony. Therefore I might be permitted to deal with one or two of the preliminary points which were raised, having to do with the authority under which we issued this directive and the reasons why we have this special arrangement for organizations which are acting as child welfare agencies.

In the first place, I would direct your attention to the fact that we have a regulation which was passed in 1958 in its later form, but which had its origin earlier. This regulation is 18(c) and it provides as follows:

18. Payment; except as otherwise provided in the act and these regulations, the allowance payable in respect of a child shall be paid . . .

(c) where the application to register such child is made by a parent, other than the father, stepfather, adoptive father, foster father, mother, stepmother, adoptive mother, foster mother of the child, to such parent, upon such terms as to the manner in which the allowance shall be paid, used and accounted for, as the director prescribes.

What those words mean is simply this; that where any agency—any child welfare organization—is established as a parent for family allowance purposes, the family allowance shall be paid to that agency upon such terms, as to the manner in which the allowance shall be paid out and accounted for, as the deputy minister prescribes. In other words, this regulation gives the director of family allowances authority to issue special directives as to the way in which family allowance moneys shall be handled by this particular category of parent, the agencies as distinct from ordinary parents. I think the reason for this may become apparent when it is realized that some of these child welfare organizations have as many as several hundred, and indeed several thousand, children in their care.

In cases such as this it is obvious that the arrangements for the payment and administration of family allowances must, in some respects, differ from the arrangements made in the case of an ordinary parent who receives family allowances each month in respect of two or three children.

Mr. Watson Sellar did not identify the agency which we have before us for consideration at the moment and I do not propose to identify it unless it is specifically requested. I might point out that this agency on December 31, 1958, had more than 3,400 children for whom it was responsible as a parent, in respect of receiving some \$20,000 to \$25,000 in the form of family allowances. If we were, under such circumstances, to leave family allowances to be handled in the way it applies to ordinary parents there would be nothing to prevent an agency in such circumstances from taking that income into its ordinary revenue accounts with the ordinary expenditures and utilizing those family allowance moneys for that purpose, and possibly reflect a certain amount of savings in the amounts of moneys which it otherwise has to look to from the provincial government, the municipality or the community.

It is not, and never has been, the view of the department of the government that family allowances are intended, in such situations, simply to be taken into the account as ordinary agency revenue. It is this which has led to the necessity of establishing these special arrangements which involve the setting up of what we call trust accounts into which the family allowance moneys for the individual child are deposited and around which certain controls are established to insure the family allowance moneys are spent for the needs of the individual child.

I must take advantage of this opportunity to explain why we have this system of special trust accounts. You can understand that you have to have this system of trust accounts when you have agencies as large as the agency in question this morning. There is a very considerable amount of work involved in maintaining the individual trust accounts for the individual children.

Over the years we have endeavoured to work out with the agency sensible arrangements by which these accounts can be maintained in an effective, and at the same time economical form.

We provide in our directive that the family allowance moneys when received must be deposited into a special trust account and a bank savings account. We require in addition that the agency set up a special interest account into which it deposits the interest which it receives from the bank on the bank savings account. We do not consider it feasible to require the agency to maintain, in this case, 3,000 separate individual savings accounts. We do not require them to apportion the specific amount of bank savings on the individual account to the account of the individual child. We feel the only practical arrangement in the circumstances is to have the interest pooled and apportion it periodically, as is provided in the directive, to the credit of the individual child.

Out of these individual accounts we allow expenditures to be made for individual items which are designed to benefit the individual child. These expenditures are charged against the individual ledger account of the child, so that at any time we are able to take off, in respect of any child, in the case of any of these agencies, a statement which will show the various amounts which have been credited to that child's account, including its share of the pooled bank interest, and also an itemized list of the expenditures made in respect of that child, and the credit balance standing to that child's name at any point in time.

It will be appreciated that when you provide an agency as large as this one is with substantial sums of money for family allowances, which have to be set up and administered through this admittedly somewhat complicated system of trust accounts, and when you further recognize that the agency already existed before family allowances came into existence and that the funds are for the specific maintenance of the child, that is to say, food, clothing, shelter or other forms of assistance, you can, I think, understand why it is in some cases the agencies have difficulty in spending the family allowance money as quickly as it comes into the hands of the agencies.

This is the experience of the agencies concerned. They say: "We do not find it possible, without spending the money on frivolous things, to spend the family allowance moneys in all cases as quickly as it comes into our hands". This is what accounts for the accumulation of these funds in the hands of the agencies.

Mr. Chairman, I venture to say that if we were able to look into the situation with regard to the individual parents of our Canadian children, we would find in many cases they too had accumulated balances in family allowances for their children or in the way of insurance policies or in other ways over the years. Therefore, it should not be assumed that all parents in Canada are currently spending all the family allowance moneys and that the only unspent accumulation is that which is to be found in the accounts of the agencies.

Now we come to a situation which is dealt with in Mr. Sellar's report in so far as this particular agency is concerned. From time to time we have had agencies say to us: "This is a very complex and burdensome operation as far as our administrative costs are concerned. You should allow us to have the family allowance trust account and a certain amount of it as a service administration fee". We have refused to allow them to do that. From time to time they have asked that the federal government should pay them administrative fees over and above the family allowances. We have refused to agree to that because we have taken the position they are parents and do have the responsibility of administering these funds as parents of children. In a number of instances, some of these agencies have said to us: "It does not seem

to make sense to us to leave this money in the bank at bank interest when it could be put into high-grade securities with a higher yield and produce more revenue from the securities". Frankly, we have not been happy about an arrangement which would involve agencies placing these moneys even in the highest-grade securities, even those represented by the Dominion of Canada.

I must admit, however, in two or three cases in the past where we have agencies we have trusted on this point and which have responsible finance committees made up of business men in the local community who know what they are doing in this field, we have agreed—we have not objected—to their taking family allowance moneys and investing in Dominion of Canada bonds or in other high-grade securities, provided they credit the entire proceeds of these high-grade securities to the children's interest account.

I have to say that in this case this is the only instance that has come to our attention—and it has come to our attention through the Auditor General—where there has been a departure from the procedure which requires all of the interest earned to be credited to the children's trust account. At no time have we approved a portion of the interest being used for administrative expenses. I have some sympathy for the position of the agencies which are required to spend very substantial sums of money in administering this trust account. We have discouraged the use of family allowance funds for investment purposes in this way. When the case that is now before the committee was brought to our attention by the Auditor General, we discussed the question with the agency and received from them an understanding that they would liquidate their investments as soon as it was possible for them to do so, without loss in terms of the disposal of the securities in question, and that they would return these funds to the bank interest saving account arrangement which we have ordinarily prescribed as the proper method for dealing with these accumulated balances. Unfortunately, you gentlemen know that this is not the best time to dispose of bonds, however high grade they may be, and it may be some time before the agency is able, without loss, to dispose of the securities.

Mr. SMITH (*Simcoe North*): This comes to the exact point that the agency would be responsible for any losses.

Dr. DAVIDSON: Yes.

Mr. SMITH (*Simcoe North*): If, for instance, this was of a permanent nature the agency would be responsible for any losses in the fund.

Dr. DAVIDSON: That is quite clear, sir, and, in fact, in the various cases which have come directly to our attention we have required an undertaking to be given. I am thinking of one provincial government in particular. One government has given us a written undertaking that it will guarantee the face value of the securities and it will credit the full amount of the interest to the children's trust account.

Mr. MORTON: What about the interest in this case from now on?

Dr. DAVIDSON: We will have to require that it be credited to the children's trust account in full. I do not wish to say to you at this time that we would go back into the past and require the agency to pay up the difference.

Mr. BELL (*Carleton*): Why not?

Dr. DAVIDSON: That is a good question. Technically, I must say to you that I think one has to argue logically that if they should do it in the future they should have done it in the past. This agency is operating as a charitable organization. It has no substantial funds of its own, apart from those it receives from provincial and municipal sources. In terms of administrative requirements, they are put to a considerable expense and frankly, I

would hesitate to go back to this agency and insist that they should make up this difference between what they were able to earn and what they have credited to the children's trust account to the present time. I do not deny the validity of the principle, but we have to work with these agencies and count on their cooperation. It is difficult to take the arbitrary position that they went out and were able to earn a little bit more interest than they would have had they simply sat back and let the money accumulate in bank savings accounts. I would not like to take the position that we are going to do this at the present time. I have gone through the detail of this and why this does not affect the principle. The margin between the interest earned and the interest credited is not as great as is suggested in the comment of Mr. Sellar in his auditor's report. For example, I have not found any of the securities which are yielding as much as 6 per cent. The highest yield is 5 per cent. The average of these securities is 3.89 per cent. Therefore, the difference is perhaps as low as one per cent, narrowing down to three-quarters of one per cent over a period of time.

Mr. PICKERSGILL: I was going to ask if, in fact, there would be a statutory authority for recovery. I can understand that before you pay the money you could prescribe certain conditions, but does the Family Allowances Act give you statutory authority for recovery?

Dr. DAVIDSON: I would not like to give a legal opinion on that, but I think there is some very real question about it. We have undoubted control over the family allowance moneys. We can recover an overpayment of family allowance moneys; but if an agency were to accept these moneys and put them into a current account where they do not draw interest, it would be acting in accordance with the provisions of the Family Allowances Act. If it put them into a savings account, it would likewise be doing so. There is nothing which says that the agency cannot put it out for interest in other ways, because the Family Allowances Act does not contemplate these large amounts.

Mr. WINCH: You did say that all the interest had to be placed to the credit of the child and this was not done in this particular case. In other words, they were not operating in accordance with the regulations and your instructions?

Dr. DAVIDSON: It says a separate savings bank account shall be used for family allowances received, and that withdrawals from this account shall be made only for expenditures on behalf of the children for whom it was received.

Mr. WINCH: You agree that in certain cases they could invest in other securities, but you made it clear that all interest had to be placed to the credit of the account.

Dr. DAVIDSON: We made it clear to the agencies with whom we were dealing at that time, but we did not put in our directive anything referring to any question, except bank interest. It was the bank interest arrangement to which we were interested in having them conform, and therefore the directive is written in terms of the money being put into a bank savings account and the bank interest being credited to the children.

Mr. WINCH: In connection with the question of investment in securities, was that merely a verbal arrangement or was it in writing, that all interest had to accrue to the credit of the fund?

Dr. DAVIDSON: It was never written out to this agency, but it was written out to other agencies.

Mr. FRASER: What is the total accumulated balance for these different agencies across Canada?

Dr. DAVIDSON: Offhand, I could not give you this information at the present time, but I will be glad to give that to the committee later. I can give it to you with respect to this particular agency. You may be surprised at the figures. It is not merely a question of the \$141,000 that is held by the agency in terms of securities. As of December 31, 1958 the figure is \$368,000. I would ask you to divide this figure by 3,432 children which would bring it into proper perspective. That works out to a credit of approximately \$107 per child in the care of the agency. This works out at a little bit more than a year's accumulated family allowance.

Mr. FRASER: I have another question along this line. In connection with a child who might go out of that agency and be adopted, would that child carry with it that amount of money to the parents who adopt?

Dr. DAVIDSON: That is correct.

Mr. FRASER: What security have you on that money for the first year or so? You do have some security on it.

Dr. DAVIDSON: I do not understand your question, Mr. Fraser.

Mr. FRASER: Well, suppose the child is adopted by Mr. and Mrs. 1 and 2, or whoever they might be, I understand after the adoption there is a six months or a year's probation period before they are really taken in.

Dr. DAVIDSON: In some provinces, yes; other provinces are different.

Mr. FRASER: Yes, I understand. Are there any strings on that trust fund?

Dr. DAVIDSON: We make a practice of holding back the trust fund for a number of months. I have forgotten the number of months, but it is at least three or four. We do this to make certain the child is established in the home and that the parents are maintaining the child. We always have an arrangement whereby the agency will pay out the accumulated trust balance over a period of time rather, than in a lump sum.

Mr. FRASER: That is the point I wanted to get at. I wanted to see the child protected.

Dr. DAVIDSON: We endeavour—not always perfectly—to safeguard the interest of the child as he or she enters the new home by making sure that parents who are in the process of adopting a child do not suddenly receive a windfall amount and thereby have their perspective as to their adoptive parent-hood blurred a little bit by the size of the sum involved.

Mr. WINCH: Will you follow through, Dr. Davidson, and tell us what happens when a child dies?

Dr. DAVIDSON: If the child who dies is a complete orphan and is an only child, the amount of money that is at the credit of the child becomes part of the child's estate and is dealt with under the estates legislation of the province in which he or she dies. If it is a child who is a member of a family of children, all of whom are in the care of the agency, we have provided in our directive—and this may not be regarded as sound policy, but we think it is—that the balance standing to the credit of the deceased child will be apportioned equally to the accounts of his brothers and sisters. In this way the money is kept within the family group.

Mr. WINCH: What happens if there are not any other children?

Dr. DAVIDSON: It comes under the estates legislation of the province.

Mr. WINCH: That is if there are not any other children and there are not any parents.

Dr. DAVIDSON: Yes. In that case the amount of money to the credit of that child comes under the estates legislation of the province, and is handled as part of the estate of a dead person.

Mr. WINCH: It does not go into the general fund?

Dr. DAVIDSON: No.

Mr. MORRIS: Is not that somewhat at variance with item 65, where it says: In the event of the death of the child directly concerned, any balance at credit is required to be transferred to the accounts of other children of the same family in care of the agency or, if there be none, to the other family allowances accounts.

Dr. DAVIDSON: I will have to check on my answer in connection with that. I gave an answer which I considered correct, but I had better check it and, if I have made a mistake, correct it in the record.

Mr. PICKERSGILL: I was wondering about that, because it would appear this money was never used as a family allowance, and it would seem odd it should become part of the estate of the deceased.

Dr. DAVIDSON: It is largely a question as to what else could happen to it.

Mr. BELL (*Carleton*): Mr. Chairman, are we not getting away from the purpose of this committee? One issue was before us and we have taken care of it. I do not think we should get into the whole administration of family allowances in this committee.

Mr. DRYSDALE: You mentioned these directives are issued and I was wondering what degree of control you exercise, or how you ascertain that the directives are followed. For example, they were able to invest \$140,000 in other ways than in accordance with your directive. If you do not have that information—the Auditor General turned it up—how do you know the money is being expended for the benefit of the individual child?

Dr. DAVIDSON: That is a very good question and I would not want to convey the impression that we were following up as closely on this as we should have been. However, we do have field workers who are supposed to go out and who do go out and visit the agencies periodically. They make a check of their books. We also receive a statement, such as the one I have in my hand at the end of each year, which is signed by the responsible head of the agency and certified by their auditor. This statement shows the status of the family allowance trust account as of the end of the year.

I will be perfectly frank in saying to you that this is a situation that we should have been more prompt in catching than we were. I should perhaps add that the files in this case were in fact sitting on the desk of our social welfare supervisor in Quebec at the time that Mr. Sellar's representative paid his visit. So it was made a little easier for him to find this, because the files were there at the time of his visit.

The CHAIRMAN: Are there many other similar occasions?

Mr. FRASER: I understand this is the only agency that you did not notify they could not invest in securities of that kind.

Dr. DAVIDSON: We have not sent out a general directive to the agencies saying they cannot invest in government bonds, for example, but we have sent out a directive saying that they could put their money into a bank savings account. We do not know of any other agency where the agency has invested money in bonds and has not credited the full amount to the family allowance trust account. I know two other agencies where at various times they have invested money in other bonds, but in both cases they have credited the full amount to the family allowance trust account.

Mr. PICKERSGILL: What happens to the money standing to the credit of a child in one of those accounts when that child ceases to fall in the family allowance category?

Dr. DAVIDSON: That money, if the child returns to its parents, goes back to the parents. In the annual statement \$51,000 of family allowance funds were taken out of the agency trust account and returned to the parents when the children were returned.

Mr. PICKERSGILL: I mean in the case of a child who can go to work?

Dr. DAVIDSON: If the child is of the age of 16 to 17, it is the practice to apportion it under agency supervision for the assistance of the young person. The family allowance trust balance is not spent at one time. It is more useful to apportion it over a period of two or three years when the child is starting to make his own way in life. If there is enough money, in the case of a child over 18, it is spread out further. It depends largely on the amount.

Mr. MORTON: Do I understand correctly that the department checks into the type of securities to see that they were such that only a trust fund could properly invest in that?

Dr. DAVIDSON: I did not make that statement, because actually, these are not trusts in the legal sense of the word. We call them trust accounts, but there is no trustee status that the agency has under law. These agencies are parents under the law. Therefore they have to come within the limits of our directives with precisely the same right to spend this money or to accumulate it, as the parents have.

I have looked at the list of securities that this agency has at its disposal, and while I would not like to see the agency liquidate the securities at the present moment, I have no doubt myself, and on the advice of the investment committee, which is made up of representative businessmen in the city in question—I think there could be no doubt that these securities will be fully paid at maturity date.

The CHAIRMAN: Is there anything else? You referred to one or two directives. Would you give us the exact reference? Is it the Family Allowances Act?

Dr. DAVIDSON: I referred to regulation 18-C, and I referred to directive 5-2, which is issued under the authority of regulation 18-C.

The CHAIRMAN: Thank you, Dr. Davidson, for coming this morning.

Gentlemen, I direct your attention to paragraphs 71 and 72 and page 205 of the evidence dealing with air transportation tariff rates. Is Mr. Baldwin here? If so, will he please come to the head table and be our next witness.

I think I have made a slight error here, but I do not think it is material. With regard to paragraph 71, the air transport tariff rates, I thought the witness would be a gentleman from the Department of Defence Production, but Mr. Baldwin says that he has something to contribute. Do you want to be the first or the second witness, Mr. Baldwin?

Mr. BELL (*Carleton*): Is there a witness here from the Department of Defence Production?

The CHAIRMAN: Yes.

Mr. BELL (*Carleton*): Let us hear him and get it over with.

The CHAIRMAN: Is Mr. Golden here? Gentlemen, I have pleasure in introducing to you Mr. D. A. Golden, deputy minister of the Department of Defence Production.

Mr. Golden, have you had an opportunity of seeing the evidence?

Mr. D. A. GOLDEN (*Deputy Minister, Department of Defence Production*): Yes.

The CHAIRMAN: Starting at page 205, on this particular question?

Mr. GOLDEN: Yes.

The CHAIRMAN: Would you like to give the committee your views.

Mr. GOLDEN: Well, I do not think there is any statement I could make which would be of any use to the committee. I understood there were some questions which you wanted answered.

Mr. BELL (*Carleton*): There are two issues: one, can we get \$93,000 back; and two, was this a frugal arrangement, having regard to the payment of \$18,000 for the rent?

Mr. WINCH: And three: if not, why not?

Mr. BELL (*Carleton*): I think those are the basic issues, and let us get to them.

Mr. GOLDEN: I cannot answer the question about whether we can get the money back.

Mr. BELL (*Carleton*): Who can? Let us get to who can answer it.

Mr. PICKERSGILL: I wonder who is directing this committee, Mr. Chairman?

The CHAIRMAN: I am sure that Mr. Bell is trying to be helpful. The question has been asked, and we are waiting for the answer, if this witness can give it.

Mr. GOLDEN: Well, sir, I cannot answer Mr. Bell's question because I take it the reason Mr. Sellar made his comment was because we thought we should get some money back and did not.

The rates were filed with the Air Transport Board and approved by them. I cannot comment on how the Air Transport Board regulations are administered or how they are made. I just do not know.

Mr. MORTON: I presume Mr. Golden has some idea why their department thinks they should get some of the money back, and I think we would like to know the basis of his reasons for thinking so, not why the Air Transport Board approved the rates.

Mr. GOLDEN: Yes, we thought we should get some money back because the term of the contract was longer than we had anticipated it would be, and therefore the payments were greater than we thought they should have been.

Mr. SMITH (*Simcoe North*): How was the amount of \$73,000 arrived at, and the other amount of \$20,000?

Mr. WINCH: And was it arrived at before it was submitted to the board?

Mr. GOLDEN: No. The rates are filed with the Air Transport Board and are approved by them, as I understand it. I have all the details here. Is the contract 2-PO-920?

Mr. SMITH (*Simcoe North*): I have no idea. I only have the Auditor General's report.

Mr. GOLDEN: There are two contracts.

Mr. SMITH (*Simcoe North*): There are two amounts, one of \$73,000 and one of \$20,000.

Mr. MCGREGOR: How did they arrive at the fact that they could not get it back? Who is the authority for saying that they could not pay this money back?

The CHAIRMAN: Mr. Baldwin of the Air Transport Board is here, and he will say something about it later.

Mr. MCGREGOR: Would not the legal department have anything to do with it?

The CHAIRMAN: On page 206 Mr. Sellar said:

I think in that case, Mr. Chairman, you would have to ask the board itself for an explanation; but it is on the general principle that rates structures should not be susceptible to special concessions, to any user, by indirect transactions between the transport company and the user subsequent to the event.

Mr. DRYSDALE: And a little further down the page, Mr. Sellar said:

I think they should have done the sensible thing and let them get the money back. However, the law officers of the transport board decided otherwise. I know the Department of Defence Production fought this case; they fought hard over it.

Mr. MCGREGOR: Was this ever submitted to the officials of the legal department of the government for a decision?

Mr. MCGEE: Do you mean the Department of Justice?

Mr. MCGREGOR: Yes.

Mr. GOLDEN: Not by the Department of Defence Production, to my knowledge.

Mr. MCGREGOR: Who gave the decision?

Mr. MCGEE: The Air Transport Board.

Mr. DRYSDALE: I think we should ascertain first whether or not they did make that decision.

Mr. WINCH: It looks as if all the questions were directed to Mr. Baldwin, does it not?

Mr. MCGREGOR: I have a question about the cost of the helicopters.

Mr. GOLDEN: I cannot give you an exact figure because that will vary, depending on the circumstances. But the general order of magnitude of costs of these helicopters is as follows: for the S-55, with normal spares, it would be of the order of magnitude of \$190,000; and for the S-58, approximately \$350,000; and for the small type of helicopter, the Bell-47, it would be \$40,000; and for the Bell-J, it would be \$70,000.

The two major contracts referred to by Mr. Sellar were for S-55's, and S-58's, the ones which cost \$190,000 and \$350,000.

The CHAIRMAN: Is there anything else?

Mr. MCGREGOR: How much do they get a month for those two planes? How much does the contract call for?

Mr. GOLDEN: For the S-58, they have a term toll originally of \$32,000 a month. That was amended to a term toll of \$33,000 a month; and the actual flying is payable at \$99 an hour without gas and oil supplied by the carrier, and \$57 an hour when the gas and oil is supplied as free issue.

With respect to the S-55, the term toll was \$16,000 a month, and it was amended to a term toll of \$18,000 a month; and the actual flying was payable at \$40 an hour without gas and oil supplied by the operator, and \$22 an hour when gas and oil was supplied as free issue.

Mr. MCGREGOR: How much did the S-55 cost?

Mr. GOLDEN: Roughly, \$190,000.

Mr. MCGREGOR: What was the rate paid for the type of helicopter which cost \$40,000?

Mr. GOLDEN: The Bell?

Mr. MCGREGOR: Yes.

Mr. GOLDEN: It was \$4,500 a month for the two months, January to February, and for the month of March, \$4,500 a month, and then another month at \$8,800 a month.

The CHAIRMAN: Is there anything else, Mr. McGee?

Mr. MCGREGOR: Why were they increased from \$16,000 to \$18,000 and from \$32,000 to \$33,000, and from \$4,500 to a longer period?

Mr. GOLDEN: This would be in accordance with the charter tariff rates as filed and approved with the Air Transport Board. We paid exactly what the charter rates provided.

Mr. MCGREGOR: I understand that the longer the contract the cheaper it would be. Instead of that, this is just the reverse: the longer the contract, the higher the price.

Mr. MCGEE: Have you any indication why this went from four in one month up to eight in another?

Mr. GOLDEN: No, I do not know that.

Mr. MCGEE: The question I raised concerning this originally, was: are the actions of the Air Transport Board working in any way to prevent a lower basis beyond a certain point? Do they in fact provide a floor amount which can be accepted in the form of a bid on such a contract as this?

Mr. GOLDEN: I think the bids have to be made in conformity with the rates as filed and approved by the board, and those rates are open and can be seen.

Mr. MCGEE: If some person wanted to buy a helicopter and go into the business, would he be faced, or would he encounter a minimum rate? I do not know whether you or the Air Transport Board should answer that question.

Mr. GOLDEN: I do not know the method by which these rates are approved by the Air Transport Board.

Mr. MORTON: When they originally made out the rates how many months did they have in mind?

Mr. GOLDEN: I do not have the actual number of months, but I have a note which indicates that at the time the first contract was issued it was expected the R.C.A.F. would be able to take over the work at some stage during the summer. In fact, the United States air force helicopters, which were assisting the R.C.A.F., experienced many problems and were unable to provide the assistance it had been anticipated they would provide. Therefore, the contract was continued for a longer period than had been anticipated at its inception.

Mr. MORTON: How much longer?

Mr. GOLDEN: I do not have that information.

Mr. MCGEE: I have a further question in connection with equipment, its cost and rental arrangements. The owner of this small helicopter which cost \$40,000 recovered the full cost of the purchase of that aircraft before the end of the first year's operation.

Mr. GOLDEN: This would not be a net recovery.

Mr. MCGEE: Do you have any basis for comparison with other types of vehicles and such things which are rented to the government? Is the rate of recovery that exists here normal?

Mr. GOLDEN: It is normal for helicopter charges to be high because they are very expensive to maintain, operate and repair. In order of magnitude it would cost perhaps two or three times as much as a fixed wing aircraft.

The CHAIRMAN: Could I suggest that you sit back now, Mr. Golden. I would ask Mr. Baldwin to take his place at the table. Mr. Baldwin, would you help us out this morning?

Mr. J. R. BALDWIN (*Deputy Minister, Department of Transport*): I will do my best, Mr. Chairman. I may indicate that I had not expected to be called as a witness in connection with this matter, since my invitation to appear related to the next item. All I can do is speak from my general familiarity with tariff structures. I cannot speak on the details of this case, because I was not associated with the Air Transport Board when this case came up.

The CHAIRMAN: But considering your past experience, possibly you could help us.

Mr. BALDWIN: All I can do is throw some light on the matter of rate control. The rates which may be charged by commercial air carriers are placed completely within the jurisdiction of the Air Transport Board under the Aeronautics Act. The theory behind this is the same as the theory of rates charged by any public utility, whether it is the railways, the telephone companies or anything of that sort. In order to provide not only a fair balance within the industry but fair treatment of the public, a commercially licensed company should set a standard series of charges in a document known as a tariff and should file this document with the Air Transport Board, which has the right of approval or rejection. Once it is filed it then becomes the charges which the company must make. It may not deviate from these charges without in effect falling into violation of the law. The tariffs filed by the charter companies are public documents. Some years ago it became apparent within the industry that a number of the companies were offering kick-backs. They would say to a would-be client: it is true this is my filed tariff, but if you give me all your business or a guaranteed minimum volume—there would be some sort of undercounter transaction—it will not cost you this much because you are giving us so much business. This matter came before the board quite a number of years ago when I was chairman. At that time it was recognized in this contract field—and really this has an effect in contract work, if you like—but a large volume on a certain job could mean a less costly operation for the operator of the airline; and it was felt, therefore, that some device should be found which would enable this to be recognized, while not violating the idea that a tariff is a public document which affords equal treatment to all, alike. The principle or acceptance of this filed tariff, which the board approves, is that if a large volume is guaranteed by a purchaser of air services the rate in the filed tariff may diminish somewhat on a percentage scale. I do not know the detail in relation to volume. Now, this appears to be the main point at issue in this case. Here again I cannot speak on the detail of it. I feel the filed tariff provided for a reduction in relation to a given amount of volume, but a contract has to be entered into that the volume will be provided. As I understand it, in this case—and the Air Transport Board could produce the evidence in detail—the contract was not for the amount of work that would bring this sliding scale into effect. It was just on the basis of the initial filed tariff. If the contract in the first instance had specified the total volume that accrued, it would be legitimate for the carrier to offer this reduction payment in question. But because he did not so specify, presumably the Air Transport Board took the view that when this larger and unexpected volume was reached it was improper that any refund should be made, because of the circumstances I have described. Unfortunately, as I have said, I am not in a position to comment on this particular transaction. I did not realize I was going to be asked this question or I would have had a witness from the Air Transport Board present.

Mr. MCGREGOR: This board sets the rate?

Mr. BALDWIN: Yes.

Mr. MCGREGOR: How do they arrive at the fact that the rates in the first place were set at \$16,000 a month and increased to \$18,000 a month?

Mr. BALDWIN: I cannot answer your question; you have to have a witness from the Air Transport Board to give you that information.

Mr. MCGREGOR: The same thing applies all the way down the line. I think we should have an answer on that question.

Mr. MCGEE: Speaking in broad terms about the operations of the board which interest me because of their effect in preventing lower bids and better value for the taxpayer's money in the operation of mid-Canada lines or anything else, I would like to know on whose initiative these rates are reviewed.

Mr. BALDWIN: The practice followed by the board is identical to that followed by the Board of Transport Commissioners. A tariff is filed and normally speaking is accepted by the Air Transport Board as an approved document after thirty days of public notice. It is not examined in great detail, but if a complaint is received from any airline or member of the general public a detailed investigation is undertaken and the effective date of the tariff may be suspended; or if there is obviously something unusual that appears to be wrong in connection with the operation on first receipt, it may be suspended pending investigation; otherwise it goes into effect on thirty days' notice.

Mr. MCGEE: Then if a friend of mine decided to go into the helicopter business and decided to offer \$3,500 instead of \$4,000 a month to perform this operation he would be reported and disciplined and prevented from doing so.

Mr. BALDWIN: He would have to file a tariff. It is his responsibility to decide what he puts in the tariff he files with the Air Transport Board. If this is the rate he puts in and the tariff goes into effect, this is what he may charge; if there is a complaint lodged, there is an investigation.

The CHAIRMAN: May I suggest, gentlemen, that we call a further witness on this point for our next meeting.

Agreed to.

Mr. DRYSDALE: Could you have available the decision of the Air Transport Board in this case, together with any remarks on how they arrived at their decision?

The CHAIRMAN: If necessary, we will have the whole board here.

Mr. MORTON: And could we have the contract?

The CHAIRMAN: Yes.

Mr. SMITH (*Simcoe North*): And the documents?

The CHAIRMAN: Yes.

Mr. Golden, would you have the contract?

Mr. GOLDEN: Yes, we can get that.

The CHAIRMAN: Could you get it for the next meeting?

Mr. GOLDEN: Yes.

Mr. DRYSDALE: Have you got it with you now?

Mr. GOLDEN: I do not think we have the actual contract with us.

The CHAIRMAN: Gentlemen, I would like at this time to draw your attention to paragraphs 73 to 77 which concern a motor vessel. It is referred to on page 208 of the evidence.

Mr. DRYSDALE: Would it be possible to have the contract document filed as an appendix to this hearing so we would have an opportunity to look at it before next week when the witness will be here?

The CHAIRMAN: Have we the contract here?

Mr. GOLDEN: No, but I will produce it.

Mr. DRYSDALE: Could that be done?

The CHAIRMAN: Mr. Golden, I think you are again the witness.

Mr. GOLDEN: I do not know, Mr. Chairman; this is again a Baldwin-Golden affair.

The CHAIRMAN: It is suggested that Mr. L. C. Audette, Q.C., chairman of the Maritime Commission, be our first witness. Mr. Audette will be followed by Mr. Baldwin and then Mr. Golden. Would you take your place, Mr. Audette. I take it you have read the evidence of the last meeting in connection with this item.

Mr. L. C. AUDETTE, Q.C. (*Chairman of the Canadian Maritime Commission*): Mr. Chairman and members of the committee, from the viewpoint of the commission I think I can be of some assistance. I think perhaps where I can be of most assistance to the committee is in reviewing the early stages of the increase in price of this motor vessel, which, I take it, is one of the main considerations of the committee, and also in reviewing the reasons why this contract was proceeded with without negotiating a firm price contract.

To start with the cost phase of it, I may say that originally—and perhaps I could work in round figures—there were three items of cost: \$1,086,000, \$1,420,000 and \$1,920,000; in other words, \$1 million, \$1½ million and \$2 million. Starting with the million dollar figure, this originated because the company that was operating the service between Prince Edward Island and Nova Scotia sought to obtain a new vessel. It approached the commission with a firm proposal, with plans and with a quotation from a shipyard for a standard type of vessel carrying 35 to 40 cars. I think it was actually 37, but it was between 35 and 40. This vessel was a single-ended vessel. That is one with a sharp end and a blunt end. However, this was changed in due course. They wanted a standard type and they had a bid of \$1,086,000 for this vessel, and they sought government assistance in order to proceed with the construction of the vessel. The assistance they sought was an increase in subsidy which would allow the company to acquire this vessel, to operate it and indeed to own it.

After lengthy negotiations it was decided in due course that it would be preferable for the government to build and own the ship and to charter it out to the company or make whatever arrangements were most appropriate for its operation. Thus, the government would be the owner and would not be tied to any individual contractor. This explains the million dollar figure, with which this issue started.

Later as negotiations proceeded and as the question was more closely examined, it was decided to build a more elaborate ship. Furthermore, it was decided to build a ship which would take 50 cars instead of 35 or 40. It was also decided that the basic design of the ship would be changed to what I would call a double-ender—that is a ship that could proceed either way and this would avoid the necessity of turning to enter its terminals. The terminal situation on both sides is somewhat difficult. There were serious limitations to the type of vessel that could be constructed. I believe the draft of the vessel was limited to ten feet. The approaches are narrow and difficult on both sides and, therefore, any manoeuvring of the vessel would be somewhat difficult. When the design was changed, when the capacity was increased, the price rose to \$1,500,000.

Still later one further basic change was made and that was to increase the capacity of the vessel to 60 cars. The wisdom of both of these increases has been borne out because the present vessel, which is a 60-car vessel, is operating at capacity and, indeed, leaving quite a number of automobiles on the jetties at either end, or has during the last season. This brought the cost of the vessel up to \$2 million.

I think the subsequent increases in price, after the figure of \$2 million, could better be dealt with by the Department of Defence Production or the Department of Transport. I think I have explained the first two increases in cost, the increase to \$1½ million and the increase to \$2 million.

I observe also in the Auditor General's report a reference as follows:

and without the records disclosing the need to proceed without negotiating for a firm price contact after tenders had been invited.

This whole matter originally arose in the latter part of 1949 at the request of the company and of the Prince Edward Island government, and of a number of users of the service who complained that the service was inadequate. It

was a service subsidized by the federal government. The service was indeed inadequate; and there were over a period of three or four years quite protracted negotiations about this.

Finally, it was in January 1953 that the government agreed to proceed with the construction of a vessel which of course the government itself would own. The haste in the matter had grown as the need for the service had grown. The pressure had grown a great deal, so that by the time it was decided to proceed with this, it was impossible to start right away on a firm contract basis, because the final plans and specifications were not drawn up.

You will realize that we started with a \$1 million vessel, and plans had not been drawn up. Then it was increased to \$1.5 million, and then to \$2 million, with accommodation for 60 cars. The final plans had not been drawn up. You all know the complexity of a shipbuilding venture. If we had waited for final plans, it would have delayed the undertaking. There were, however, subsequent delays due to other reasons. I am not going into them. But in order not to delay this undertaking when the service was urgently required, it was decided that it was essential to go ahead with it on what I might call a cost plus basis. That, gentlemen, I think is the rough background of this transaction up to this point.

Mr. MCGREGOR: Did I understand you to say that they started to negotiate for this boat in 1949?

Mr. AUDETTE: The initial discussions about the construction of a new ferry were held, I think, in late 1949. I may be out a few months.

Mr. MCGREGOR: When did they finally decide that they would build the boat?

Mr. AUDETTE: Cabinet approval came through in January, 1953.

Mr. MCGREGOR: When did they actually start construction?

Mr. AUDETTE: Later than that. I would say that the architect was hired some time in 1953 or 1954.

Mr. MCGREGOR: When did they actually start construction?

Mr. AUDETTE: Construction on this vessel cannot have started until mid-1954 or late 1954. Mr. Golden could answer that more accurately than I. But I think the date was mid-1954 or late 1954.

Mr. MCGREGOR: In other words, they started the boat without any plans at all?

Mr. AUDETTE: They started the boat with only general design plans. I think that is the appropriate wording; I mean without detailed plans upon which the contractor could have made a detailed bid for a firm price.

Mr. SMITH (*Simcoe North*): Having regard to the fact that it was five full years from the time that it was authorized—

Mr. AUDETTE: It was only authorized in January 1953.

Mr. SMITH (*Simcoe North*): It was 1953, 1954, 1955, 1956, and 1957, five years, and it was delivered in the spring of 1958. So there were five full years involved in the planning and construction of the boat. Is that not right?

Mr. AUDETTE: Yes.

Mr. SMITH (*Simcoe North*): Do you think, having regard to that length of time, there was anything really saved in time by starting it without plans and awarding it to an individual contractor?

Mr. AUDETTE: In fact other delays did intervene; but at the time of which we are now speaking it was the general opinion that time would be saved. Then there was a shortage of steel and other things which intervened later on.

Mr. SMITH (*Simcoe North*): What other things beside the shortage of steel?

Mr. AUDETTE: On this phase I think the Department of Defence Production or the Department of Transport are better qualified to speak than I.

Mr. SMITH (*Simcoe North*): From your own knowledge what other things intervened besides a shortage of steel?

Mr. WINCH: Could we not get a direct answer?

Mr. PICKERSGILL: I suggest we call Mr. Golden at this point.

Mr. AUDETTE: I am relying on technical advice on this. I am a mere lawyer, but there are technical experts in every phase of this who know a great deal more about it than I.

The CHAIRMAN: If you do not know, just say so.

Mr. AUDETTE: If you want my direct personal opinion, I really do not know. I am not qualified.

Mr. MORRIS: It was a coincidence that there was the efficacy of the contract, and the giving of the contract itself and that both occurred in an election year?

Mr. SMITH (*Simcoe North*): May I ask another question. With your knowledge of shipbuilding, Mr. Audette, I think you are too modest, when you say you are just a mere lawyer.

The CHAIRMAN: He is a Queen's Counsel.

Mr. SMITH (*Simcoe North*): You have seen many many ships built. How long does it normally take to plan a ship of this kind and to get detailed working drawings? Would two years have done it?

Mr. AUDETTE: Oh yes, less than two years.

Mr. SMITH (*Simcoe North*): A year would be ample time in which to have working plans, would it not?

Mr. AUDETTE: These things, you see, are attached to so many ancillary circumstances, such as the placing of the engines. The contract for the engines was placed elsewhere, and they had to be fitted into it.

Mr. SMITH (*Simcoe North*): Would a year do it?

Mr. AUDETTE: I would certainly think so.

Mr. SMITH (*Simcoe North*): Double-ender ferries are not uncommon.

Mr. AUDETTE: I would say that this ferry was not ordinary in so far as Canadian ships are concerned. It was a quadruple screw double-ended ferry.

Mr. SMITH (*Simcoe North*): They are not uncommon as ferries go.

Mr. AUDETTE: The mere fact of being double-ended, no; but a quadruple screw, with variable pitch propellers and constant speed engines, I think, was a very new venture.

Mr. SMITH (*Simcoe North*): Where had this been done before? In the United Kingdom, for example?

Mr. AUDETTE: Quite extensively in some European countries, particularly in Holland.

Mr. FRASER: When the contract was given, surely the hull design was ready, was it not? It would have to be ready before the contract was given?

Mr. AUDETTE: The general design plans, yes; they were ready; but the detailed working drawings—I think I am using the right words there—were not ready, and those are, I believe, the drawings, or the actual type of drawings upon which the contractor can work out a firm price.

Mr. FRASER: Before the keel can be laid, there would have to be plans.

Mr. AUDETTE: Oh yes.

Mr. FRASER: That is what I mean. The hull design would have to be ready before the contract could even be started.

Mr. MCGREGOR: They started to build this boat in 1953.

Mr. AUDETTE: No, the actual construction did not start until a great deal later than that.

Mr. MCGREGOR: When did the work start?

Mr. AUDETTE: It started in 1955.

Mr. MCGREGOR: They started in 1955, and when did they wake up to the fact that they wanted a propeller at each end of the boat?

Mr. AUDETTE: That would be October 1954, when it was finally approved. It was October of 1954 when I spoke of the \$2 million contract, for a double-ended quadruple screw vessel. It was October, 1954, when it was approved.

Mr. PICKERSGILL: The government of the day was trying to give better service to Prince Edward Island.

The CHAIRMAN: On this happy note . . . I suggest that we adjourn to May 20th. I take it you would like to have these witnesses back, together with witnesses from the Air Transport Board.

We have with us today several witnesses from the Department of National Defence and I regret very much that we have not been able to get to them. So if Mr. Armstrong and his associates could possibly return on May 20th, at 9.30 in the morning, we would appreciate it very much.

The committee adjourned.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

WEDNESDAY, MAY 20, 1959

WITNESSES:

Mr. P. Davoud, Chairman, Air Transport Board, Mr. A. S. McDonald, Q.C., Executive Director; Mr. D. A. Golden, Deputy Minister, Defence Production Department; Mr. J. R. Baldwin, Deputy Minister, Department of Transport; and Mr. L. C. Audette, Q.C., Chairman, Canadian Maritime Commission.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),

and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	c) Pigeon
b) Bourbonnais	Hellyer	Pratt
Broome	Keays	Regier
Bourget	Lahaye	Robichaud
Bruchesi	Lambert	Smith (<i>Calgary South</i>)
Campbell	a) Latour	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Macdonald (<i>Kings</i>)	Smith (<i>Winnipeg North</i>)
Campeau	Martin (<i>Essex East</i>)	Spencer
Charlton	McGee	Stefanson
Chown	McGrath	Stewart
Crestohl	McGregor	Villeneuve
Denis	McMillan	Walker
Drysdale	*Martineau	Winch
Fraser	Morissette	Wratten
Godin	Morris	
Grenier	Morton	

Antonio Plouffe,
Clerk of the Committee.

*Replaced Mr. Murphy on May 6.

a) Replaced Mr. Dorion on May 14.

b) Replaced Mr. Johnson on May 14.

c) Replaced Mr. Valade on May 14.

ORDER OF REFERENCE

THURSDAY, May 14, 1959.

ORDERED,—That the names of Messrs. Latour, Bourbonnais, and Pigeon be substituted for those of Messrs. Dorion, Johnson, and Valade respectively on the Standing Committee on Public Accounts.

ATTEST.

LÉON J. RAYMOND
Clerk of the House.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 20, 1959.
(10)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Campbell (*Lambton-Kent*), Campeau, Charlton, Drysdale, Fraser, Grenier, Hales, Hanbidge, Lambert, Macdonald (*Kings*), Macnaughton, McGee, McGregor, Morissette, Morris, Morton, Pickersgill, Pratt, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Winnipeg North*), Stewart, Villeneuve, Walker, Winch and Wratten.—(28)

In attendance: Mr. L. C. Audette, Q.C., Chairman, Canadian Maritime Commission; Mr. J. R. Baldwin, Deputy Minister, Department of Transport; Mr. D. A. Golden, Deputy Minister, Department of Defence Production; Mr. P. Davoud, Chairman; Mr. A. S. McDonald, Executive Director, Air Transport Board; Mr. Watson Sellar, Auditor General for Canada; and Mr. E. B. Armstrong, Assistant Deputy Minister, Department of National Defence.

The Committee continued its examination of the Auditor General's Report.

On Paragraphs 65 and 66—Unspent Family Allowances—

The Committee reverted to these paragraphs and the Chairman tabled a letter to which was appended a table showing the unspent balance of Family Allowances, etc. This letter, dated May 14th, was sent by the Deputy Minister of National Health and Welfare in answer to a question by Mr. Fraser.

Ordered.—That this information be printed as an appendix. (*See Appendix "V" to this day's evidence*)

On Paragraphs 71 and 72—Air Transport Tariff Rates—

Mr. Davoud was called, made a brief statement and was questioned jointly with Mr. A. S. McDonald.

The Chairman tabled for distribution an Agenda dated May 20 suggested by the Steering Committee, listing the witnesses and the future meetings up to and including June 10.

After discussion, the Committee agreed to ask the Department of Justice for a legal opinion as to whether or not the amount of \$93,000. could be recovered from the contractors referred to.

The representatives of the Department of National Defence were retired until Wednesday, May 27.

On Paragraphs 73 to 77—Cost of a Motor Vessel—

Messrs. Audette, Baldwin and Golden were called and jointly examined.

Mr. Golden undertook to file with the Committee standard forms relating helicopter transportation. This document was identified as *Exhibit P-4*.

As requested, Mr. Golden tabled contracts entered into with Okanagan Helicopters Limited and Canadian Helicopters (1954) Limited, with amendments, which were marked *Exhibit P-5*.

Messrs. Audette, Baldwin, Golden, Davoud and McDonald were retired.

At 11.15 o'clock, the Committee adjourned until May 26 to consider the Blue Book form of the Public Accounts.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

WEDNESDAY, May 20, 1959.

The CHAIRMAN: Gentlemen, we have a quorum. I would like to welcome three new members to our committee. They are Messrs. Latour, Bourbonnais, and Pigeon.

At the last meeting several questions were asked of Dr. George F. Davidson of the Department of National Health and Welfare. During the interval he has written me a three page letter replying to the question on the disposal of unspent family allowance credits when the child dies; replying to some questions about the securities in the investment portfolio of the agency under discussion, as to the six per cent earned, and an official statement showing the position with respect to the agency trust account unspent balances across the country.

May I suggest that we have this letter and the attached information filed and printed as an appendix to our record?

Agreed.

(See appendix V).

This morning we are once more happy to have with us several distinguished deputy ministers, advisers and their assistants. May I suggest that we revert immediately to paragraphs 71 and 72 "Air transport tariff rates".

There were one or two questions. I think Mr. Bell at our last meeting at page 238 put it very clearly when he said as follows:

Mr. BELL (*Carleton*): There are two issues: one, can we get \$93,000 back; and two, was this a frugal arrangement, having regard to the payment of \$18,000 for the rent?

We have with us today Mr. P. Davoud, chairman of the Air Transport Board, and his assistant, Mr. A. S. McDonald, executive director. Will they please come and take their seats at the head table.

I hope you all have copies of the agenda which was drafted by your steering committee yesterday.

I would call your attention to paragraph four of that agenda, "Future dates", where we hope to hold, with your consent, an extra meeting on May 26, from 2 p.m. to 2.30 p.m., to consider the form of public accounts, and to hear from Mr. Taylor, the deputy minister of finance, and from Mr. Balls, of the Department of Finance. We then hope to go on to May 27 and finish the Auditor General's report with paragraphs 89 to 139, with Mr. Watson Sellar.

On June 3, the Canada Council, with Mr. Brooke Claxton and his various associates of the Canada Council, and if necessary again on June 10. But if not necessary, then we shall proceed to the drafting of a report of this committee.

Mr. Davoud, you are the chairman of the air transport board and you are assisted by your executive director, Mr. A. S. McDonald. I understand you want to make a short statement.

Mr. P. DAVOUD (*Chairman, Air Transport Board*): Mr. Chairman, if you will permit me, I shall attempt to clear up some points. There appear to be some misunderstanding in connection with the points raised in meetings

number seven and eight, in connection with the contract between the Department of Defence Production and Okanagan Helicopters. First of all, the air transport board does not set the rates for carriers. The board requires all operators, whether fixed wing or rotary wing operators, to submit to the board for examination, filed tariffs covering the services which their aeroplanes or helicopters provide. They are carefully examined, and when accepted by the air transport board for filing, they become the only rate which the carrier can charge.

Adherence to this basic principle of filed charter rates, is the only way by which any degree of stability can enter into the air transport picture, in the opinion of the board; and it is also the established practice in transportation service in the United States as well as in other countries.

Secondly, these tariffs are based on practical experience gained by reputable operators operating either helicopters or aircraft in all parts of the country, and consideration is given for a high standard of maintenance, the provision of adequate spare parts, varying costs of fuel and oil, depending on the part of the country in which they are operating, for proper crew salaries, depreciation, and so on. It does not just happen overnight. It is based on long experience in this field, particularly on the part of reputable and experienced operators.

Thirdly, most charter operators provide a sliding scale of charges in which there is usually taken into consideration bulk volume, or a very long term of contract. As regards this particular contract, I think it is worth making this point: that in the case of the initial contract let by the Department of Defence Production to Okanagan, it was neither for a sufficient length of time, nor did it guarantee enough volume to enable the Department of Defence Production to take advantage of the rates which are available for large volume or for a long period of time. This was only because it was impossible at the time for the Department of Defence Production to say how long the contract would last.

If the operator could plan ahead and if he could see that at the end of three months he could commit his helicopters, he could count on using them on that contract; otherwise it would have been possible for him to contract them at a higher short-term rate to other clients, unless he definitely knew he could plan ahead.

If the Air Transport Board were to permit other government departments to take advantage of bulk discount rates on a retroactive basis and after the work had actually started, it would, in the opinion of the board, break down the standard charter tariff system which has taken so many years for the board to put into effect. This is the only means of affording some measure of economic stability to the operators, and at the same time it is in the interests of the public.

The board has always had good arrangements with other departments of the government in discussing the type of work which the department contemplates taking on in the area where the carrier operates, and there have been good results effected in this respect.

The last point I would like to make is this: In this case a departure from established air transport board policy would have resulted in savings to the Department of Defence Production; but the board did not consider there was sufficient justification to approve a contract which did not comply with the filed tariffs of the carrier.

Now, a little bit about the carrier. His tariffs are considered by the board to be sound, having been based on long experience, and the margin of profit over a nine year operation, was not considered to be excessive.

In the helicopter business you have to get your utilization in a short earning period. Helicopters are expensive to buy and to maintain. They require a high standard of maintenance in order to meet their commitments. In this particular year, which was the summer of 1956, Okanagan had actually to rent some additional helicopters; and unless it knew it could place its machines, it could not tie up these other aircraft over a six months period without knowing where it was going. In other words, it had to be able to plan ahead.

Now, there is one additional point. I contacted the representative of the carrier in Ottawa yesterday and asked if his company had ever either verbally or in writing offered to give back a refund. His answer to me was to the effect that they had written the Department of Defence Production advising that they would agree to extend the original contract which D.D.P. made with them, but strictly in accordance with their filed tariff. Now, these tariffs which were filed and approved by the board contained no provision for adjustment of the term tolls retroactive to the commencement of the contract had started.

Gentlemen, I hope I have made myself clear and if there are any points on which you wish clarification, I would be glad to answer your questions.

Mr. SMITH (*Simcoe North*): Would not the first filed tariff be based on carrying a certain volume of traffic for a certain number of months? Was it not expected to end in June?

Mr. DAVOUD: Yes, one to three months. The filed tariffs were for various periods.

Mr. SMITH (*Simcoe North*): In this particular instance the first one was to run from April to June.

Mr. DAVOUD: For the months of April and May.

Mr. SMITH (*Simcoe North*): And there would be a certain volume carried in that.

Mr. DAVOUD: No, there is a certain monthly charter rate, plus so much an hour.

Mr. SMITH (*Simcoe North*): Then was there not in fact a further contract given to the company to continue its haulage?

Mr. DAVOUD: Yes. The original contract was for a period of two months. There was no provision for a renewal period in the original so the tariff for the one to three-month period applied in this instance.

Mr. SMITH (*Simcoe North*): And it was extended beyond that to how many months?

Mr. DAVOUD: On July 3 we received a letter from the Department of Defence Production which sought to amend the contract by extending it an additional three months, for a total period of five months, and in this same letter they considered it in order to apply the tolls, which were filed by the carrier, for a five-month period. The board ruled the original contract had expired after two months and, in the carrier's filed tariff there was no provision for making a retroactive settlement.

Mr. SMITH (*Simcoe North*): Well, in connection with the first rates for the two-month contract, would they not take into consideration the fact that the carrier would have to write off certain fixed charges?

Mr. DRYSDALE: What were the rates?

Mr. SMITH (*Calgary South*): During that two-month period.

Mr. DAVOUD: In that charter rate, whether it is one, two or three months, write-off of the fixed charges is taken into consideration.

Mr. BROOME: It varies in accordance with the length of time.

Mr. DAVOUD: Yes.

Mr. BROOME: So what is the rate for two months as against five months?

Mr. DAVOUD: For a period of one to three months it is \$18,000; four to five months, \$17,000; six months, \$16,000; seven months, \$15,000; eight months, \$14,000.

Mr. BROOME: How many months did the contract run?

Mr. DAVOUD: The first one was for a period of two months.

Mr. BROOME: There was no break.

Mr. DAVOUD: When the contract was initiated there was no provision for extending it, and this is the principle I am trying to define. If you make a settlement long after the contract is started, it upsets the whole basis.

Mr. BROOME: How many months did the contract run; how many months did they continue to operate?

Mr. DRYSDALE: When did the contract starting in July run to?

The CHAIRMAN: Perhaps Mr. McDonald would have the answer to this question.

Mr. A. S. McDONALD (*Executive Director, Air Transport Board*): There was one original contract.

Mr. DRYSDALE: Covering April and May?

Mr. McDONALD: From April 1 to May 31.

Mr. MCGREGOR: How much was that for?

Mr. McDONALD: \$18,000 per month for each of three helicopters.

Mr. MCGREGOR: It is reported in the proceedings that the toll was \$16,000 a month and it was increased to \$18,000.

Mr. McDONALD: That is not correct. The original was for \$18,000 a month for the period April 1 to May 31.

Mr. MCGREGOR: How then did this get in the proceedings.

Mr. McDONALD: I do not know.

Mr. DRYSDALE: Mr. Golden put that information in.

Mr. SMITH (*Calgary South*): There was an advantage in having several short contracts.

Mr. DAVOUD: The reason is this: If it had been for a six-month period the long-term rate would have applied down to \$16,000. As it went on, there was a two-month period—

Mr. DRYSDALE: How long was that subsequent period, from July until when?

Mr. DAVOUD: From June 1 to November 30, and subsequently was amended to go to December 31.

Mr. BROOME: So it ran from June 1 to the end of the year; but D.D.P., in their original anticipation, thought they only had two months' work.

Mr. DAVOUD: Yes.

Mr. BROOME: So actually it seems to me the Department of Defence Production did not know what they were doing.

Mr. DAVOUD: Well, I was not here at the time; but they had no idea at the time that the R.C.A.F. helicopters, which were supposed to take over, would be as long in coming into the field.

Mr. MCGREGOR: How long was the first \$18,000 a month contract for?

Mr. McDONALD: It terminated on May 31.

Mr. DAVOUD: Two months.

Mr. MCGREGOR: For what length of time was that?

Mr. MCGEE: Two months.

Mr. MCGREGOR: Then how is it that in the printed evidence it is stated that the price was \$16,000 and then it was changed to \$18,000?

Mr. DRYSDALE: From Mr. Golden's testimony.

Mr. MCGEE: There is another statement in the proceedings to the effect that the rate for a small aircraft, which would cost \$40,000, is from \$4,500 up to \$8,000. Is that a correct or incorrect statement in *Hansard*?

Mr. DAVOUD: This would be possible to do if you added at the end of the season a one-month unit toll rate for the helicopter, which is \$8,500; say, for instance, you took it just for the month of December.

Mr. SMITH (*Calgary South*): Mr. Golden is sitting here and perhaps he could clear up the confusion in connection with the price.

The CHAIRMAN: He will be a witness later.

Mr. MCGREGOR: Following up what Mr. McGee has just said, for the month of March it is supposed to be \$4,500 a month and after another month it is \$8,800; how do they arrive at that figure?

Mr. McDONALD: The answer to that is different than in the other case because the helicopter rates were different. In connection with this, there was a summer and a winter rate; the summer rate was \$8,000, and when you move into the winter season there was a lower rate of \$4,500. That is due to the fact that there is a greater demand during the summer months for helicopters than during the winter months.

Mr. MCGEE: Did I understand the witness to say that your reason for not allowing this refund which came up as a result of an extended contract that was not anticipated, is because this would affect the economic stability of the operators?

Mr. DAVOUD: Yes, it would affect all of them, right across the board. The board fought for years to establish justification for a filed tariff, and it is open to the public for inspection. It protects the board and the carrier.

Mr. MCGEE: You say it protects the public, in what way? It is not protecting the public now because this prevents them from getting back \$93,000 of tax money.

Mr. DAVOUD: It is the only way I say an operator can have any degree of stability. The business is a marginal one, and if he cannot count on committing his helicopters for long periods ahead, he can only rent it for one or two months and, hence, his sliding scale would take care of a long period of time.

Mr. MCGEE: Is your purpose, as a board, to protect the operators? This is your first function, to protect the operators?

Mr. DAVOUD: To set up control which gives some degree of stability to the operator and protects the public interest.

Mr. MCGEE: The public financial interest is clearly not being protected or considered in this particular case. You suggested that this is a marginal business, and earlier in your testimony you mentioned the profits were not excessive. What do you consider excessive?

Mr. DAVOUD: I am not prepared to answer that.

Mr. BROOME: On this point, Mr. Chairman, I would like to follow it through. Actually, there was no intention by D.D.P. to do anything except to conform to the published tariff rates?

Mr. DAVOUD: Yes.

Mr. BROOME: There is no question whatsoever of breaking your rate structure?

Mr. DAVOUD: That is right.

Mr. BROOME: Therefore, I cannot agree with the statement you are making, because you have a rate structure for a two month period, three, four, or five months. This contract actually ran nine months, but the D.D.P. were trying to take the Air Transport Board's published rates for the longer term?

Mr. DAVOUD: That is right.

Mr. BROOME: How can that upset your rate structure? It does not upset it at all; it conforms with your rate structure. It just takes into realization the actual term of the contract.

Mr. DAVOUD: I think I can liken it to sending freight by rail, if you like. It is the same as if you had less than a carload lot and did not anticipate that you would have at least a carload lot, started hauling, and found you had five or six carloads; and after it was all moved you went back to the railroad and asked for a discount on the carload lot rate.

If on the date of negotiating the contract, they could have committed the helicopter for a six or seven months period, they would be entitled to the full bulk discount rate.

Mr. BROOME: But in the actual operation they did not have to interrupt the use of those helicopters through prior commitments; they did continue on. So, in effect, it was a long-term contract and should have been at the rate set up by your board for that term.

Mr. DAVOUD: We do not set the rates, sir.

Mr. BROOME: Well, your published rate.

Mr. WALKER: This is something you have inherited, Mr. Davoud? You have had nothing to do with this yourself; you only came in a few months ago; is that correct?

Mr. DAVOUD: That is correct.

Mr. WALKER: Keeping that in mind, you telephoned the contractor yesterday, did you?

Mr. DAVOUD: Yes.

Mr. WALKER: Did he refuse to hand back the \$93,000, or \$73,000?

Mr. DAVOUD: I did not ask him that at all. I asked him if he had, either in writing or verbally, indicated he would refund his sum of money.

Mr. WALKER: What was his answer to that?

Mr. DAVOUD: His answer to me was that he had indicated in writing to D.D.P. that they would be willing to extend the contract, but strictly in accordance with their filed tariff, and their filed tariff has no provision whatsoever for making a bulk term discount rate retroactive to the time the contract was first negotiated.

Mr. WALKER: In other words, if the contract is to be continued on the old tariff basis, there would not be any refund, would there?

Mr. DAVOUD: That is correct.

Mr. WALKER: Then, Mr. Chairman, what are we talking about here? We have no legal claim against them for the \$93,000, have we?

Mr. DAVOUD: No.

Mr. WALKER: Because there is no written contract, one way or the other, for the extension at the reduced rate?

Mr. DAVOUD: Yes.

Mr. WALKER: In the auditor general's report he said there was \$93,000 they were willing to rebate; but our understanding this morning—because of your evidence—is that there is no money which they are willing to rebate; is that correct?

Mr. DAVOUD: That is right.

Mr. WALKER: Then, under all the circumstances, they are perfectly justified, are they not, in taking the legal position they have done?

Mr. McDONALD: I would say, yes.

Mr. WALKER: Are we not talking about something that does not exist? We were trying to find a way of getting back the \$93,000 these people wanted to give back. My understanding this morning is that nobody wants to give any money back, and they do not have to.

Mr. McDONALD: Legally, that is the position, as I see it.

Mr. WALKER: Then I do not see what we can do further about this, Mr. Chairman. I think it is a great pity it should have happened in this way, but it is too late for us to do anything about it.

Mr. DRYSDALE: Mr. Chairman, I would like to follow that point up. This matter was apparently brought before the Air Transport Board. When was the decision made by the Air Transport Board; secondly, what was the decision; thirdly, was it appealed to the Supreme Court of Canada, and if not, why not?

Mr. DAVOUD: The original contract was for a period of two months, April and May—

Mr. DRYSDALE: Is this your decision? Was there a written decision?

The CHAIRMAN: Just let him answer.

Mr. DAVOUD: This is the first answer: there was no provision for renewal period. On July 13 Air Transport Board—

Mr. DRYSDALE: I am sorry to interrupt. First of all I asked: was a decision made by the Air Transport Board in their capacity as Air Transport Board?

Mr. McDONALD: Yes. It is a matter of playing with words here.

Mr. DRYSDALE: I am not playing with them.

Mr. McDONALD: I appreciate that. It is a matter of words here. When you use the word "decision", a decision was taken, but not a formal, written decision in the sense that the board uses the word "decision" with respect to applications. There was a ruling made by the board with respect to it.

Mr. DAVOUD: The board ruled the original contract had expired, and therefore the toll for the three months, and not the original period—

Mr. DRYSDALE: Excuse me; but the thing that confuses me is this: apparently the D.D.P. lawyers and the Department of Transport lawyers argued over whether this money was refundable or not. I understand that there was then some decision made by the Air Transport Board. Has it, in fact, made a decision under the Aeronautics Act? If it made a decision, the decision would be appealable to the Supreme Court of Canada.

Mr. McDONALD: With all due respect, I do not think this particular type of decision is the type contemplated by the act in question.

Mr. DRYSDALE: According to the Auditor General it is a matter of getting \$93,000 back. You said that on a certain basis they were not entitled to get back the \$93,000. Is there any possible basis of getting back the \$93,000—because if you made one specific ruling under the Aeronautics Act, the Department of Defence Production is entitled to appeal to the Supreme Court of

Canada as to whether or not the ruling was right; and I wondered whether the type of ruling given would enable them to make such an appeal?

Mr. McDONALD: May I clarify this? I think the matter needs clarification. On July 3—

Mr. DRYSDALE: Of what year?

Mr. McDONALD: 1956. On July 3, 1956, there was a letter received from the Department of Defence Production, which said:

The subject charter covers the period April 1, 1956, to May 31, 1956, and it is proposed to amend the contract now to extend the charter for a further period of three months, June 1, 1956 to August 31, 1956, a total term of five months, at the following rates per aircraft

Term Toll ... \$17,000 per month retroactive to the commencement of the charter.

Flying Hour Charges ...

(a) (Gasoline and oil supplies as free issue)—\$22 per hour.

(b) (Gasoline and oil provided by carrier)—\$40 per hour.

Plus crew expenses while positioning aircraft.

The original contract did not provide for a renewal period; however it is considered in order now for the department to apply the term toll applicable to the five month term.

May we have your approval please.

The date of that is significant—July 3, 1956; for a contract which, by the terms of the letter itself, expired on May 31, 1956. The reply to the Department of Defence Production by the secretary, acting on the board's instructions at that time, was:

Please refer to your letter of July 3, 1956, in connection with subject contract.

The board feels that, since the subject contract has expired and did not contain a renewal clause, a new contract is required.

Therefore, the term toll for a further 1-3 months contract will be \$18,000 per month.

Mr. MCGREGOR: What was the part before that?

Mr. McDONALD: It stated, \$18,000 per month.

Mr. MCGREGOR: It was always \$18,000?

Mr. McDONALD: That is right; there was no change. The position remained at that point until later, on August 2, when a further letter was received from the Department of Defence Production:

Reference your letter dated July 4, 1956. It is now proposed to award a new contract for a further period of six months June 1 to November 30, 1956 at the following rates per aircraft in accordance with the carrier's filed tariff:

Term Toll—One to three months inclusive \$18,000 per month; four and five months, \$17,000 per month; six months \$16,000 per month.

Now it is also proposed later in the letter:

Each contract will provide that in the event the charter term is extended, the term toll will be adjusted in accordance with the provisions of the carrier's filed tariff and retroactive to the commencement of the charter.

May we have your confirmation of rates and approval, please.

So that on August 7 a further letter was written by the board secretary:

Please refer to your letter of August 2, 1956, in connection with the subject charter.

The term tolls and hourly rates quoted are in accordance with the carriers' tariffs. However, the applicable tariffs do not provide for adjustment of the term toll retroactive to the commencement of the charter if the agreement is extended beyond the period originally stated in the contract.

Those are the rulings made by the board, and there was no categorical refusal by the board to allow a refund of any sum. The board declined to approve the contracts proposed.

The CHAIRMAN: The board declined to approve?

Mr. McDONALD: That is correct.

The CHAIRMAN: Is there anything else, gentlemen? Mr. Drysdale?

Mr. DRYSDALE: Yes. In other words, the board interpreted the particular terms put forward by the Defence Production board and ruled they were not going to grant a refund on that basis.

Was the question ever directed to you, as to what way it would be possible to have the \$93,000 returned, because under the Aeronautics Act, section 13, paragraph (i) it says:

- (i) respecting traffic, tolls and tariffs, and providing for the disallowance or suspension of any tariff or toll by the Board, the substitution of a tariff or toll satisfactory to the Board or the prescription by the Board or other tariffs or tolls in lieu of the tariffs or tolls so disallowed;

In other words, has it ever been directed to your mind that apparently the \$93,000 could be justifiably returned by Okanagan Helicopters, that under the provisions of the Aeronautics Act the \$93,000 could be returned?

Mr. McDONALD: These provisions you have just read in the Aeronautics Act are for the board to make regulations.

An Hon. MEMBER: The governor in council to make regulations.

Mr. DRYSDALE: What are the regulations? The governor in council could vary the regulations?

Mr. McDONALD: That is correct. They are regulations that have been accepted.

Mr. DRYSDALE: What I am trying to get at is, apparently we have a unique situation involving \$93,000 which, according to what you have said, Okanagan Helicopters are prepared to return and the government, apparently, is prepared to accept.

What I am trying to ascertain is that in the regulations there is scope for the board to order the return; or, if not, they must give a fixed ruling so the Department of Defence Production could appeal to the Supreme Court of Canada if they thought they were still entitled to the return of the \$93,000.

Mr. McDONALD: I think that is very much a legal point, and I am not prepared to argue that particular point raised as to the question of procedure.

But in this particular case there was no request for this sum of \$93,000, or any specific sum of which I know; and the only rulings given by the Board, as such, were the ones which I have read in these letters.

Mr. SMITH (*Simcoe North*): Would not that application for a change of the rates have resulted in the sum total of \$93,000?

Mr. McDONALD: Some sum; I am not sure of the amount.

Mr. DRYSDALE: What we are trying to do is to ascertain how we can get that \$93,000 back. What, if anything, prevents the air transport board authorizing the return of that \$93,000, provided Okanagan Helicopters are prepared to return it?

Mr. McDONALD: At this stage I do not know of any method by which it could properly be done.

Mr. DRYSDALE: Why?

Mr. McDONALD: I do not see how the board can approve the contracts.

Mr. BROOME: At this stage what could be done?

Mr. McDONALD: I do not know if a case has been made for doing anything.

Mr. DRYSDALE: You said you have never given a ruling.

The CHAIRMAN: He said they have declined to approve, which is, in effect, the same thing.

Mr. SMITH (*Calgary South*): The last question, I suppose, rather provided the answer.

I support the contention of Mr. Walker, that the examination of the air transport board seems a bit fruitless in view of the fact we have run up against a legislative barrier in respect of this.

Mr. BELL (*Carleton*): Where is the legislative barrier?

Mr. SMITH (*Calgary South*): I mean, as far as the regulation is concerned, and not to that extent.

Mr. DRYSDALE: I do not see that.

Mr. SMITH (*Calgary South*): In any event, what I was going to ask was, has there been any thought given to the practical value of calling the operator with a view to determining whether or not there is any other concession under the agreement they are prepared to make. As I understand it, in view of Mr. Davoud's phone conversation they are prepared to step behind this one ruling and say this money is not returnable under that circumstance. Has there been any other attempt to hold any other negotiations with them, under a different set of circumstances? This question I put to you, Mr. Chairman.

The CHAIRMAN: I will take your question and put it to the chairman of the board. Did you hear that question, Mr. Davoud?

Mr. DAVOUD: No.

The CHAIRMAN: Would you repeat that, Mr. Smith?

Mr. SMITH (*Calgary South*): It was really answered by Mr. Drysdale's last question to you, Mr. Davoud, that is that you have not seen any other basis whatsoever under which some agreement could be worked out so this money could be returned, which will not offend any regulation of the air transport board?

Mr. McDONALD: Actually, the regulations provide there should be no form of rebate. There is a particularly good reason for that and it is a standard common practice in all transportation regulations that no rebate shall be given; because the principle under which these bodies try to work is one to prevent discrimination as between various classes of customers.

Of course, a rebate, or any provision that provides for a rebate does provide discrimination.

Mr. DRYSDALE: Surely, you do not mean—

Mr. SMITH (*Calgary South*): Is there not a certain amount of flexibility in that? Is that not a situation in which you could run into exactly what we have run into right now, where it is an application which, I suppose, might well be applied in one instance, but certainly is not in this. Is that not a weakness in your own regulation, in that sense?

The CHAIRMAN: You are suggesting the board should re-examine their own regulations, to prevent this type of case arising in the future?

Mr. SMITH (*Calgary South*): It seems rather ridiculous that they are prepared to make some sort of deal and it is one of our own regulations, or the Air Transport Board's regulations, which says they cannot work on such a compromise.

Mr. DRYSDALE: They still have not answered the basic problem set forth in paragraph 72:

In money, the consequence is that one company has around \$73,000 and another one about \$20,000 which they would willingly refund to the crown were that not a breach of the law.

Under section 8 subsection (1) of the Aeronautics Act, it provides:

The Board has full jurisdiction to inquire into, hear and determine any matter (a) where it appears to the board that any person has failed to do any act, matter or thing required to be done by this act or by any regulation, licence, permit, order or direction made thereunder by the Board, or that any person has done or is doing any act, matter or thing contrary to or in violation of this part, or any such regulation, licence, permit, order or direction, or (b) where it appears to the Board that the circumstances may require the Board, in the public interest, to make any order or give any direction, leave, sanction or approval that by law it is authorized to make or give, or with respect to any matter, act, or thing that by this part or any such regulation, licence, permit, order or direction is prohibited, sanctioned or required to be done.

I feel there is a provision somewhere within the act that this \$93,000 could be returned; and to date there is no indication shown to me as to why it cannot be returned.

There has been no ruling of the board that it cannot be returned, and I suggest that within the act there is every scope.

You are trying to suggest that for the purpose of uniformity of tariffs it is inflexible; but I am suggesting to you that here there is a unique situation and that within the act there is a permissive section whereby it can be returned. I do not see why it cannot be returned. You have not given any reason so far.

Mr. McDONALD: I am trying to clear the issue.

Mr. DRYSDALE: The issue is to get the \$93,000 back.

Mr. McDONALD: What is being suggested here, by the persons who suggested it should be given back, is that the crown should get a preference.

Mr. DRYSDALE: I do not think that is the suggestion. But this is a unique situation, not likely to arise again. There is one group, according to what we have heard from the Auditor General, who are prepared to give back the \$93,000 and another group prepared to accept it. They say they cannot do it, because of the law. I am pointing out one section which I think would give you sufficient scope.

Mr. WALKER: That section says the exact opposite, with great respect. We want to get the \$93,000 back, but let us be practical about this thing. It says the board has authority to make any ruling provided it can be done according to law and the regulations. You read that yourself.

Mr. DRYSDALE: That is right.

Mr. WALKER: The regulations are that the board cannot make any retroactive rates.

Mr. DRYSDALE: I would like to see why.

Mr. WALKER: You must have a regulation indicating you can make any retroactive rate. If so, we would like to see that.

Mr. DRYSDALE: What I am trying to get at is—

Mr. WALKER: I know you are trying to get the \$93,000 back, but there are different ways of doing it.

Mr. DRYSDALE: No ruling has been given by the board, and there is a provision in there for them to appeal to the Supreme Court of Canada.

Mr. WALKER: We are getting a little ahead of our time. Where is the ruling or the regulation which says that you cannot make a retroactive rate? We should see it if there is such a thing. I understood there was.

Mr. BELL (*Carleton*): No; that does not settle it.

Mr. SMITH (*Calgary South*): Let us receive a reply.

The CHAIRMAN: Mr. McDonald, if you are going to read something please state the exact description.

Mr. McDONALD: I think this has some bearing. I am reading from the Commercial Air Services Regulations of December 22, 1954, section 14(1):

No tolls shall be charged nor shall any terms and conditions of carriage, rules, regulations, or practices be applied unless an appropriate tariff has been filed with the board and has come into effect or the board has otherwise directed; where a tariff is filed with the board and has come into effect and has not been disallowed or suspended by the board, or superseded by a new tariff, the toll or tolls specified therein shall be charged and the terms and conditions of carriage, rules, regulations, and practices specified therein shall be applied.

Section 14(3) reads as follows:

No air carrier shall, in any manner or by any device directly or indirectly, or through any agent or broker, or otherwise refund or remit any portion of the tolls specified in its currently effective tariffs except as specified therein, nor extend to any person any privileges or facilities except as specified in its currently effective tariffs, without the prior approval of the board.

Mr. BROOME: Is that not the key?

Mr. MCGREGOR: Did you have a legal opinion on the fact that this money cannot be paid back?

Mr. BROOME: It says without the prior leave of the board.

Mr. MCGREGOR: Did the department have a legal opinion?

Mr. McDONALD: No.

Mr. BROOME: Do you not think that \$93,000 is enough on which to obtain a legal opinion.

Mr. MCGREGOR: Surely you are not giving away \$93,000 without asking the legal department whether or not it is legal?

Mr. McDONALD: May I say that I know of no specific request to the board for approval of a refund.

Mr. BELL (*Carleton*): That escapes the issue.

Mr. McDONALD: I did not mean it as an escape.

Mr. BELL (*Carleton*): Is not the issue a narrow one. A contract for two months is let, and it was then seen it would overlap for a considerably longer period of time. It ended up in nine months. The department and the contractor then negotiated a new contract and under that new contract the crown could have saved \$93,000. It was voluntary. There was one issue before the board throughout this, whether it would be considered as one contract or as a series of contracts. I think the board would have been perfectly entitled at that time to have considered it as one contract and to have permitted the two parties to get together and to save \$93,000. I say it was the action of the board at that time which cost the people of Canada \$93,000. I am not yet satisfied that we cannot get back some of that.

Personally, I would like to have an opinion from the law officers as to what is our position.

An hon. MEMBER: I agree.

The CHAIRMAN: What is the opinion of the other members of the committee?

Mr. SMITH (*Calgary South*): I think that is well spoken.

Mr. MORTON: Had there been a renewal clause in the original contract, with a proviso that if the ultimate time be extended the rates could be adjusted, would that have avoided this dilemma?

Mr. McDONALD: At that stage, no; not in this particular contract. There was no provision in the tariff for that.

Mr. MORTON: But had there been a clause in that original contract providing that, if it were found necessary to extend the time, could the rate have been adjusted on the application for renewal?

Mr. McDONALD: Not unless it had been in the tariff at that particular stage. It was not in the tariff.

Mr. SMITH (*Simcoe North*): If there had been an extension clause in the contract for two months, would the rate for two months not have been lower when they originally filed the tariff? If it were contemplated this would go on for six months and it was two months, would not the original tariff application have taken care of the reduced rates as it went along?

Mr. McDONALD: It is possible that might be the case. At that stage, however, there was no provision in the tariff for anything but this specific contract.

Mr. MORTON: Is there a provision now?

Mr. McDONALD: Yes.

Mr. MORTON: So we would not run into this situation in the future?

Mr. McDONALD: I would say not.

Mr. BROOME: When was that provision put in?

The CHAIRMAN: I am told the air transport board has a legal department. Why do we not have a witness from the legal department in order to clear this up?

Mr. DRYSDALE: At the same time could we see what steps can be taken now to get the \$93,000 back?

The CHAIRMAN: Is that suitable, gentlemen?

Mr. WALKER: Surely this ruling by which Canada will lose \$93,000 was not made without first obtaining an opinion from the legal officers of the air transport board. I understood that had been obtained.

Mr. McDONALD: Yes, but actually what happened is this—

Mr. WALKER: Just a moment. If that is correct—did you say that is correct?

Mr. McDONALD: Yes—well—

Mr. WALKER: Where is the opinion?

Mr. McDONALD: Well, at that stage I myself was the head of our legal section at that particular time, when this thing came before the board on the first issue.

Mr. WALKER: Would you prefer to go into this at the next meeting when you will have had an opportunity to look this up?

Mr. McDONALD: I do not think anything would be gained by that. When this letter of July 3, which I read, was received which said, “the original contract did not provide for a renewal period” and so on, I gave an opinion on that and wrote on that particular letter, “This is a new contract and the tariff rate for three months not for five months should apply. The term ‘toll’ should therefore be \$18,000 and not \$17,000. If you agree, I recommend D.D.P. be so advised.”

Mr. WALKER: That is hardly a legal opinion. May I suggest, in order to save the witness embarrassment, that the matter be now referred to the Department of Justice for an opinion. Subject to what Mr. Bell and the others have been asking, I understand the question is this: Did the air transport board have a legal right to create a new two years’ rate retroactive to the time desired?

Mr. BELL (*Carleton*): I do not like the use of the word, “retroactive”. Did they have the right at the particular time the new contract was negotiated to give approval to that new contract? I think the issue can be stated there. Once you bring the word “retroactive” in you have made it clear. I do not necessarily concede that this was retroactive at that time.

The CHAIRMAN: You have two suggestions: one is the Department of Justice, and the other is the legal department of the board.

Mr. WALKER: I think we should refer it back to the Department of Justice, telling them we want to get the \$93,000 back. Is there any legal reason why the air transport board cannot so amend the regulations or make a decision within the scope of the regulations?

Mr. SMITH (*Calgary South*): Within the scope of the present regulations.

Mr. WALKER: Would anybody else like to chip in? Is there any legal reason why the air transport board cannot make the necessary decision under the present regulations by which we can recover this \$93,000; or in the alternative, is it within their power—and I do not think it is—to amend the regulations and make them retroactive, by which we could get back the \$93,000?

The CHAIRMAN: Is that agreeable?

Mr. DRYSDALE: Is that Mr. Walker’s opinion?

Mr. WALKER: You sat up all last night, so it would not matter.

Mr. MCGREGOR: In fairness to the Auditor General, do you not think we should ask him to say a word or two in connection with this matter as to why he brought this up?

The CHAIRMAN: Mr. Sellar, the Auditor General is here.

Mr. MCGREGOR: Yes.

The CHAIRMAN: Mr. Sellar, would you like to say anything at this time?

Mr. WATSON SELLAR (*Auditor General of Canada*): There is nothing I can add. The matter has been fully discussed from the viewpoint I am interested in. The question was this: two parties had to come to an agreement that there

would be an adjustment of the rates on account of the longer term. As a result, had that agreement been approved and had come into effect, the Okanagan and the other company would have been required to refund a certain payment that had been given to them which was in excess of the new rates under the agreement. That was my concern.

Mr. DRYSDALE: You stated on page 206 that in the opinion of the air transport board—this was in answer to a question asked by Mr. Walker—it would require special legislation to get the money back. I wondered on what you based that statement?

Mr. SELLAR: On account of the air transport board having made a decision. I do not see how you could get around it; but I do not pretend to be a lawyer.

Mr. BROOME: What was the name of the "other" company?

Mr. McDONALD: I think it was a subsidiary of Okanagan.

Mr. DAVOUD: It was the Canadian Helicopters (1954).

Mr. MCGEE: The chairman made the statement that in arriving at these rates, if I can properly direct my question to determining just how effectively this board is operating in order to allow the departments of government and the taxpayers to get full value for their money—he made the statement that the profits were not excessive. I asked you what those profits were, and you were not prepared to say.

Mr. DAVOUD: I cannot answer that.

Mr. BROOME: It is common knowledge. Okanagan give a statement which is published. I have a copy which I can show you later.

Mr. MCGEE: In arriving at these tariffs, consideration is given to the profits which these companies are making.

Mr. McDONALD: I would think that is a pertinent factor.

Mr. MCGEE: A lot of people when reading the testimony of this committee, or newspaper accounts of it, are suddenly going to become interested in getting into the helicopter field because of certain information divulged here. What impediments are there to people going into this business who feel that they might supply this service at a rate lower than the one being charged right now?

Mr. DAVOUD: If someone were to go out and buy a helicopter and come and apply to the board for a licence to operate it, at a rate for a particular type of helicopter with which we have a lot of background experience, let us say somewhere near to an established rate which has already been approved, it would probably be accepted. But if they were twenty to thirty per cent lower, it would not be accepted, and the applicant would be required to show cause why he could justify his rates. This would include an examination of his breakdown, how he was going to maintain it, how he was going to pay for it, how he was going to depreciate it, and everything which goes with it.

The general rates approved by the board are based on the experience of reputable long term operators with eight, nine or ten years experience, having regard to the particular type of helicopter. If someone should come in and make application to operate a helicopter at a rate twenty per cent lower than somebody else's, I doubt if the board would approve it.

Mr. PRATT: On what basis do you choose these helicopters, in deciding on one or the other company?

Mr. DAVOUD: We do not choose one over another.

Mr. MCGEE: A number of bids can come into the Department of Defence Production and they will take the lowest bid and submit it to you, and you could throw it out.

Mr. DAVOUD: The bids are made entirely in accordance with the filed tariff.

Mr. MCGEE: The tariff would be established before the bid is made?

Mr. DAVOUD: Anyone can examine the tariffs at any time. The only recommendation the board would make is this: that if it is a particularly difficult operation in the north, they would say that they recommended only two or three companies because they were the only ones capable of supplying this service.

Mr. PRATT: Why do they send in bids? Why do they not just send in their names?

Mr. MCGREGOR: Have you the tariff rates for different models of planes?

Mr. DAVOUD: These are rates for planes of a particular size that are mentioned in here.

Mr. MCGREGOR: You have a plane which cost \$40,000 and you got \$8,500 a month for it. It does not sound reasonable.

Mr. DAVOUD: It was just for a single month, because with one helicopter in Canada you cannot get back within a short period of time a return on your investment.

Mr. MCGEE: How short a period of time?

Mr. MCGREGOR: This one was for the month of March, at \$4,500; and after that you raised it to \$4,800.

Mr. McDONALD: That is the filed tariff rate.

Mr. MCGREGOR: That is the tariff rate, and you can pay for a plane in five months?

Mr. McDONALD: No, you do not pay for a plane in five months.

Mr. MCGREGOR: But you got \$8,800 a month.

Mr. DAVOUD: You have to pay for the maintenance, the depreciation, and so on.

Mr. MCGREGOR: Can you mention any other piece of equipment which is manufactured where you can write it off in five months?

Mr. DAVOUD: They do not write it off in five months; the standard practice is about five years.

Mr. MCGREGOR: At \$8,800 a month?

Mr. DAVOUD: No, no.

Mr. MCGREGOR: That is what you are paying, \$8,800 a month.

Mr. DAVOUD: But he is not realizing that.

Mr. MCGREGOR: Take the other plane, it takes eleven months to pay that off.

Mr. DAVOUD: It is a highly seasonal operation.

Mr. MCGREGOR: Why the difference? It looks to me that the charge of \$4,500 a month for this plane should be the regular fee, according to the other prices. How can you justify a charge of \$8,800 a month for a machine that costs \$40,000?

Mr. DAVOUD: The reputable helicopter operators in this country, who have had a lot of background and years of experience have come up with rates which they believe to be realistic and which will allow them a reasonable return on their money in order to buy some new equipment. They have high insurance rates and a short operating season. These rates have been approved by the board and are available to anyone who wants to look at them. The rates vary by the month and in accordance with the number of flying hours. It is as simple as that.

Mr. MCGREGOR: Do you mean to say that rate is set by the board?

Mr. DAVOUD: It is approved by the board; we do not set the rates.

Mr. MCGREGOR: You do not set the rates?

Mr. DAVOUD: No.

Mr. MCGREGOR: Can any man rent a plane for what he likes?

Mr. DAVOUD: No.

Mr. MCGREGOR: Then you must set rates.

Mr. DAVOUD: No.

Mr. MCGREGOR: Who does?

Mr. DAVOUD: They file an application with the board saying they have a helicopter of a certain type and that their tariffs are as follows—for one month it is so much an hour; for three months it is so much; for six months, and so it goes. The board examines these. If they appear to be in order we approve the filing of these tariffs and they become available to the public. If we award the licence to the operator he has to go to the Department of Transport and prove he has the proper maintenance facilities, the proper pilots and is going to keep his equipment in proper shape. Then he can advertise and go to any mining company and take on a job.

Mr. MCGEE: I think what is bothering Mr. McGregor, as well as myself, is this: If any other group of people in competitive business in this country set about doing what has been accomplished by these groups, applying and setting their rates, they would be in trouble with the anti-combines investigation act. Is that not the case?

Mr. MCGREGOR: You say the proper rate for this is \$8,800 a month?

Mr. DAVOUD: I did not say that. I do not have the tariff in front of me.

Mr. MCGREGOR: That is what was paid.

Mr. DAVOUD: Perhaps it was the last month of the year; I do not know. I am not familiar with the contract. All I am saying is that the entire thing was done in accordance with approved filed tariffs by the operator.

Mr. MCGREGOR: I cannot understand it, when they set the rates for the first part of the contract at \$4,000 a month and the other at \$8,800; that is what I cannot understand. Who sets the rates, and how?

Mr. MCGEE: The industry sets the rates.

Mr. MCGREGOR: How?

Mr. SMITH (*Simcoe North*): I was going to suggest that as the witnesses from the Department of National Defence are not likely to be heard this morning, perhaps they could be excused. I would imagine the chairman might give them permission.

The CHAIRMAN: Yes. These gentlemen have been here on two occasions awaiting their turn. Would you mind coming back for the next meeting, which will be on May 27. Thank you, gentlemen for waiting, and thank you for coming.

Mr. DRYSDALE: Mr. Davoud, is there anything comparable to an agreed charge in these rates, similar to what you would have in the railway charges? In other words, the railways are permitted to make these agreed charges to meet certain competitive situations?

Mr. DAVOUD: Yes, but surely they make them when the contract is negotiated and not after it has started. This contract was well under way and then it became apparent it would have to be extended because the other machines were not available.

The CHAIRMAN: Gentlemen, we must have some order. We are making very slow progress today. Could we terminate the discussion of this particular section. The basic principle we were discussing was the question of \$93,000 and how to get it back. We have had a long discussion and have gone into side issues.

Mr. DRYSDALE: It has been very edifying.

The CHAIRMAN: Yes, and interesting. However, we have other witnesses here this morning. Can we proceed to this motor boat situation, which is also quite interesting.

Agreed to.

The CHAIRMAN: Order, gentlemen. I would like to direct your attention to paragraphs 73 to 77—the cost of a motor vessel. As several departments were interested in this particular item at various stages, I am going to suggest that we have a joint examination. If you look at your agenda you will see the names of the witnesses. They are: Mr. L. C. Audette, chairman, Canadian Maritime Commission; Mr. J. R. Baldwin, deputy minister of Transport and Mr. D. A. Golden, deputy minister of Defence Production. Perhaps these gentlemen would be kind enough to take their places at the table. Mr. Baldwin, I think you would like to make a short opening statement at this time.

Mr. J. R. BALDWIN (*Deputy Minister, Department of Transport*): Gentlemen, in order to clarify the position, we thought it would be helpful if all of us appeared simultaneously.

I would like to explain that when the government first authorized the construction of this particular vessel—I believe it was early in 1953—the responsibility for supervision of construction and planning was vested in the maritime commission. This carried on until the summer of 1956, at which time the member of the maritime commission who was primarily responsible for this particular project unfortunately died. Due to that circumstance, the responsibility for supervision, planning and construction was then transferred to the Department of Transport, ship construction branch, which assumed that responsibility from the summer of 1956 until the vessel was completed in the winter of 1957-58. Throughout the whole of the period—the two periods, if you like—the Department of Defence Production acted as the contracting agency, placing the contract with the shipyard.

I thought that would explain why we are all appearing before you simultaneously, because otherwise delays might be encountered in getting for the committee the information you would like to have.

Mr. MACDONALD (*Kings*): I must object to our new boat being called a motor boat, Mr. Chairman. I would like to make a few comments on the service in general, because I am perhaps more familiar with it than other members of the committee.

I think from the beginning there has been considerable bungling and money lost in the whole set-up. For instance, the Wood islands harbour in P.E.I. is one of shifting sands, and it has cost \$1,200,000 since the service was introduced just to dredge the place, where they could have gone five or six miles east in Kings county and got a good, hard bottom and a good breakwater could have been constructed that would not have had this average of \$60,000 a year dredging costs. Of course, that would not have fitted in with the plans of the representatives, and of the private company.

With regard to the boat, it was brought out in the evidence that the initial discussions took place in 1949; the appropriation was passed in 1953, and the boat was finally completed in 1958, at a cost three times the original estimate. At the present time that boat has been only operating a year on the service being provided, and we need a new one almost immediately. Probably, if the money had been well spent and things had been well planned, we would have had two boats instead of one, at the same cost.

I would like to ask a couple of brief questions. In paragraph 77 of the auditor general's report it says:

In addition, the company is annually to pay (a) an amount representing 4 per cent of the actual cost of construction—the life of the vessel being estimated at 25 years, and (b) 3½ per cent interest on the unrecovered portions, from time to time, of the cost of construction.

I wonder if the deputy minister could tell us who is going to own this vessel at the end of 25 years?

Mr. AUDETTE: Perhaps it would be easier for me to answer that, Mr. Chairman. This vessel is now the property of the crown, and will remain the property of the crown. It will not be owned by the company. Is that the question you are putting, really?

Mr. MACDONALD (*Kings*): Yes. Why is 4 per cent of the cost of construction figured in there?

Mr. AUDETTE: I may say, on that score, that you will observe the subsidy jumped very considerably at the time the new vessel entered into the picture. Basically, there were two possible ways of doing this. The first was to allow the company to have the vessel, let us say for \$1 per annum, and operate. This, however, would involve a relatively high concealed subsidy. Therefore, in the charter hire there is a figure representing 4 per cent of the cost, which will allow the cost of the vessel to be paid back over 25 years. The actual fact of making the 4 per cent available now becomes, as a bookkeeping entry, quite clear, and in the charter hire the company pays 4 per cent of the value each year, plus 3½ per cent of what is outstanding.

Mr. MACDONALD (*Kings*): When were those arrangements completed?

Mr. AUDETTE: Those arrangements were completed in 1958, or late 1957—one or the other.

Mr. MACDONALD (*Kings*): After the boat was completed?

Mr. AUDETTE: Yes.

Mr. MACDONALD (*Kings*): Would it be entered into some time during the construction of the boat?

Mr. AUDETTE: That is why I said late 1957, or 1958. The boat came into service, as I remember, in 1958. As I say, in the arrangements for the charter hire of the vessel with the company we have the two alternatives of a dollar a year, or a real figure, and we chose a real figure for the charter hire.

Mr. MACDONALD (*Kings*): I have another question, Mr. Chairman. On page 211 of the minutes Mr. Sellar says:

All that I know, sir, is that the ferry people had considered building a vessel. They got certain plans and had approached certain people as to a possible price. They had not gone beyond that when the government decided that it would construct the vessel.

What were the reasons behind the decision of the government, or the maritime transportation commission, to take over the construction of the vessel, when the original intention was that the company should do it?

Mr. AUDETTE: In fact, I think the basic principle behind that is simply this: the original proposal—and I must deal in round figures now, and from memory—was a million dollar vessel, and the company sought a subsidy contract which would allow it to build and own this vessel, amortize it, pay off its cost and remain its owner at the end.

This seemed to have two disadvantages. First, the government was therefore, by subsidy, paying for the capital cost of the vessel and also remained tied to a single contractor, because that single contractor was the only person with a suitable vessel. The other way, the government owned the vessel, could tender anybody for its operation and, indeed, did not pay, by subsidy, any capital amount to amortize the cost to a third party.

Mr. MACDONALD (*Kings*): Does this company present a report—if so, is that report ever made public—as to their operations, what dividends they pay, and so on?

The CHAIRMAN: What is the name of the company?

Mr. AUDETTE: Northumberland Ferries Limited. I cannot answer as to whether or not the report is made public, but I can say that every year the company does submit audited and detailed figures to the commission.

Mr. MACDONALD (*Kings*): This is a completely privately owned and controlled company, is it?

Mr. AUDETTE: Do you mean that in the sense that the government has no interest in it?

Mr. MACDONALD (*Kings*): Yes.

Mr. AUDETTE: Oh yes, completely.

Mr. BELL (*Carleton*): Is it a public, or a private company?

Mr. AUDETTE: Of this, I am not sure. I am told it is provincial charter. I cannot answer that question at this point.

Mr. MORRIS: Mr. Chairman, I wonder if Mr. Audette could indicate to us why it was felt, in this circumstance, that in the interests of economy and service between Nova Scotia and Prince Edward Island it was desirable to follow a different procedure than is followed, for instance, between Nova Scotia and Bar Harbour, Maine.

I have in mind: why was a private company chosen, instead of operating under the Canadian National Railways? Would not the Canadian National Railways provide a better service at a lesser cost?

Mr. AUDETTE: I do not, in fact, think so, Mr. Chairman. There would have been, I think, through Canadian National operation, a great deal higher wage cost, among other things. There were strong representations made from the island against Canadian National operation.

Indeed, perhaps one of the motives of this was the recent strike where the Borden-Tormentine service had been interrupted; and this, I think, the islanders felt quite severely. This they felt quite severely, and they were very anxious the alternative service from the island to the mainland should be in different hands. Therefore, strong representations were made on that score.

Mr. MACDONALD (*Kings*): By whom?

Mr. AUDETTE: By the government to Prince Edward Island and by the municipalities and some of the boards of trade.

Mr. MACDONALD (*Kings*): Would you say you feel the operation would be cheaper in the hands of a private company? As we all know, in the operation of any private company there is a profit margin, and that would not be considered in the operation of the C.N.R.

Mr. BROOME: We hope so, sometimes.

Mr. MACDONALD (*Kings*): Do you not think it could be operated more economically by the C.N.R.?

Mr. AUDETTE: I doubt in fact if it could be operated by the Canadian National at less cost because they would operate the service on a less austere basis, to conform with railway standards. I think they would have sought a larger and more elaborate vessel.

Mr. MACDONALD (*Kings*): That would be better for the service?

Mr. AUDETTE: Yes, it would be popular with the people using it, but not with the treasury.

Mr. MACDONALD (*Kings*): There is half a million, or over half a million, being spent now on subsidies.

Mr. AUDETTE: But over a quarter of a million of that comes back to the federal government.

Mr. BROOME: How?

Mr. AUDETTE: Because in the subsidy the charter hire for the vessel amounts to a quarter of a million, and that is repaid to the public treasury. It is purely a bookkeeping entry to make clear what is going on.

Mr. BELL (*Carleton*): The increase in the subsidy is taking money out of one pocket and putting it in another.

Mr. SMITH (*Simcoe North*): In the first three years of operation the return to government grant was about $7\frac{1}{2}$ per cent, and there is an extending scale of 4 per cent over 25 years.

The CHAIRMAN: Are there any further questions about the construction of the boat?

Mr. BELL (*Carleton*): I would like to pursue it a little further, and I would like particularly to have reference to the recital in the treasury board minute which Mr. Sellar reproduced in part in paragraph 75. There are four reasons given for the increase in "unrealistic character of earlier estimates". Who in fact made those earlier estimates, and why were they so unrealistic?

Mr. BALDWIN: Perhaps I could answer that in a very general sense, Mr. Bell.

The original estimate of \$1 million was explained at the last meeting as being a cost figure submitted by the operator, based on consultations with the shipyard for a smaller type of vessel.

The estimate of \$2 million was placed before the government when the matter of building a much larger and more complex vessel was put forward, and it was not a detailed cost estimate in any sense of the word. It was merely an adjustment of the original figure, taking into account the change in size and type of the vessel.

I think it would be unwise to consider that as a detailed cost estimate, because there were no plans and specifications in existence.

In fact, the first really detailed cost estimate that was submitted to the department—following the conclusion of the preparation of the plans and specifications, and their forwarding to the shipyard with a request that a detailed estimate should be submitted—was \$2,400,000. This was received early in 1957, and was followed in fairly rapid succession by a series of costs estimates from the shipyard, each of which went up a little higher.

Mr. BELL (*Carleton*): This was submitted in 1949 and the first even semi-realistic cost estimate was in 1957, eight years later. What is the explanation of drifting along in that way without some realistic cost estimate?

Mr. BALDWIN: I think the answer to that—and I think Mr. Audette can amplify on my answer—is that the plans and specifications were not finally completed until the autumn of 1956.

Mr. FRASER: They took a long time to do it.

Mr. WALKER: Do you not agree that in 1949 the whole matter was bruited about and that was an election year; and then nothing was done until 1953, and 1953 was another election year, when they started to create this boat, still without plans and specifications? Would you be good enough to tell us just how long it would take to get plans and specifications for a boat of this kind? Would it take two months, three months?

Mr. SMITH (*Simcoe North*): The evidence last week was six to nine months.

Mr. WALKER: That is to build the boat.

Mr. SMITH (*Simcoe North*): No, for the plans and specifications.

Mr. WALKER: A year to build the boat.

Mr. BALDWIN: No, I think Mr. Smith's estimation is roughly accurate.

Mr. WALKER: If it was in 1949 that the plan was voted, you could have had plans and specifications by 1950. What was the hurry in 1953 to start the boat on a cost plus basis without any final plans and specifications?

Mr. AUDETTE: Perhaps I could enlighten the committee on the earlier stages, and the reason that this took so long.

Mr. WALKER: I am going back to your evidence of last week, and you did say—

Mr. AUDETTE: I did not go into the detail. From 1949 to 1953 at no time was there a move made about the actual construction of the vessel, but during that period representations were constantly made to the commission about the adequacy of the service. We did seek, indeed, to produce a new vessel but this was only finally approved in 1953. Therefore, I think the first four years of delay can be accounted for in that manner.

Subsequent to 1953 or, rather, starting in 1953, the first proposal was that of the company for a million dollar vessel upon a plan prepared and upon an estimate given by a shipyard.

Mr. SMITH (*Simcoe North*): Do you know the name of the proposed builder in 1953, the builder proposed by the company?

Mr. AUDETTE: In 1953 the company had had submissions from two yards. It is now Ferguson Industries, but then it was Pictou Foundry, or something like that, and the other, George T. Davie, in Lauzon, opposite Quebec.

Mr. MCGREGOR: Did you have a price from the shipyards?

Mr. AUDETTE: The company did.

Mr. MCGREGOR: What were those prices?

Mr. AUDETTE: \$1,086,000 was the price then.

Mr. WALKER: This has nothing to do with you personally, but the whole thing comes down to this, that this is like the printing bureau: another cost-plus contract.

Mr. AUDETTE: It did turn out to be so.

Mr. WALKER: All right.

Mr. GOLDEN: Excuse me, it was a cost-plus fixed fee contract.

Mr. WALKER: For the record, would you distinguish between those two?

Mr. GOLDEN: In a cost-plus contract, the profit to the shipbuilder would vary directly with the cost. On the cost-plus fixed fee, the fixed fee need not vary directly with the cost.

Mr. MCGEE: The only benefit the company would have in drawing the thing out longer would be in respect of employment, wages, and so on. Is that correct?

Mr. GOLDEN: I would rather not answer that.

Mr. MCGEE: I am dealing with it in general. If you have a cost-plus fixed fee contract, there is no encouragement to the company to do this in a short period of time. On the contrary, it is to their advantage to stretch it out.

Mr. GOLDEN: On the contrary, on a cost-plus fixed fee contract, there is an incentive to build quickly and cheaply.

Mr. WALKER: When did the work start on the boat? When was the keel laid?

Mr. GOLDEN: In 1956.

Mr. WALKER: That was before another election. What I want to know is why could you not—I am not speaking personally to Mr. Audette, you know that; I am just speaking about the changes. Why could you not, between 1949 and 1956 have obtained a set contract?

Mr. AUDETTE: As I explained from 1949 to 1953 we were in no position to move ahead.

Mr. WALKER: You did not have government permission?

Mr. AUDETTE: That is right. When we received government approval in 1953, shortly thereafter the government of Prince Edward Island made representations concerning the terminal in Nova Scotia. They suggested it be changed. Quite strong representations were made on that score. This necessitated an on-the-spot investigation and it was eventually discovered that the proposed new site would involve very large disbursements to create a new harbour.

Mr. WALKER: Quite so. Let us take all that for granted. That did not take another three years.

Mr. AUDETTE: No. That carried us through—

Mr. WALKER: It carried you through the election. I appreciate you have nothing to do with that. How long did it take you to investigate the harbour situation?

Mr. AUDETTE: I would say it was cleared up in the summer. It was around February or March when the premier of Nova Scotia made this suggestion.

Mr. WALKER: According to the evidence, there have been changes made from time to time which increased the size of the boat. My point is, do you not agree that a million or more dollars could have been saved if you had let out the boat for tender?

Mr. AUDETTE: No. In fact, the ship itself was changed twice in the course of that year.

Mr. WALKER: What year?

Mr. AUDETTE: The final change was not made until 1954.

Mr. PRATT: Change in what?

Mr. AUDETTE: The design of the ship. Twice was made larger.

Mr. WALKER: We have from 1949 to 1953 and then to 1956. Finally the keel is laid in 1956, seven years after the matter is originally considered. Why could you not have let it out to tender in the regular way the Department of Transport does.

Mr. AUDETTE: It was not until October, 1954, that the final size and type was agreed on.

Mr. WALKER: You had two years to make your final plans from the time the size was agreed on and the keel laid. I am not criticizing you. I am just asking questions. I think the answers are obvious. Do you not agree,

Mr. Audette, that it is preferable to have tender contracts rather than cost-plus fee, or any other basis, for the building of a ship, a printing bureau, or anything else.

Mr. AUDETTE: I would say as a general principle that you probably should.

Mr. WALKER: Thank you very much. In this case, why was that not done, that being so? I appreciate you are only the chairman of the commission and it is a government matter.

Mr. AUDETTE: It is more than that. The final design of the vessel, in this case, was really fixed, or the type and size of the vessel was finally agreed upon, in October of 1954.

Mr. WALKER: The question I ask is very simple. Having regard to the fact that you, like most intelligent civil servants, believe that the contract tender system is the best—it is certainly the most economic—why, with two years between October, 1954 and the time the keel was laid in 1956, was it not let out to tender?

Mr. AUDETTE: There had been, as you now realize, many previous delays and the urgency was very great. At that time we thought we would still be able to move more quickly than we did. There were, however, intervening problems such as the shortage of steel in 1955.

Mr. WALKER: Do you agree that would not have prohibited your making final plans and letting it out to tender?

Mr. AUDETTE: Had we seen ahead, no. However, I think there was still a feeling at that time we would have the vessel earlier. There was great pressure from Prince Edward Island.

Mr. WALKER: We are anxious that Prince Edward Island have good service, but that is not what we are discussing here. At the present time do you do business in that way, by letting out a contract on a cost-plus fee basis rather than by tender?

Mr. AUDETTE: I would say the recent ferries which have been built have all been built by tender.

Mr. WALKER: Then the conclusion to which we come is that all the others having been done in that way—and there is no criticism against that—had that happened in this case could the government of Canada have saved in excess of \$1 million; because the original price, which was \$1 million, admittedly for a smaller boat, now has cost \$3¼ million up to the last time of accounting.

Mr. AUDETTE: I do not feel competent to answer that.

Mr. BALDWIN: I will do my best to answer it, but it will have to be in round figures. Shipyard costs do vary significantly in Canada from yard to yard. To begin with, you have to accept that fact. Some yards are lower-cost yards than others. About all I can say on the point you have raised, is my ship construction officials, whose advice I rely on in regard to the probable cost of the vessel when they have been working on the design and specifications, inform me that there was an estimate after the plans and specifications had been finally completed, which, as I indicated, was either late in 1956 or early in 1957. They came to the conclusion that this ship would probably have cost in the neighbourhood of from \$2½ million to \$2.6 million, if it had been put out to tender call and awarded to the lowest cost yard.

Mr. WALKER: That is fine; and the final cost of it was what, up to date?

Mr. BALDWIN: Roughly \$3.2 million.

Mr. WALKER: Those figures you finally got were not until 1956-57?

Mr. BALDWIN: Starting in the autumn of 1956; but that was an estimate before plans and specifications were actually completed.

Mr. SMITH (*Simcoe North*): What type of motive power was used in this ferry, and what was the cost of the engines?

Mr. GOLDEN: I can answer the first question but not the second. The first was, I understand, that it was a Werkspoor engine.

Mr. SMITH (*Simcoe North*): And what was the cost of it?

The CHAIRMAN: You could let us know.

Mr. SMITH (*Simcoe North*): Where were the propellers?

Mr. AUDETTE: It cost about \$240,000 or \$239,000, I believe.

Mr. SMITH (*Simcoe North*): That was for the Dutch engine?

Mr. AUDETTE: That is right.

Mr. SMITH (*Simcoe North*): What about the propellers?

Mr. AUDETTE: They were variable pitch propellers, with a constant speed engine.

Mr. SMITH (*Simcoe North*): Where did they come from?

Mr. AUDETTE: They were, I believe, supplied as part and parcel of the engine.

Mr. SMITH (*Simcoe North*): Were they part of the \$239,000?

Mr. AUDETTE: Yes.

Mr. PRATT: In view of the urgency and the pressure to have this job completed, why did it take over two years to complete the plans and specifications? Was there any particular reason for that?

Mr. BALDWIN: This is a question which should be addressed to the naval architect. We took over in the summer of 1956, and I know that difficulties had been experienced before that time by the Maritime Commission. The plans had not been completed, but they were completed by autumn.

Mr. LAMBERT: I have reference to sub-paragraph D of the treasury minutes, and to the limited experience of the contractors. I would like to ask Mr. Audette why, by reason of the urgency of getting the vessel built, was this particular contractor picked?

Mr. AUDETTE: That is a question I cannot answer, because it was indeed a government decision.

Mr. MACDONALD (*Kings*): I would like to ask the deputy minister or the chairman of the maritime commission if they could tell us when the keel was first laid. Were there any changes in the plans following the laying of the keel?

Mr. BALDWIN: The keel was laid early in 1956.

Mr. GOLDEN: January, 17, 1956.

Mr. BALDWIN: The answer to the question about the change in plans is yes, because the plans were not completed. They would incorporate changes as long as they are being prepared; but the only thing we can consider as an alternative change to any plans is when the change is made after the plans and specifications are completed.

Mr. MACDONALD (*Kings*): Surely the main plans for the construction of the vessel were completed before the keel was laid. I know about the details of the plans, but they should not provide a delay.

The CHAIRMAN: Are there any other questions?

Mr. PRATT: There seems to be a relationship between the keel of this vessel and the basement of the printing bureau.

Mr. BROOME: They both have reference to water.

The CHAIRMAN: Have you finished your questioning, because if you have, we would like to release our witnesses.

Mr. MCGREGOR: I understand that the architect received 11½ per cent, and that he also received a certain amount of money for expenses. What were those expenses?

Mr. BALDWIN: I do not have that information, but I could obtain it.

Mr. MCGREGOR: Can you get it for us?

Mr. BALDWIN: Yes.

Mr. MCGREGOR: This is the first I have heard about it being a fixed fee proposition. What was the fixed fee?

Mr. GOLDEN: Originally, the fixed fee was \$85,000.

Mr. MCGREGOR: \$85,000 to whom?

Mr. GOLDEN: Ferguson Industries.

Mr. WALKER: What did they finally get?

Mr. GOLDEN: \$130,000.

Mr. WALKER: Why? In "fixed fee", I am thinking of the word "fixed".

Mr. PRATT: That might be the key word.

Mr. WALKER: It sure is. That is more than a 50 per cent increase. Surely someone knows the answer in connection with that criticism. Mr. Golden, it is no criticism to your group as individuals.

Mr. GOLDEN: I was not thinking of that; I was trying to see if I had the answer here. The fixed fee was originally based on an estimated cost of roughly \$1,700,000 before all the plans and specifications were completed. Later it was seen that a rough approximation of the cost of this vessel, as described by Mr. Baldwin, would be in the order of magnitude of \$2,600,000, and the fixed fee was based on that.

Mr. WALKER: In other words, the more it costs the bigger the fee is?

Mr. GOLDEN: Within certain limitations.

Mr. WALKER: There are always certain limitations.

Mr. MCGREGOR: I think you will agree with me that negates all rules in contracts.

Mr. BROOME: I do not agree with you at all. It is on the basis of the money involved, which is a clear indication of the work you have to do.

Mr. PRATT: A fixed fee is a fixed fee.

Mr. GOLDEN: In actual fact, it is not unusual to vary a fixed fee if the nature of the job appears to be underestimated at any time.

Mr. LAMBERT: Paragraph 76 of the Auditor General's report refers to a firm of naval architects receiving a fee of 11½ per cent plus certain out-of-pocket expenses, and to the end of 1957-58 had been paid \$372,000. Who are the naval architects?

Mr. BALDWIN: Milne, Gilmore and German of Montreal, sir.

Mr. LAMBERT: Could we have a breakdown of this \$372,060 as between the fee and the out-of-pocket expenses.

Mr. BALDWIN: Yes, Mr. Lambert, I have agreed to do that.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. PRATT: In connection with this original fixed fee of \$85,000, with a cost ceiling of approximately \$1,500,000, which amounts to about 5 per cent, I would like to ask if 5 per cent is the usual fee for a naval architect?

Mr. GOLDEN: There are two separate things there. This is the fee to the shipyard, not to the naval architect.

Mr. PRATT: I beg your pardon; I meant that. Is that the usual architect's fee for a job of that type—about 5 per cent?

Mr. GOLDEN: Yes.

Mr. PRATT: It is not high.

Mr. WALKER: Is it usual that an architect should get 11 per cent?

Mr. BALDWIN: I think I should comment on that, Mr. Chairman. It depends on the nature of the agreement made with the architect. There are three types of services he may provide: first, the outline designs and specifications up to the point where they are suitable for tender call; second, the detailed work drawings—which is a much larger and separate job—for the actual construction; and third, the supervision of construction.

Normally speaking, in our departmental contracts we only ask the architect to do item 1; that is, the preparation of designs and specifications suitable for tender call. In this particular contract they included the second and third items as well, which accounts for the higher than normal rate of payment to the naval architect.

Mr. WALKER: Would you agree that it would pay the architect to do this: the more he could spend on this, obviously—I am not suggesting that there was any ulterior motive here—the more fee he would get at 11 per cent? Is that not correct?

Mr. BALDWIN: Literally speaking, yes; though I cannot speak on the architect's objectives.

Mr. WALKER: Quite so. I am just talking about the system.

Mr. BROOME: Further, a lawyer can take the case to court.

Mr. FRASER: There was a fixed fee, and on top of the fixed fee would the shipyard get certain rentals and other fees? There would be rentals for equipment?

Mr. GOLDEN: The costs were in accordance with the standard Department of Defence Production documents relating to a contract of this type: general conditions, D.D.P. 26; supplemental general conditions, D.D.P. 33; standard form of marine builders' risk policy, D.D.P. 32; costing memorandum, D.D.P. 31; and labour conditions (2)—all of which can be filed, if the committee so desires.

Mr. FRASER: I would like to see that; but I am getting at rentals in the shipyard for equipment.

Mr. GOLDEN: No.

Mr. FRASER: He got the fixed fee?

Mr. GOLDEN: And cost, in accordance with D.D.P. 31, which, generally speaking, permits all costs reasonably and properly incurred, but does contain a number of exclusions, which the government will not pay.

Mr. FRASER: That is what I want to get at.

Mr. GOLDEN: It contains a number of costs which the government will not pay.

Mr. FRASER: Can we have that?

Mr. GOLDEN: Yes.

Mr. FRASER: Can we have it filed today, or you can bring it next time?

Mr. BELL (*Carleton*): In the form of a letter that may be filed.

Mr. BROOME: It is a standard contract.

The CHAIRMAN: Mr. Golden, will you produce your standard forms as exhibit P-4?

Mr. FRASER: And what they got out of that.

The CHAIRMAN: I beg your pardon?

Mr. FRASER: And what the contractor got from that.

Mr. GOLDEN: Those forms will not disclose that. I understood your question was: are there some types of costs which are paid, and some which are not?

Mr. FRASER: That is what I want.

Mr. GOLDEN: These forms will disclose that.

Mr. FRASER: And what they were paid from those forms.

Mr. GOLDEN: That would not be within our knowledge. This is Cost, Inspection and Audit division of the Department of Finance, I think.

Mr. MCGREGOR: Surely we can get this clear. You say he got costs of \$130,000. How much money did he get—according to the question—over and above that \$130,000, in that yard?

Mr. GOLDEN: He got something over \$3 million; but that was not the question.

Mr. FRASER: That is not the question. It is the extras he got for such things as rental—and things like that—of his equipment, which a lot of these contractors have. Under these different forms, for what is he allowed to charge extra?

Mr. BELL (*Carleton*): Mr. Fraser is seeking the items of cost, apparently.

Mr. FRASER: Yes.

Mr. BELL (*Carleton*): A breakdown.

Mr. GOLDEN: These are not within the knowledge of Defence Production in respect of the items that have been asked for.

Mr. FRASER: Somebody has it.

Mr. MORRIS: Mr. Chairman, some of us here have a highly important meeting at 11 o'clock. It has come to the point of adjourning.

Mr. MCGREGOR: I think this is a highly important thing we want to get cleared up. We are told this man got \$130,000. Does he get any extra for rental of equipment, and that sort of thing, over and above that, or not?

Mr. BALDWIN: No.

Mr. MCGREGOR: Does he get rental for his yard?

Mr. GOLDEN: Of course, he gets depreciation on his equipment.

Mr. MCGREGOR: That is what we want to know.

Mr. GOLDEN: This will appear as an allowable item of cost. I cannot say what, in fact, were the charges; but I am sure Mr. Baldwin can produce them.

Mr. WALKER: Could you make available all the details of how this \$3 million is arrived at?

Mr. BALDWIN: I think I can produce that.

The CHAIRMAN: Gentlemen, there is one thing before we adjourn. Mr. Golden sent me, by way of letter, copies of contracts with Okanagan Helicopters Limited and Canadian Helicopters (1954) Limited, under discussion at the last meeting, and may I file these as Exhibit P-5?

Mr. MCGREGOR: There is one more question I would like to ask which might facilitate something at a later meeting.

In view of the fact that we are paying a subsidy of \$567,000, off which the company pay back to the government \$265,000, I would like to see the auditor's statement of the business that that company does, to show why they are justified in paying this \$265,000 over and above what they pay back to us.

The CHAIRMAN: Gentlemen, is it your wish to have these witnesses return, or have we finished with them?

Mr. MCGREGOR: No, we are not finished at all.

Mr. BELL (*Carleton*): If that information is filed—

The CHAIRMAN: Obtained for the next meeting by way of letter?

Mr. MCGREGOR: If you want to file that information, that is quite all right with me, but I want that auditor's report, and I think that should be okayed by the Auditor General.

Mr. AUDETTE: I have only one word to say on that: these statements are filed with the commission on a confidential basis and have never before been made publicly available to competitors and others.

Mr. MCGREGOR: That is a good story; but this is a government order and the government is paying the shot, and we want to know why they are paying it.

Mr. AUDETTE: I am obviously in the hands of the committee, and I do not seek to avoid producing these; but I do want to make it clear the committee has taken on itself the onus of making it public.

Mr. MCGREGOR: I think this committee is quite willing to take this upon itself.

The CHAIRMAN: Would you leave that to the steering committee?

Mr. MCGREGOR: No, as far as I am concerned I will not leave it to the steering committee; and this is a perfectly legitimate question. We are paying out \$567,000 a year on this boat, and we want to know where it is going.

The CHAIRMAN: I do not disagree with that, but your question will have to be referred to the Minister of Transport.

Mr. BALDWIN: The problem is—without any reluctance on our part to meet your point of view—there are a great many coastal shipping subsidies paid by the maritime commission to private operating companies, all of whom furnish their financial records, in confidence, to the maritime commission. It is not the practice to publish those, because they are private companies that furnish this information. If we do it for one we would have to be prepared to do it for all.

Mr. MCGREGOR: Do you mean to say that anyone who is getting a subsidy does not know what the others are getting?

Mr. BALDWIN: They know what they are getting, but they do not know the financial state of the individual companies.

Mr. MCGREGOR: I think this committee should know.

Mr. DRYSDALE: Could we examine the subsidies in essence, in camera, and decide whether they should be placed on the record?

The CHAIRMAN: I will have to refer that to the steering committee, because it is quite an involved matter.

Mr. MCGREGOR: I am quite willing to have it placed in the record, and to let the Auditor General okay the matter.

Mr. BELL (*Carleton*): I think it is a matter of policy we will have to take up with the minister.

APPENDIX V

Department of

NATIONAL HEALTH AND WELFARE

May 14, 1959.

Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
Room 112-N,
House of Commons,
OTTAWA, Canada.

Dear Mr. Macnaughton:

Thank you for the opportunity of appearing yesterday before the Public Accounts Committee to explain certain questions relating to our handling of accumulated Family Allowance Trust Accounts, arising out of the comments of the Auditor General in paragraphs 65 and 66 of his Report.

I promised the Committee that I would check on the accuracy of one answer I gave to the Committee, having to do with the disposal of unspent Family Allowance credits when a child dies. I was incorrect in stating that, when a child in the care of an agency dies and has no brothers or sisters to whom the unspent credits can be transferred, the procedure is to handle the unspent balance as part of the deceased child's estate in accordance with the laws of the province. I should have stated, as the Auditor General states in paragraph 65 of his Report, that "in the event of the death of the child directly concerned, any balance at credit is required to be transferred to the accounts of other children of the same family in care of the agency *or, if there be none, to the other Family Allowance accounts*".

Paragraph 35(b) and (c) of our Family Allowances Directive reads as follows:

- "(b) If there are other children in the family in care of the agency in receipt of allowances, the balance is to be used for the remaining children.
- "(c) If there are no other children, the balance should be transferred to the Family Allowances Interest Account. This will then be distributed among all open family allowances accounts at the next succeeding date of allocation of interest."

The Directive goes on to provide for certain exceptions, but the basic rule is as I have stated.

I also referred to the fact that the Auditor General in paragraph 66 of his Report had stated that some of the securities in the investment portfolio of the agency under discussion paid interest as high as six per cent; and that I had made inquiries on this point and found no securities paying higher than five per cent, while the overall average was about 3.9 per cent. Mr. Sellar and I had a word about this following my testimony to the Committee, and the discrepancy is explained by the fact that the agency has disposed of a small quantity of its securities (about \$15,000 worth) since the time of the visit of Mr. Sellar's representative. Included in the securities sold was a small quantity of securities with a six per cent coupon.

Finally, it will be recalled that I promised Mr. Fraser that I would supply a statement showing the position with respect to agency trust accounts and unspent balances across the country. This is being prepared and will be sent forward to you within the next few days. (Table attached).

If there is anything further which the Committee requires, please let me know and I will be glad to see that the information is made available.

Yours sincerely,

George F. Davidson,
Deputy Minister of Welfare

CHILD PLACING AGENCY TRUST ACCOUNTS 1958

Province	Receipts January 1, 1958 December 31, 1958	Expenditures January 1, 1958 December 31, 1958	Percentage of Receipts Expended	Balance Remaining (Cumulative)	Number of Children	Average Balance Per Child
NEWFOUNDLAND.....	\$ 58,884.82	\$ 52,500.95	89.2%	\$ 55,687.17	874	\$ 63.72
PRINCE EDWARD ISLAND.....	15,624.04	13,049.94	83.6	7,990.98	309	25.86
NOVA SCOTIA.....	146,835.91	137,781.94	93.8	365,809.92	2,646	138.25
NEW BRUNSWICK.....	65,170.03	56,666.19	86.9	56,795.23	1,041	54.55
QUEBEC.....	892,120.28	727,002.03	81.5	1,169,875.92	16,599	70.65
ONTARIO.....	853,528.40	798,500.63	93.6	859,684.24	15,626	55.02
MANITOBA.....	112,840.43	103,336.09	91.6	149,975.48	1,955	76.71
SASKATCHEWAN.....	109,086.39	86,699.22	79.5	295,938.32	2,012	147.08
ALBERTA.....	176,045.32	146,748.16	83.3	302,820.43	3,074	98.51
BRITISH COLUMBIA.....	150,998.66	132,112.67	87.0	129,724.73	3,398	38.18
ALL CANADA.....	<u>\$ 2,581,134.28</u>	<u>\$ 2,254,397.82</u>	<u>87.3</u>	<u>\$ 3,394,302.42†</u>	<u>47,534</u>	<u>\$ 71.41</u>

†NOTE: The total shown represents the cumulative unspent balance in child placing agency trust accounts established over the period of 13½ years—July 1, 1945, to December 31, 1958.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

TUESDAY, MAY 26, 1959

WEDNESDAY, MAY 27, 1959

WITNESSES:

Mr. H. R. Balls, Comptroller of the Treasury, Mr. Watson Sellar, Auditor General for Canada, and Mr. E. B. Armstrong, Assistant Deputy Minister (Finance) Department of National Defence.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),

and Messrs.

Benidickson	Hales	Pickersgill
Bissonnette	Hanbidge	Pigeon
Bourbonnais	Hellyer	Pratt
Broome	Keays	Regier
Bourget	Lahaye	Robichaud
Bruchesi	Lambert	Smith (<i>Calgary South</i>)
Campbell	Latour	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Macdonald (<i>Kings</i>)	Smith (<i>Winnipeg North</i>)
Campeau	Martin (<i>Essex East</i>)	Spencer
Charlton	McGee	Stefanson
Chown	McGrath	Stewart
Crestohl	McGregor	Villeneuve
Denis	McMillan	Walker
Drysdale	Martineau	Winch
Fraser	Morissette	Wratten
Godin	Morris	
Grenier	Morton	

Antonio Plouffe,
Clerk of the Committee.

CORRIGENDUM

Issue No. 9—Page 277, 1st line: the word “*architect’s*” should read “*contractors*”.

Issue No. 4—Page 77, 15th line: *Appendix P-1* should read *Exhibit P-1*.

MINUTES OF PROCEEDINGS

TUESDAY, May 26, 1959.

(11)

The Standing Committee on Public Accounts met at 2.00 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Campbell (*Lambton-Kent*), Drysdale, Grenier, Hales, Hellyer, Keays, Lambert, Latour, Macnaughton, McGee, McGregor, McMillan, Morissette, Morris, Pickersgill, Pigeon, Pratt, Spencer, Stefanson, Stewart and Winch—(23).

In attendance: Mr. H. R. Balls, Comptroller of the Treasury, and Mr. Watson Sellar, Auditor General for Canada.

Pursuant to notice, the Committee proceeded to consider suggestions relating to the form and size of the Blue Book of Public Accounts, Volumes I and II.

Mr. Balls was called, made a brief statement with respect to the background of Public Accounts, and the contents thereof. He stated that the Department of Finance was willing to entertain formal proposals and/or recommendations from the Committee. He was questioned in particular on the cost of printing and preparation of the public accounts.

He stated that the Department envisaged the inclusion for the year 1960-61 of a more comprehensive index.

At 2.20 o'clock Mr. Balls was retired.

Mr. Sellar was called, made a statement, and as requested tabled an office working paper which contains specific proposals with a view to changing the form and size of the Blue Book.

Ordered,—That the above mentioned office working paper be printed as an appendix. (*See Appendix "W" to this day's evidence*)

Mr. Pratt referred to Page 277, and made a correction therein. (*See Corrigendum*)

At 2.30 o'clock, the Committee adjourned until Wednesday, May 27 at 9.30 a.m.

WEDNESDAY, May 27, 1959.

(12)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Campbell (*Lambton-Kent*), Campeau, Charlton, Drysdale, Fraser, Hellyer, Keays, Lambert, Latour, Macnaughton, McGee, McGregor, Morissette, Morris, Pickersgill, Pigeon, Pratt, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Winnipeg North*), Stefanson, Stewart, Walker, Winch and Wratten—(27).

In attendance: Mr. Watson Sellar, Auditor General for Canada; Mr. E. B. Armstrong, Assistant Deputy Minister (Finance); Colonel J. Wallace, Director, Army Movements; and Wing Commander D. A. Brownlee, Personnel Movements, R.C.A.F., Department of National Defence.

Pursuant to notice the Committee resumed consideration of the Auditor General's Report.

On Paragraphs 65 and 66—Unspent Family Allowances—

The Chairman referred to a telegram received by the Clerk of the Committee relating to administration of Family Allowances. The Clerk was directed to forward same to the Department.

On Paragraphs 71 and 72—Air Transport Tariff Rates—

The Chairman informed the members of the Committee that he had not yet received the legal opinion requested at the last meeting, but that it was forthcoming.

On Paragraphs 73 to 77—Cost of a Motor Vessel—

The Chairman tabled a letter from the Deputy Minister of the Department of Defence Production enclosing, as requested, related contract documents. These were identified as EXHIBIT P-4.

The Chairman also tabled a letter of the Deputy Minister of Transport enclosing, as requested, amounts paid to shipyards and to naval architects. This document was identified as EXHIBIT P-6.

The Clerk read a letter addressed to the Chairman dated May 26 by the Chairman, Canadian Maritime Commission, relating to the production of certain documents requested by Mr. McGregor.

Mr. Watson Sellar was then called, made further comments on the above matter, and was questioned.

On Paragraphs 86, 87 and 88—Unusual Transportation Costs—

Mr. E. B. Armstrong was called. He made a statement on the policy and regulations of the Department concerning movement of personnel. He was assisted by Colonel J. Wallace and Wing Commander D. A. Brownlee.

He tabled 7 original Transportation Invoices. These were identified as EXHIBIT P-7.

It was agreed that these invoices be returned to the witness on conclusion of the Committee's deliberations.

At 11.05 o'clock, the Committee adjourned until Tuesday, June 2 at 2.00 o'clock p.m. to continue the examination of Mr. Sellar.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

TUESDAY, May 26, 1959.

The CHAIRMAN: Gentlemen, we have a quorum. May I call the meeting to order?

This is a special meeting of our committee to consider, in particular, certain recommendations or suggestions made last year in your final report as to the form and the size of the public accounts.

Mr. H. R. Balls, who is comptroller of the treasury, is our chief witness this afternoon.

Mr. Balls, I understand you have a statement to make?

Mr. H. R. BALLS (*Comptroller of the Treasury, Department of Finance*): Yes, with the permission of the committee, Mr. Chairman, I would like to read a brief statement.

PUBLIC ACCOUNTS

The statutory directions with respect to the public accounts are contained in section 64 of the Financial Administration Act which reads as follows:

"64. (1) An annual report, called the Public Accounts, shall be laid before the House of Commons by the Minister on or before the thirty-first day of December, or if parliament is then not in session, within fifteen days after the commencement of the next ensuing session thereof.

(2) The Public Accounts shall be in such form as the Minister may direct, and shall include:

- (a) a report on the financial transactions of the fiscal year;
- (b) a statement, certified by the Auditor General, of the expenditures and revenues of Canada for the fiscal year;
- (c) a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister are required to show the financial position of Canada as at the termination of the fiscal year;
- (d) the contingent liabilities of Canada; and
- (e) such other accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada, or are required by any Act to be shown in the Public Accounts."

At the present time gentlemen, the public accounts consists of two volumes, the first containing a report on the financial transactions of the government of Canada for the fiscal year, and the second the financial statements of all crown corporations and the auditors' reports thereon.

Part 1 of volume 1 in the space of approximately one hundred and thirty pages presents in summary form an analysis and financial review of the highlights and more significant features of the government's operations for the fiscal year, together with statements of government revenues and expenditures, assets and liabilities, cash and debt position and other current and historical

financial data. In his annual report, which is appended to volume 1 of the public accounts, the Auditor General presents a critical review of the year's operations for the information of parliament in which he directs attention to those aspects of the year's transactions that, in his opinion, are open to criticism or warrant the attention of parliament or the public accounts committee.

In part 11 of volume 1, which is approximately one thousand pages in length, details of revenues and expenditures, and of assets and liabilities by departments, are published, together with additional information regarding departmental revenues by source and expenditures by vote, allotment and object classification.

In addition, this part includes lists by departments

- (a) of the names and annual salary rates of all salaried employees who were receiving \$5,000 or over at March 31;
- (b) of the names and amount of travel and removal expenses for every employee who has spent \$500 or more during the fiscal year;
- (c) of the names of suppliers and contractors receiving \$10,000 or more in the fiscal year from a department, except in the case of defence contracts where the names of, and payments to, only those suppliers and contractors receiving \$25,000 or more are listed; and
- (d) in the case of appropriations for construction, or acquisition of buildings, works, rental and equipment, of details of construction by projects approved by the Treasury Board where the amount of the contract is \$10,000 or over, except that for cost plus contracts the minimum reported is \$5,000 and for defence contracts \$25,000.

These limits have remained virtually unchanged since 1950-51; in fact the minimum amount for reporting travel and removal expenses was set in 1947-48.

This is followed by a section containing certain statements that are required under the Financial Administration Act to be published in the public accounts. These include:

- (1) a statement of each remission of a tax, fee or penalty of \$1,000 or more granted by the governor in council (section 22(8));
- (2) a statement of the obligations, debts and claims deleted from the public accounts by the governor in council (section 23(2));
- (3) a statement of every accountable advance that is not repaid or accounted for (section 36(4));
- (4) a statement of stores and materials deleted from inventories with the approval of the treasury board (section 60(3));
- (5) a statement of every payment out of the public officers guarantee account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer (section 98(3)).

The number of pages required to report all this detail has gradually increased from year to year as salaries and costs generally have risen. At the present time there are over twelve hundred pages in volume I of the public accounts, and approximately one hundred and forty in volume II.

The preparation of the public accounts has been based on the premise that the public accounts should be designed primarily to serve the needs of members of parliament, and the public accounts committee in particular. Moreover, in taking the view that members should have such information as they consider necessary with which to study and make a full examination of the financial transactions and affairs of Canada, the Department of Finance

has been guided by the thought that nothing should be proposed by the Department, or by the officials of the Department, that would have the effect of reducing the amount of information available to members. However, I understand that the committee is considering some proposals regarding techniques for the reduction in the size of the public accounts. Consequently, if it is the wish of the committee, I should be pleased to give some indication as to what the effect would be in regard to the reduction in the size of the report if the committee were to decide to make certain recommendations. Specifically:

- (1) If the published details of salaries paid were limited to those persons receiving \$8,000 a year or more (instead of the present amount of \$5,000 a year) there would be a reduction of approximately 145 pages in the public accounts; if the amount were \$10,000 the reduction would be 160 pages; if it were \$12,000, the reduction would be 165 pages.
- (2) If the published details of travel and removal expenses were limited to those incurring expenses of \$1,000 a year or more, instead of the present \$500 a year, there would be a saving of approximately 20 pages; if the limit were \$2,000 a year the saving would be 25 pages; and if these listings were deleted entirely, the saving would be 60 pages.
- (3) If the general statements listing suppliers and contractors receiving payments from departments were limited to those receiving \$50,000 a year or more, the saving would be 25 pages; if the amount were \$100,000 the saving would be 35 pages.
- (4) If in the case of appropriations for the construction or acquisition of buildings, works, rental and equipment the reporting of the projects (showing location, expenditure and name of contractor) were limited to those contracts involving payments of \$25,000 a year or more, the saving would be 25 pages; if the amount were \$50,000, the saving would be 40 pages; and if the amount were \$100,000 the saving would be approximately 55 pages.

Mr. WINCH: What is the recommendation of treasury board or the Department of Finance, having regard to the recommendation of our committee last year? Is there any definite recommendation being made to this committee for consideration?

Mr. BALLS: I think I covered that in my statement. I can only speak, of course, under instructions from my minister. The position of the Department of Finance is that the department is not prepared to make any recommendation that would lead to the reduction of the amount of material available to parliament or to this committee; but we would be very pleased to act on, and consider sympathetically, any proposals which might emanate from this committee.

Mr. WINCH: Might I move that the items as mentioned by Mr. Balls be now taken up on a seriatim basis?

The CHAIRMAN: The position is reasonably clear. Last year the committee discussed this problem and called the attention of the Department of Finance to it. During the interval—I do not want to misquote—but I understand the Department of Finance has given very considerable study to the whole matter, and we have now had their report as of the present on the subject. I think it is really up to this committee to make up its mind as to concrete suggestions or recommendations that we should make.

Mr. BELL (*Carleton*): That is something we should do when considering our report to the house.

Mr. McMILLAN: The most significant saving would be if we could cut down reporting all salaries less than \$8,000.

Mr. BALLS: There would be a saving of 145 pages if we did that.

Mr. McMILLAN: There would not be a very significant number of pages cut down.

Mr. WINCH: I would like to know what the saving would be in money on each of the proposals that you have spoken about. What would they mean in terms of money?

Mr. BALLS: It is very difficult to estimate. I can give you the departmental figure as to the cost of the Public Accounts in 1957-58 which is the report before you. The figure I would be quoting would be the cost of printing the report.

Mr. WINCH: But not the cost of publication?

Mr. BALLS: The preparatory cost does not show in these figures. I would say it would be several times this amount. I mean the amount of clerical work required in compiling the details and in preparing the list of salaries.

Mr. WINCH: What do you mean by "several times"?

Mr. BALLS: I would say three or four times.

Mr. WINCH: Could you not give us an approximate figure?

Mr. BALLS: The figure in regard to the cost of printing the 1957-58 Public Accounts is this: to date we have paid approximately \$43,000 in the controllers office, and about \$9,000 in the Department of Finance has been provided to cover the first part, volume one, making a total sum of \$52,000. It is estimated that there are approximately \$4,000 worth of accounts which have not yet been presented for payment. So the total cost, I would estimate, would be something in the order of \$56,000.

Mr. MORRIS: For how many copies?

Mr. BALLS: This is primarily for the cost of printing it, alone. I cannot tell you.

Mr. MORRIS: For how many unit copies?

Mr. BALLS: I am sorry, but I do not have the details of the number of copies prepared; but the bulk of the expenditure is for the composition and preparation.

Mr. BELL (*Carleton*): Could you let us have the number?

The CHAIRMAN: Would you consider the question of a revision and index?

Mr. BALLS: Yes. We have been giving preliminary studies to the possibility of having a more comprehensive index. It is too late for the report for 1958-59, but I hope to have an index available for the Public Accounts for the following year.

Mr. McGEE: Do I understand you to say that it was \$56,000?

Mr. BALLS: That is right.

Mr. McGEE: For the preparation the cost would be approximately \$200,000.

Mr. BALLS: I would say it would require three or four times the cost of the printing.

Mr. WINCH: On the basis of printing and using your maximum figures, if certain things were agreed to, what would the saving be?

The CHAIRMAN: What would be the saving in terms of dollars and cents?

Mr. WINCH: Yes, on the printing, if you take your maximum figures?

Mr. BALLS: It is very hard to estimate. All you can do is to assess it pro rata. I would say that if you took the maximum proposals outlined in my statement there would probably be a saving of some 250 pages, or from 200

to 250 pages out of a total of some 1350 pages. I suggest that the maximum would mean a saving of about one-fifth of the present cost.

Mr. WINCH: On the preparation it would be four times that amount?

The CHAIRMAN: It would be about \$10,000.

Mr. WINCH: And four times that of the preparation?

The CHAIRMAN: Yes.

Mr. WINCH: There would be a saving of from \$85,000 to \$100,000.

Mr. BALLS: It would be about \$50,000, Mr. Chairman.

The CHAIRMAN: We have Mr. Sellar with us.

Mr. DRYSDALE: Would it be convenient perhaps now to combine the report of the Auditor General and the introductory statement on crown corporations in one volume, and to have a separate volume for the accounts by departments, because I think the other information is perhaps referred to more frequently. As a matter of convenience that could easily be done, could it not? In other words, take out the accounts of the departments and put them into in a separate volume rather than to have it the way you have it now, with 135 pages of introductory material, and then the department references, and then the reference of the Auditor General at the rear. Personally I would prefer to see the departments in a separate volume which was purely financial. Would there be any objection to that?

Mr. BALLS: Your suggestion is that the report of the Auditor General would be separate from the report of the transactions, the revenues and expenditures of the departments?

Mr. DRYSDALE: No. With the detailed breakdown by departments, you have your initial 133 pages of introductory material.

Mr. BALLS: Yes.

Mr. DRYSDALE: Then you have the various departmental accounts which take up pretty close to 1,000 pages.

Mr. BALLS: Yes.

Mr. DRYSDALE: Then you have the Auditor General's report. All I want to do is to remove the departments which take up about 1,000 pages, and to insert the crown corporations, so that you have two volumes.

Mr. BALLS: In regard to that at the present time, we have published part one, the first 130 pages, as a separate volume, and I believe that the Auditor General also prepares his report as a separate volume.

Mr. WINCH: Do I understand the witness to say that the department he represents is not prepared to make any recommendation but that it would welcome a recommendation from this committee? Is that virtually what he said?

Mr. BALLS: Yes.

The CHAIRMAN: May we now hear from Mr. Sellar while we have a few minutes left, because there are other basic questions.

Thank you very much Mr. Balls.

Now, Mr. Sellar, you have heard the testimony.

Mr. WATSON SELLAR (*Auditor General for Canada*): Yes, and might I add at the outset a comment with respect to Mr. Winch's observation, which is made because I had some experience with preparing the Public Accounts years ago when I was in Mr. Balls' position. The Minister of Finance is on rather delicate ground whenever he proposes any change in the size or content of the Public Accounts. Somebody, either in the house, or among the public at large, or in the committee will accuse him of withholding information. So he has to be somewhat flexible in that regard. He has to move delicately, so please do not be too hard on Mr. Balls, because he is rather reticent in his language in that regard.

Mr. BELL (*Carleton*): I do not think any inference should be taken from what Mr. Balls has said. We all of us recognize that. I do not think any inference should be drawn from any reservation on his part.

Mr. SELLAR: I just wanted to be sure. It seems to me that you have various approaches. Mr. Drysdale just advanced one in which he might have gone a little further. The first part of this report is the deputy minister's report of his operations and of the transactions of the year. I have never had any experience of this committee paying any attention to that report, but it is a valuable one. True, it is based on the white paper that comes down with the budget, and to a large extent it is in the *Canada Gazette* because the Department of Finance publishes in the *Canada Gazette*, the outcome of the financial year in the way of a financial statement. Then the crown corporations table their reports throughout the session. If the session lasts into July, they are all tabled, otherwise some are not. As it is now, this great big volume scares people on account of its size, and it comes down in the month of January. By that time everybody thinks it is rather old stuff.

I would be inclined to think that in the course of time you might consider issuing a first volume containing this report of the deputy minister of finance, the financial statements, and perhaps the statements of the crown corporations in the month of August or September, and mail them out to you.

The CHAIRMAN: Is that the Ontario system?

Mr. SELLAR: Yes, it is in line with the Ontario system. That is the one which Ontario adopted in the last few years in that regard. It is a very useful one. They have the figures when they are reasonably fresh and only six months old; and they can consider them.

Then, as to the other part, the volume two, it of course should be tabled. It should not be put into circulation until parliament wishes it. And so far as volume two is concerned I think the outlines that Mr. Balls gave of possible changes are all sound. It depends how far you want to go, but I do not think you are going to lose any information that is of value to you as a public accounts committee member by reducing the size along the lines he suggests.

Mr. BELL (*Carleton*): I do not think he suggested anything.

Mr. SELLAR: I stand corrected—that he indicated might be considered. I do feel this, that when you are considering this question, you have to go step by step; you cannot make a new heaven or a new earth in one year or in two years—you have to gradually move along.

I might say—if you are interested; and your time is short—that ever since the committee made the representation last year, my office has had to prepare itself in the event that we might be called in on a consultation, and our practice in such situations is to prepare a work paper for office use. We have made an analysis of the public accounts and what we think might be considered, and so on and so forth. That is just simply in the form of an office work paper.

Mr. WINCH: Would it be available to this committee?

Mr. SELLAR: I was going to say, if this committee wanted that, I would have no hesitation in giving it to you. I do not think it is controversial, and it might be helpful. But it is nothing more than a work paper prepared by myself and my supervisors. Of course, if I table it, I take full responsibility for the document.

Mr. WINCH: Mr. Chairman, I would ask that that be tabled. Is that a work paper in view of the recommendations made by this committee in its last report?

Mr. SELLAR: That is right—with a possibility of what we might be asked to discuss with the Department of Finance.

Mr. DRYSDALE: Can you give any examples of what you have suggested in the work paper?

Mr. SELLAR: Yes; a preliminary report, that cuts down the printing load on the Queen's printer. Secondly, we are of the opinion that you could safely cut down the printing of the listing of names. We are also of the opinion that the estimates with all this mass of detail for staff establishment might be reasonably reconsidered, as we do not think that is of real interest to you. That is, of course, a matter of opinion.

We question whether it is necessary to reprint the financial statements of the crown corporations; they are already tabled. If the members of parliament would like to have them together in a bulk volume, we say go ahead with that. But if you do not find the material of value, do not go to the expense of reprinting.

In this work paper we do suggest that there be an addition to the present volume. For example, in the Department of National Defence vote there is a big item ending "notwithstanding the Financial Administration Act this grants authority to enter into future commitments to the extent of, "\$X" million. You know that wording just at the end of the vote. We think the public accounts should include the commitments that are entered into, as a result of that, so that you have the information, because in a sense your freedom is committed by that. That in rough substance, Mr. Chairman, is what is in this work paper.

Mr. WINCH: Mr. Chairman, could I move—if I can get a seconder for this—that this work paper be filed with the committee?

Mr. BELL (*Carleton*): How extensive is the work sheet?

Mr. SELLAR: I think it is about five pages.

Mr. BELL (*Carleton*): Might it be printed as an appendix, Mr. Chairman?

The CHAIRMAN: Would that satisfy the committee?

Agreed to.

The CHAIRMAN: We meet tomorrow morning, gentlemen, at 9.30.

Mr. PRATT: Before we close, Mr. Chairman, I would like to make a correction in the official record. On page 277, the first line, the word "architects" should read "contractors".

Mr. PICKERSGILL: Mr. Chairman, I wonder if for tomorrow morning's meeting—since Mr. Balls is here—you could ask him to leave a message to ask the Minister of Finance to let us have the opinion of the solicitor to treasury on that Canada Council transaction, so we would have it in the committee before Mr. Claxton appears.

The CHAIRMAN: Before June 3?

Mr. PICKERSGILL: Yes. We could perhaps have it tomorrow; it ought not to be difficult to get.

The CHAIRMAN: Is that possible, Mr. Balls?

Mr. BALLS: I will leave the message.

(Evidence of the meeting of Wednesday, May 27 follows).

WEDNESDAY, May 27, 1959.

The CHAIRMAN: Gentlemen, we have a quorum. From time to time various anonymous letters and telegrams come to the committee, and I have been dealing with them because they are really matters of administration. I do not think necessarily they should be brought before the committee unless you want to see them.

Here is one which would be referred to the Department of Health and Welfare. There is nothing we can do about it, but we could call their attention to the matter concerned.

If we open the door too wide, we will have thousands of telegrams. I just hope it meets with the consent of the members of this committee. If there was anything basic or important, it would be my duty to table it and tell you about it, but these are only routine matters. I refer them to the different departments concerned.

I have been stalling a bit waiting for Mr. McGregor to come, because he has an item on the agenda. However, to get started, at the last meeting we asked for a legal opinion from the Department of Justice with regard to paragraph 71, air transport tariff rates. I understand that opinion has not yet been received, but that they are working on it.

Mr. DRYSDALE: With respect to that opinion, when it is presented to the committee, I believe a representative from the Department of Justice should be here to explain it?

The CHAIRMAN: Well, your steering committee delegated this matter to Mr. Walker to work out. Perhaps Mr. Walker could deal with it now.

Mr. WALKER: I took it up with Mr. Jackett, the deputy minister of justice and I pointed out that there was a tremendous member of documents to be read. He wanted to go into the matter thoroughly and was not prepared to have an opinion by today, which is something which I can well appreciate. Therefore, with your permission, sir, might I suggest that this matter should go over to the next meeting.

Now as to whether Mr. Jackett should be here, it is not usual, when an opinion is sought from a legal officer, that he should have to do more than to submit a written opinion. It is not usual that he should also have to submit himself to be cross-examined on his opinion because, after all, he can only give it his best consideration, and the result that he has is the final result. Therefore I suggest that his opinion be submitted to the committee; and then if there are matters which are not clear in that opinion—and I doubt whether this would be so—it would then be time enough to call the legal officer. Otherwise to call the deputy minister of justice every time we want something explained would be putting an unwholesome burden on him.

The CHAIRMAN: Is that agreeable?

Mr. DRYSDALE: My point is that the committee had requested an opinion from the Department of Justice. Therefore I am agreeable that the opinion should come to the committee. But I for one would like to reserve the right, perhaps, to get a further explanation after I have seen the opinion. I merely want to insure that the matter is not closed upon the receipt of an opinion.

The CHAIRMAN: The prime issue is first to get an opinion.

Mr. SMITH (*Simcoe North*): We might have to have Mr. Davoud, because if the opinion is one which might suggest that the rules might be changed, or something like that, Mr. Jackett can only tell us about the law as it stands, or the rules. But if they have to be changed, that is something different again.

The CHAIRMAN: Shall we wait until we get the opinion? Let us go now to paragraphs 73 to 77, cost of the motor vessel.

Mr. McGregor raised certain issues at the last meeting and with your permission I would like to table as one of the exhibits a letter from Mr. Golden, deputy minister of defence production, containing a contract and a memorandum covering the construction of one auto-ferry vessel, with Ferguson Industries Limited.

I also have a letter from Mr. J. R. Baldwin, deputy minister of transport, in which he deals with the statement of an amount paid to the naval architects, giving a breakdown between the amount of 11½ per cent, which was paid, and a general breakdown of the total cost paid to shipyards which constructed this vessel.

I also have a letter from the chairman of the Canadian Maritime Commission, Mr. L. C. Audette which I now ask the clerk of the committee to read; following which, if it meets with your approval, we shall hear from Mr. Watson Sellar, the Auditor General, who is here to deal with these matters.

The CLERK OF THE COMMITTEE (*Mr. Plouffe*): This letter reads as follows:

Canadian Maritime Commission
Ottawa

May 26, 1959.

Alan Macnaughton, Esq., Q.C., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. Macnaughton,

On Wednesday May 20th there arose before the Standing Committee on Public Accounts, at the instance of Mr. McGregor, the question of the production of the subsidy contract between Her Majesty the Queen represented by the Canadian Maritime Commission and Northumberland Ferries Ltd., the company which operates the vessel *Lord Selkirk* on the service between Wood Island, P.E.I. and Caribou, N.S., or the production of the company's financial reports.

The principle underlying the non-production of such documents is basically that they are apt to provide information which is not normally public, which involves the contractor's personal affairs and which could prejudice his position in relation to competitive undertakings of others.

Documents of this nature often contain information the revelation of which could be highly prejudicial to a company or individual: the specifications and characteristics of a privately-owned ship, information on the financial status of the company such as its capitalization or loans outstanding, the cost of a ship to the contractor or the operating costs of a company; there are other types of information which could be highly inimical to a contractor such as the case where he undertakes to supply a new vessel by a given date where only one shipyard is in a position to meet the delivery date: this would place the shipyard in a highly advantageous position in fixing a price for the vessel; there could also be clauses the publication of which would be embarrassing to the government such as an undertaking not to trade with or employ the nationals of a given country.

At the end of the Proceedings and Evidence of the Standing Committee on Public Accounts on Wednesday, May 20, Mr. McGregor did state that he would be content with the view of the Auditor General upon this subsidy. In fact the Auditor General, some weeks ago, did review the contract, the subsidy, the operating results, the profits, the recapture of subsidy made and generally the financial considerations arising out of the subsidy phase of the undertaking. I understand from him that he would be quite prepared to give evidence on this score and that this would be acceptable to Mr. McGregor. If this were so I suggest that it would be by far the best solution to the difficult problem raised by Mr. McGregor's request.

I would be most grateful if you would consider this problem and give me a call at my office at your convenience to let me have your views. I know that my minister would be reluctant to breach the principle of non-production of contracts with individuals or companies and that he would be quite happy with the solution I propose of evidence by the Auditor General on the issue, a solution apparently acceptable to Mr. McGregor.

Your sincerely,
L. C. AUDETTE,
Chairman.

The CHAIRMAN: Thank you, Mr. Plouffe. Mr. Sellar understands the situation I am sure.

Mr. WATSON SELLAR (*Auditor General of Canada*): I take it, Mr. McGregor, that you are interested in the Northumberland ferries.

Mr. MCGREGOR: Yes. What I am interested in is this: that this government is paying a subsidy of \$567,000, and I want to know if that is justified. The only way, I understand, we can know whether or not it is justified is to see the statements of this company and then we will know whether that subsidy is justified or not.

Mr. SELLAR: That is correct. Well, I am subject to a sort of secrecy rule that is applicable to any department. However, I am quite free to speak on this subject if you will allow me to refrain from going into specific deals with respect to some profit, as far as the company itself is concerned. When I come to that you can challenge me, if you think I should be more explicit.

This ferry company was incorporated about twenty years ago. It has a provincial charter. It is a private company. It does not have large capitalization. It has 1,000 no par value shares of stock issued. It has no debenture debt. It owns two boats. One of them is fully depreciated, and on the other the depreciation item is negligible. I do not know who the shareholders are, but all the directors save one are residents of Prince Edward Island.

The directors receive an annual directors fee. There is no substantial salary payment to any executive officer whatsoever. It is a modest, well-run company, so far as that goes. They declare dividends out of their profits, but over the years they have concentrated in frugally and conservatively developing their business out of profits earned, and they have no debt. They are in reasonable working capital position as a company.

Now, coming to its operations: its accounts are audited by McDonald Currie and Company. I have seen the auditors report for the last two years. The calendar year is the financial year of the company. In 1958 the company operated two boats, one it owned itself, and the other was the *Lord Selkirk*. The operating season starts on May 1st, and ends with the freeze-up which is generally in the month of December. They made 1,034 trips in 1958. The revenues for 1958 were approximately 60 per cent greater than they were in the previous year. That was due to the *Lord Selkirk* going on the run. However, this increase in revenues was offset by increases in operating expenses. Wages in particular went up—that is, the total of wages. The *Lord Selkirk* requires a crew of 30 to operate. Therefore the increase in labour costs more than offset the increase in revenues in the year.

The service has never been self supporting. It has always had to receive a subsidy. In 1957 the subsidy was \$175,000. In other words, the subsidy was greater than the revenue derived from operating the service that year.

In 1958 the subsidy, as Mr. McGregor has stated, was increased to \$567,000. That was because they took on the *Lord Selkirk* under charter hire for which

they paid \$243,750 in the year. They had also various other material increases in costs. Marine insurance went up approximately \$38,000, because they were required to insure the *Lord Selkirk*.

Voyage repairs on the *Lord Selkirk* which they were required to perform and an annual overhaul each were \$20,000. The result was that at the end of the year the company ended up with a net profit, after taking into consideration our subsidy, of around \$40,000. But the subvention agreement provides that we are to recuperate subvention when profits exceed a certain amount. In this case I think it is quite proper for me to say that the company is allowed to retain the first \$10,000. Then the crown steps in.

The result was that in the year in question the company only made about \$1,000 more in profit than it did in the previous year. The rest went in expenses. It narrows down to this, gentlemen, that in the year the government of Canada spent about \$3 for every \$1 the contractor collected from members. We were rendering a service to the people of Prince Edward Island and to the mainland of Nova Scotia. The company itself was not a gold mine. It is a reasonably good going concern, but there was no fancy profit made by anybody, so far as we are concerned.

Mr. MCGREGOR: The way it looks is that when you take the subsidy, and take from the subsidy what they paid back to the government, they have something around \$300,000 left out of the subsidy.

Mr. SELLAR: They had \$535,000 left out of the subsidy.

Mr. MCGREGOR: But not after they paid back to the government the three per cent.

Mr. SELLAR: Oh no, the net subsidy to them was \$535,000. Perhaps I should have put it that way.

Mr. SMITH (*Simcoe North*): What is the difference between the net subsidy and the repayment to the government for the capital cost and interest on the cost of the *Lord Selkirk*?

Mr. SELLAR: They paid approximately \$243,000 back to the government in connection with the ship.

Mr. WALKER: That is capital cost.

Mr. SELLAR: That was on the four per cent of capital cost.

Mr. WALKER: In any event, in a period of 25 years they will own the boat.

Mr. SELLAR: No, no; the government always owns the boat.

Mr. WALKER: Then why the four per cent capital cost?

Mr. SELLAR: As Mr. Audette put it last week, they did not want to have a hidden subsidy. They thought it was only fair to parliament to disclose what this service was costing.

Mr. SMITH (*Simcoe North*): The four per cent in a sense is depreciation allowance.

Mr. SELLAR: Yes.

Mr. SMITH (*Simcoe North*): And in addition to that they pay 3½ per cent on the \$3,100,000 as interest?

Mr. SELLAR: I am not sure about that. I shall ask. Yes, 3½ per cent on the undepreciated cost.

The CHAIRMAN: Is there anything else?

Mr. MCGREGOR: The government gives them a vote, and they give them \$302,000 to operate it. That is the answer in a nutshell.

Mr. SELLAR: You are subtracting the \$243,000 from the \$535,000, are you not?

Mr. MCGREGOR: They pay back to the government four per cent and 3½ per cent. We will wipe that out. That leaves \$302,000 of net subsidy after paying for the boat. So the government gives them a free boat and \$302,000 a year to operate it. That is the answer.

Mr. SELLAR: They end up in the same financial position they were in before they got this boat.

Mr. MCGREGOR: We do not know anything about that because we do not know what their profits are.

Mr. SELLAR: Their profit is small. It is in the neighbourhood of \$12,000 as compared with \$11,000 in the previous year.

The CHAIRMAN: If there is nothing else, let us now go to paragraphs 86 to 88, unusual transportation costs.

86. *Unusual Transportation Costs.* An expenditure of \$29,140 was incurred to transport, by chartered aircraft, 113 members of a Newfoundland militia unit to Camp Petawawa and return. It was observed that (a) the men were in camp less than a week and (b) it was estimated that transport could have been provided by the R.C.A.F. for about \$7,000 less, though not as comfortably as in the chartered aircraft.

87. A number of cases were observed where charges for moving furniture and effects of service personnel were patently unrealistic, although permissive under the regulations. In one case, the cost of moving the furniture and effects of an R.C.A.F. officer from one house to another, a distance of approximately half a mile, within the confines of Rockcliffe air station, amounted to \$314. The mover's account reads:

To packing at old residence, unpacking and setting up at new residence—			
8 Barrels	@	\$7.00 each \$56.00
1 Box	@	5.50 5.50
32 Cartons	@	1.75 each 56.00
18 Cartons	@	2.75 each 49.50
1 Crate	@	4.00 4.00
5 Wardrobes	@	5.00 each 25.00
			196.00
To removal of household effects from Cottage Row to			
Rigel road—			
Van and 4 men—			
		10¼ hours @ \$11.50 per hour 117.88
			\$313.88
			\$313.88

In the audit it could not be established why extensive packing was necessary or why Service vehicles were not used.

88. Another like account attracted attention; this time the amount was \$341 and the move from Billings Bridge, Ottawa, to Uplands air station, five miles away. At the other extreme was \$3,831 paid for moving an officer's effects from Ottawa to Vancouver. This was done by moving van although a rail movement would have cost about \$1,000 less.

Gentlemen, we have as witnesses on these particular paragraphs Mr. E. B. Armstrong, assistant deputy minister of national defence; Colonel J. Wallace, director of movement for the army; and Wing Commander D. A. Brownlee, director of personnel movement for the air force.

Mr. Armstrong wanted to make an opening statement.

Mr. E. B. ARMSTRONG (*Assistant Deputy Minister of National Defence (Finance)*): Mr. Chairman, I understood that the committee wished to have the papers dealing with the particular cases that are being examined, so I have brought along with me the original invoices and the documents which authorize the mover to move the person in question. These are documents obtained from the comptroller of the treasury. They are original paying documents, and he wants to have them back. But I could table them for the information of the committee, if it desires them, and they perhaps could be returned when the committee is finished with them.

The CHAIRMAN: Is that agreed?

Agreed.

Mr. ARMSTRONG: Mr. Chairman, with respect to item 86, it may be of some interest to the committee to have a very brief statement on the plans, the methods used by the department, by the army in particular, in organizing movements of this kind.

The training program of the reserve army is planned by the director of military training, who is on the general staff side in the army organization. When that plan has been developed and approved, it is passed on to the director of movements to organize the necessary transport.

Each year in the spring, April or May, the director of army movements meets with the air transport command of the R.C.A.F., and a plan is worked out with which to use to the maximum the transport available from R.C.A.F. air transport command. Normally, movements of the reserve army to training camps are confined to the command in which the reserve army unit is located. It has not always been possible to do this, because there are certain types of specialized training for which it has been necessary to bring people from all parts of Canada to a centrally organized school.

This problem of reserve army training, incidentally, is becoming much less than it used to be. This is due to certain changes in the reserve training program that were initiated in this last year, and will continue because of the changing emphasis in reserve army training in respect to the survival role. It is expected that in another year there will be virtually no movement of reserve army units to camps outside their own commands.

It would be of interest, perhaps, to the committee to have the total cost of militia travel over the last two or three years. In 1956-1957, the total expenditure for this purpose was \$1,382,363.

Mr. WALKER: What is that, again?

Mr. ARMSTRONG: \$1,382,363.

Mr. WALKER: For how many men?

Mr. ARMSTRONG: I have not got the exact number. It would be about 20,000. In 1957-1958, which is the year you are dealing with the total cost is \$1,175,381.

Mr. WALKER: One million, how much?

Mr. ARMSTRONG: \$1,157,381. In the last fiscal year, 1958-1959, the total costs were \$774,674.

Mr. BELL (*Carleton*): Do you have any idea of the number of men carried over those two years?

Mr. ARMSTRONG: In 1957-1958, there would be approximately 20,000; perhaps 19,000 to 20,000. The numbers in this last year were smaller than that; I believe, 15,000 to 16,000.

If we could turn now, Mr. Chairman, to the particular case under reference, in the original plan—

The CHAIRMAN: This is paragraph 86.

Mr. ARMSTRONG: Yes, paragraph 86. In the original plan which I referred to—that is organized by the army with air transport command—it was planned to move the militia field regiment.

Mr. WALKER: Excuse me, is that 1957-1958? Is that the year for item 86?

Mr. ARMSTRONG: That is the year for item 86.

Mr. WALKER: That would be the summer of 1957?

Mr. ARMSTRONG: The summer of 1957, that is right.

Mr. WALKER: Thank you.

Mr. ARMSTRONG: As I was saying, in the original plan to move the militia unit—which was the 166th field regiment in Newfoundland—it was planned to move it by C-119 aircraft of the R.C.A.F. air transport command. The plan involved the use of three of these aircraft, which would have carried, approximately, 100 of the personnel involved. In addition to that, the original plan contemplated that one aircraft would be chartered to carry the balance, which was estimated at, roughly, 50. There were approximately 150 people to be moved, as set out in the original plan. The majority of these people were at St. John's, and 30 of them were located at Stephanville, Newfoundland.

About one month before the move—approximately the first week in June—the G.O.C., eastern command, was notified by the commanding officer of the unit that his men objected to moving that distance in C-119 aircraft. Incidentally, the move was to Camp Petawawa. They had in fact, been moved to camp in C-119 aircraft the summer before and, as you know, these aircraft are set up for strictly military purposes and certainly are not comfortable aircraft to ride in. These men objected to moving to Camp Petawawa by this means and the commanding officer strongly recommended to the general officer commanding, eastern command, that alternative means of transport be provided. The G.O.C., eastern command, was sympathetic to this request, on the basis, essentially, that these men would not move to camp, or substantial numbers of them would not be prepared to move to camp, under the alternative means of transport.

Mr. MORRIS: Mr. Chairman, I wonder if the witness would kindly speak just a little louder. We are having a little difficulty hearing.

Mr. ARMSTRONG: Yes. As a result a wire was sent to headquarters here from eastern command recommending that arrangements be made for alternative transportation. Now, transportation by rail was impractical because of the time involved. It would have taken 6 to 8 days to move these men by rail, which would have extended the training period, or the total time required for the training period, to approximately two weeks.

The director of army movements—who, incidentally, is not the present director; the director of army movements of that time has subsequently retired, having reached the age limit for his rank calculated what the alternative costs were, if a chartered aircraft were used.

He assumed, on the basis of the cost that he calculated, it would cost roughly \$29,000 to move these men by chartered aircraft as compared to what it would cost him if he moved them by rail. Incidentally, his calculations as to the cost of moving the men by rail included the extra time which would be necessary if they were moved by rail, which would involve paying the men. He calculated that, in fact, it would be as cheap to move these men by chartered aircraft as by rail. Consequently, he ordered a chartered aircraft to move the men.

The regulations that deal with the hire of chartered aircraft for this purpose are contained in the government contract regulations which are issued by treasury board. Those regulations authorize the minister to charter aircraft where the cost involved does not exceed the cost that would be involved in

the normal air or rail transport fares; or the minister may charter aircraft regardless of that consideration, up to a total cost of \$15,000.

If the cost exceeds \$15,000 and the cost is more than it would cost using normal fares, then the authority of treasury board must be obtained.

In fact, under the circumstances that applied in this case the authority of treasury board should have been obtained in the first instance. It was not obtained, and when the bills were submitted, when the invoices were submitted, it of course became apparent that the proper authority was not available for payment of the bill, and it was then necessary to go to treasury board and seek their approval. And this was done.

Mr. WALKER: This is after the expenditure was incurred?

Mr. ARMSTRONG: It was after the expenditure was incurred; and so, in a sense, it became a formality. I must be frank in saying it naturally incurred the displeasure of treasury board.

Mr. WALKER: In 1957-58 to transport 20,000 men, the cost, according to the figures you gave us, was \$1,175,000-odd. Is that right, Mr. Armstrong?

Mr. ARMSTRONG: Yes, \$1,175,000.

Mr. WALKER: By dividing 20,000 into that figure we have the cost per man of, approximately, \$51.50 for transportation purposes in that year: correct?

Mr. ARMSTRONG: Right, sir.

Mr. WALKER: Taking this isolated instance set out in item 86 of the Auditor General's report, you have 113 men being moved for a total of \$29,140?

Mr. ARMSTRONG: Right, sir.

Mr. WALKER: Which, divided by 113 gives the cost per man, which was \$257—a little more than that?

Mr. ARMSTRONG: Yes, sir.

Mr. WALKER: Or \$258. So that we have here an example of expenditures involved in transporting men to militia camp, where the cost exceeds five times the normal cost per man: correct?

Mr. ARMSTRONG: Right, sir.

Mr. WALKER: This was in the summer of 1957; and you say treasury board was not consulted, but should have been consulted?

Mr. ARMSTRONG: The treasury board authority should have been obtained before entering into the charter of the aircraft.

Mr. WALKER: Is this an unusual instance, that such a fantastic amount should be spent on the transportation of a small body of men to stay in a militia camp for less than one week? How often do we have instances like this—\$258, per man, for transportation, only to be in militia camp for less than a week in the summer-time?

Mr. ARMSTRONG: That is right. It is "unusual"—that is a difficult word to interpret, and I have not got the actual number of cases where transportation costs of \$250 per man, or more, were involved. But, as I mentioned earlier, there were certain cases where the only economical way of training the militia units, or the only way they could be trained, unless you set up alternative training camps, was to bring them to a central point. The choice here was either to spend the money or not to train them.

Now the army did find it sensible, in the conduct of their training program of the militia, to bring certain units to certain points; that there was no other alternative way of training them more economically at that time. Petawawa was the only place at that time where this artillery regiment could receive its artillery training. Subsequently, they could get it at Gagetown, but at that time the ranges were not operating there.

So, it was really a question of, if you did not spend this money you did not train the unit. It is true there were such cases, this one and others. This is not the only place where very large costs per man were incurred for transportation. This was accepted in the over-all training program, but as you also see the average cost of moving reserve units to militia training camps was not too large.

Mr. SMITH (*Calgary South*): The aircraft employed were C-51?

Mr. ARMSTRONG: C-119 were the aircraft in question. They were not employed on this job.

Mr. SMITH (*Calgary South*): What aircraft were used to transport them?

Mr. ARMSTRONG: T.C.A.

Mr. SMITH (*Calgary South*): I am sorry. What aircraft were available, originally? What were the air force prepared to use?

Mr. ARMSTRONG: The original plan was to use C-119 aircraft.

Mr. SMITH (*Calgary South*): Where were these to be drawn from?

Mr. ARMSTRONG: They were to come from Downsview.

Mr. SMITH (*Calgary South*): From where?

Mr. ARMSTRONG: From Downsview.

Mr. SMITH (*Calgary South*): There were no other aircraft available? The air force did not have available their North Star transports?

Mr. ARMSTRONG: They were not available. They were all committed for other purposes.

Mr. SMITH (*Calgary South*): Was this planned in advance? Was there any arrangement made whereby the air force might have made available a better aircraft?

Mr. ARMSTRONG: No; the plan, as I say, was made earlier, towards the end of April or early May. The North Stars were fully committed on other operations, and the C-119's were the only aircraft available.

I should point out to the committee that the cancellation of the use of these aircraft for moving this particular unit did not mean the aircraft were not used for other purposes. One of the aircraft was employed for moving another militia unit; and the other aircraft were employed by the R.C.A.F. on air force work.

Mr. SMITH (*Calgary South*): The point I am endeavouring to make—and this follows up the question put by Mr. Walker—the witness may have no sympathy in regard to the cost involved in transporting the men, but Mr. Walker asked whether or not this was a usual procedure, having in mind the general transportation adopted for these camps. I know they do book them on a pre-determined date, and they invariably endeavour to provide them with a North Star or comparable transport, on which there are some comforts. Because the committee should appreciate that these men will often be taken up to extreme heights with no heat provision, in bucket seats, which makes it pretty damned difficult to survive, let alone enjoy any of the ordinary comforts; and I think that is important in this particular instance. But here this strikes me as being unusual when compared to every other camp, where provision has been made well in advance to use the ordinary R.C.A.F. transport.

Mr. CHARLTON: What is the ordinary T.C.A. first-class fare from St. John's, Newfoundland to Ottawa or Petawawa?

Mr. ARMSTRONG: I do not know that. The director of movements could give you that.

Mr. BELL (*Carleton*): Mr. Pickersgill can answer that.

Mr. PICKERSGILL: The return fare is, approximately what it costs to bring these people to Petawawa, as far as I can recollect—

Mr. PRATT: It is \$250 return.

Mr. PICKERSGILL: You have the extra distance from Petawawa to Ottawa, both ways. I do not know exactly, but I would like to put this to Mr. Armstrong: Mr. Walker was talking about average costs. Would Mr. Armstrong not agree it would cost more to bring an artillery unit from Newfoundland to Petawawa than from, say, Ottawa to Petawawa?

Mr. BELL (*Carleton*): There is no question about that.

Mr. BROOME: Let us have the answer to this other question.

The CHAIRMAN: Mr. Charlton?

Mr. ARMSTRONG: The return fare, St. John's to Ottawa is \$176.

Mr. BROOME: I beg your pardon?

Mr. ARMSTRONG: It is \$176.

Mr. CHARLTON: Return fare, \$176?

Mr. ARMSTRONG: Yes, \$176 return fare.

Mr. CHARLTON: And for the charter aircraft in question it is \$258.

Mr. ARMSTRONG: I think here you should bear in mind the charter aircraft was arranged on the assumption there would be more people moved than in fact were finally moved. It started out with 150 people; it ended up with 113 as the actual number of people being moved.

Mr. BROOME: I have a supplementary question on that. You say it is just \$176 on a first-class fare. You could have arranged for them to be moved on a family fare basis, and declare half of them to be wives.

The CHAIRMAN: Are you satisfied, Mr. Charlton?

Mr. BROOME: It does not even add up to \$258.

The CHAIRMAN: Mr. McGrath?

Mr. McGRATH: You mentioned there were other units being transported by these C-119's—are they?

Mr. ARMSTRONG: Yes, C-119's.

Mr. McGRATH: Where were they coming from?

Mr. ARMSTRONG: I have not got the complete list with me. One of the aircraft that was scheduled to move this unit, the 166th field regiment, was diverted to moving, I believe, if I remember rightly, a medical unit from Sydney, Cape Breton, to Gagetown. I have not got with me the schedule of movements in total.

Mr. WALKER: Mr. Armstrong, the air transport command supplies North Stars for the purpose of transporting troops, do they not?

Mr. ARMSTRONG: They have one squadron of North Stars, consisting of 12 aircraft, I think it is.

Mr. WALKER: They are comfortable?

Mr. ARMSTRONG: They are comfortable, but they are not all equipped as passenger aircraft.

Mr. WALKER: Supposing we are speaking of the ones that are. Of course, you would not expect to transport the militia in anything else but the North Star?

Mr. ARMSTRONG: Yes, they might be transported in an aircraft that is not established as a normal transport aircraft with appropriate seating.

Mr. WALKER: The one of which you are speaking is the C-105?

Mr. ARMSTRONG: No, the C-119.

Mr. WALKER: That is a freight transport?

Mr. ARMSTRONG: It is basically a freight transport, but it is the aircraft that the R.C.A.F. call their troop carrier.

Mr. WALKER: Could you not get the air transport command to make available North Stars for the transport of these troops from Newfoundland?

Mr. ARMSTRONG: These plans are worked out with the army and with the other services; and they are worked out to make the best use of the aircraft available.

The North Star is a larger aircraft and has a longer range. They are applied to the particular job where they can best be used; and in this particular case this move did not, apparently, rate—or there was not a priority here for the use of a North Star aircraft.

Mr. WALKER: Had they gone by North Star the cost would have been \$7,000 less?

Mr. ARMSTRONG: I am not sure.

Mr. WALKER: Mr. Sellar's report estimated the transport which could have been provided by the R.C.A.F. would have been for about \$7,000 less.

Mr. ARMSTRONG: That was not using the cost of the North Stars. That was using the estimated cost of the C-119.

Mr. WALKER: What would the cost of the North Star have been? Would it have been less than that because of its longer range?

Mr. ARMSTRONG: It might have been more but I do not know offhand.

Mr. SMITH (*Calgary South*): Surely the difference in the cost is understandable in this flight area, because your fuel, in degree, would not be more. But on the other point you make, when you say in spite of the air transport, that the twelve North Stars, for the most part you think were not available as troop carriers, they certainly would be readily convertible, would they not? My point is that I have some sympathy for these civilian soldiers when they are asked to be transported in effect in cargo haulers.

Mr. ARMSTRONG: I appreciate your question. My understanding was that Mr. Walker was asking me whether they were personnel carriers in the sense of having the normal seating arrangements and so on which you find in personnel transport aircraft.

Mr. WALKER: They feel they are entitled to that.

Mr. ARMSTRONG: Some North Stars are not so equipped. I have ridden in North Star aircraft of the R.C.A.F. which were basically designed to carry cargo. You have to sit on a bench along the side of the aircraft, in one long seat.

Mr. SMITH (*Calgary South*): I suggest there is still a basis for the difference between that and the cargo hauler.

Mr. ARMSTRONG: They are not designed for personnel transport.

Mr. WALKER: Would it not have been cheaper to use regular civilian facilities at \$176 per head, which would have meant a saving to the government of \$82 per head?

Mr. ARMSTRONG: That is the point.

Mr. WALKER: If you chartered a plane and transported all these men, surely a special rate could have been obtained, and at any rate a saving of \$82 per man achieved to the government?

Mr. ARMSTRONG: My point was that the calculations were based on moving more people than in fact were moved.

Mr. CHARLTON: Mr. Armstrong said that the charter was made on the basis of moving 150 men while only 113 were in fact moved. But if you take the former figure and work it out you will arrive at a cost of \$18 more than first class fare.

Mr. ARMSTRONG: The director of movement suggests that the rates have fallen since; and you did have to get them from Ottawa to Petawawa.

Mr. FRASER: Is there not a discount when you charter a plane?

Mr. ARMSTRONG: It is approximately 30 per cent.

Mr. FRASER: Did this plane land at Ottawa or at Petawawa?

Mr. ARMSTRONG: It landed at Ottawa.

Mr. FRASER: And how did they take them from Ottawa to Petawawa?

Mr. ARMSTRONG: There would be no extra cost involved in getting them from Ottawa to Petawawa, just as if they had arrived by a chartered plane.

The CHAIRMAN: May we finish this subject in the next five minutes?

Mr. FRASER: That would add to the costs; it would boost the cost up again.

Mr. WRATTEN: Is this the usual procedure when men are going to be moved: when they do not like the means of transportation, they can say they are not going that way, whereupon you have to provide alternative transportation for them?

Mr. ARMSTRONG: As far as I know and as far as I can ascertain, this is a unique case. They know of no other situation.

Mr. WALKER: You say it is a unique case?

Mr. ARMSTRONG: Yes.

Mr. WRATTEN: Is that the procedure? Are they allowed to do that? If they say they are not going, you have to provide some other means of transportation for them? Do they not do that for other militia units?

Mr. ARMSTRONG: You cannot force these men to go to camp.

Mr. WRATTEN: But they are paid for it, are they not?

Mr. ARMSTRONG: Yes, they are paid, but they also have civilian jobs.

Mr. PRATT: My understanding is that militia men are perfectly willing to put up with hardship as part of their training. Many of them would object to flying in bucket seats. I do not think many of them would have insisted on having first class accommodation. But I think we have worried this subject long enough to prove that there has been careless use of funds here.

Mr. BELL (*Carleton*): We have discovered that treasury board was very unhappy about it.

Mr. WINCH: I have one question. The reduction from 150 to 113 did not occur the day before the troops were to be moved. Was proper care taken to try to notify them? Regardless of the fact that the number was reduced, does that mean that one plane was provided by T.C.A. which was not used? If that is not so, how is it that the cost to T.C.A. is in excess, because the reduction in fares did not amount to that much. The reduction in fares has been fairly modest. T.C.A. seemed to be charging \$50 more to the government than if I had taken a seat and did not show up.

Mr. ARMSTRONG: With respect to the first part of your question, the reduction in number, the actual reduction or notification of the reduction came too late to cancel the charter. There is a 48-hour requirement.

Mr. WINCH: Surely they would know 48 hours before that they would have only 113 men.

Mr. ARMSTRONG: Apparently not.

Mr. WINCH: What about the 30 per cent reduction, and what was the actual invoice which came from T.C.A.?

Mr. ARMSTRONG: The invoiced amount is on this piece of paper which has been tabled. It is the amount that is mentioned: \$29,174. This is for the charter of the aircraft, a super-constellation charter, two aircraft, each carrying not more than 65 passengers.

The CHAIRMAN: Will you please file that as an exhibit.

(Exhibit filed.)

Mr. ARMSTRONG: The payment is in accordance with the filed tariff rates.

Mr. PIGEON: When it is possible, do you think that the government saves money if transportation is made via the Canadian National Railways or the Canadian Pacific Railway, when possible?

Mr. ARMSTRONG: The transportation costs would have been less by rail; but on the other hand it would have taken about a week to move the men there and back, which would have meant that they would have to take an extra week away from their jobs and we would—incidentally the Department of National Defence—would have to pay them their militia pay during that week. If you pay their rail fare plus their militia pay, it comes roughly to the \$29,000 which we paid for the charter.

Mr. DRYSDALE: I was interested in the sort of ordeal the men would have to go through. What is the flying time for a C.119 from Newfoundland to Ottawa?

Mr. ARMSTRONG: I think it is nine hours.

The CHAIRMAN: Paragraph 87, moving costs, \$314.

Mr. PRATT: I think I raised the question originally with Mr. Sellar in respect to this item for moving a distance of approximately one half a mile. My question was, that the packing amounted to \$196 whereas the actual removal of the household effects amounted to \$117.88, and I questioned the second item.

The CHAIRMAN: Here are the details. They appear in paragraph 87—

To removal of household effects from Cottage row to Rigel road

Van and four men—

10½ hours at \$11.50 per hour \$117.88

Mr. ARMSTRONG: This is the billing at rates quoted by the mover for four men at \$11.50 per hour.

Mr. PRATT: What were these men doing for 10½ hours at \$11.50 per hour to move something which had already been packed, for a distance of half a mile? The packing was an entirely separate charge? This amounted only to \$314 which may be considered a comparatively minor item particularly in a committee which usually deals in terms of millions. But I think it is an item which can be well understood by members of this committee and by the average Canadian family. The average Canadian family cannot afford to pay \$314 to move only one half a mile. I am sure very few people would go to that expense.

Mr. ARMSTRONG: I would not disagree with you. I think it is probably true that the average family does not spend this amount of money—the average family moving in the air force does not spend this amount of money.

Mr. PRATT: I am glad to have heard that, because if this a typical example and if it happens on numerous occasions, it would amount to the millions with which this committee usually deals.

Mr. ARMSTRONG: First of all I should perhaps explain to the committee what the regulations of the department are in this respect. I speak now of local movements in an area in which the man resides. The regulations provide that the department will pay the expenses of a local move when a man is ordered into married quarters, or ordered to move from one married quarters to another, or ordered to move out of married quarters.

The regulations do not provide for paying the expenses of moving a man who voluntarily moves from one civilian residence to another. It is only in those cases where he is ordered in or out of married quarters that his expenses are paid.

Now, the average cost of local moves in the year 1958 in the air force was \$116.

Mr. PRATT: For what average distance?

Mr. ARMSTRONG: I do not have the average distance. These are local moves.

Mr. PRATT: Figures mean nothing.

Mr. ARMSTRONG: These are local moves and I imagine one half a mile would be an unusual distance within an area.

Mr. PRATT: Was no question raised because of a charge of \$117.88 for a van moving such a short distance after everything had been packed and charge for at a separate rate?

Mr. ARMSTRONG: There were ten moves out of roughly 2,000 local moves in 1958 in the air force which cost \$300 or more, or were in the \$300 area such as this one. When you ask me whether this was questioned, these invoices are checked by the accounting officers of the R.C.A.F. before they are paid. If they consider there is reason to question them, then they are questioned. I am not sure whether they questioned this particular one or not. I do not believe they did. The invoice was certified by the people who moved, in respect to the time taken and so on. The charges were in accordance with the quoted tariffs.

I might point out to the committee, because it might be of interest to them, that in this particular case the man moving was himself in hospital on the day of the move and he was not available to assist at all in the move.

He has a fairly large family, four children, and I believe there was a considerable amount of furniture. That still perhaps does not explain to the satisfaction of most people why there should be a \$300 charge. I would say that the department itself is very much concerned about costs of this kind, and I point out to the committee that, from the point of view of the service man who is more than most people subject to being moved by the nature of his job, these moves normally cost him money also. They cost the department a lot of money, but they also involve him in expenses for which we do not reimburse him.

Therefore the department is concerned in dealing with these matters to find ways and means of keeping the costs down, without being too arbitrary in respect to the men and imposing hardships that might be avoidable under a system which is not arbitrary.

Mr. PRATT: How on earth do you spend 10½ hours moving one half a mile, when the things have already been packed?

Mr. ARMSTRONG: I do not see how I can answer that, except to say that this was the time that was taken.

Mr. PRATT: I do not see how anyone could answer it. Is it not the practice of the men involved in this work to regard these expenditures at least as if it was their own personal expense, or because it is public money they do not care?

Mr. ARMSTRONG: I am not an expert, and I do not know any better than yourself what the answer is.

Mr. WALKER: The average local move costs \$116.

Mr. ARMSTRONG: That is right.

Mr. WALKER: This move cost \$313.88, or 266 per cent more than the average local move.

Mr. ARMSTRONG: That looks to be about right.

Mr. WALKER: So whatever the extraneous factors were, there is nothing which justifies a figure like this, is there?

Mr. ARMSTRONG: When you say there is nothing which justifies it, all I can say to you is that these are the charges which were made for the work

that was done. As far as I know that work was done. We do not have a man on the job, because we have not felt it was worth while to put a man on every move to check all these things. The air force, however, has a spot check that they employ. They are constantly trying by spot check methods to pick up situations, or anything which indicates that a situation is getting out of hand.

Mr. PRATT: Are any efforts made to put this on a competitive basis? Are bids ever called for prices from various movers in this connection to any extent?

Mr. ARMSTRONG: The regulations in this respect call for having two bids. The individual who is moving has the choice of mover, but if he chooses a mover whose quotation is more expensive than the other bids, then he must pay the difference in cost.

Mr. PRATT: For a short distance such as this, would it not be possible to use service vehicles?

Mr. ARMSTRONG: No; we are not equipped to move furniture in the service.

Mr. HELLYER: There is one point on which I think we are not correct. As I understand it, in this case the men were with the van, and they had been both packing and unpacking that day; so that is where your extra cost comes in. They are paid not only the hourly rate for the standby of the van, but also so much per hour for packing and unpacking the boxes; and part of the cost was due to the insurance factor under these public tariff rates. So that when the packing can be done by the individual or by the householder in advance, and the mover just comes in and takes out the boxes and goes away, the cost is very much less than when the men have to come and do all the packing themselves, and then move, and then do the unpacking.

Mr. FRASER: These are two entirely separate items. It distinctly says here.

To packing at old residence, unpacking and setting up at new residence \$196

That was at so much an item, and the other item definitely says:

To removal of household effects from Cottage row to Rigel road,
Van and four men—10½ hours at \$11.50 per hour \$117.88

One item is for the packing while the other item is for the transportation from one spot to another.

Mr. HELLYER: I do not think that is correct despite what the invoice says.

Mr. PRATT: We are going by Mr. Moloughney's own bill here.

Mr. BROOME: Do you wish to disagree with the man who did the transporting?

Mr. WINCH: What is his name?

Mr. PRATT: Mr. Moloughney.

The CHAIRMAN: Gentlemen. Mr. Pratt?

Mr. PRATT: It says:

To removal of household effects from Cottage Road to Rigel Road—
van and four men—ten and a quarter hours at \$11.50 per hour, \$117.88.

On another page there is this variation in the rate:

Van and two men, per hour, \$7.50; and each additional man, \$2.

There seems to be some disagreement between the paragraph in the report and the final bill, Mr. Chairman.

Mr. ARMSTRONG: If I could answer that question on packing, the packing is done in advance of the van going to the residence and moving the furniture.

Mr. SMITH (*Simcoe North*): Surely, the \$7 rate for the barrel would include packing the barrel?

Mr. ARMSTRONG: Yes, it includes the packing. There is a maximum packing charge, which is the charge that is normally made. That charge is prescribed by the municipality, and these are the rates that are paid here.

Mr. SMITH (*Simcoe North*): Does it not seem to you that in this bill they have charged for a long-distance move? For example, if you hire Hill the Mover or any of the big movers to move from one location in the town to another, instead of putting the furniture in cartons they come and wrap it in blankets and quilts. Here they are charging for a carton, \$1.75, and are organizing it for a long distance move.

Mr. ARMSTRONG: I think that is probably so.

Mr. WINCH: I would like to ask one or two questions. Do you ever question a relationship, such as you have on moving, in paragraphs 87 and 88, where the charge is \$313.88 for a move of half a mile and the charge of \$341, to move five miles, in the same area?

Would the witness have any information on what I was informed of by officers out at Uplands only a week ago, that in the period that was covered by the accounts we now have before us, though there were no competitive bids asked on it, almost invariably it worked out the competitive bid was exactly the same and it is only in this past three or four months that one company has broken away from that, and is now putting in a bid which is not a standardized bid?

Mr. ARMSTRONG: That is correct; I think that is a correct statement.

Mr. WINCH: In other words, there was a combine operating at this time on transfer business.

Mr. SMITH (*Simcoe North*): It seems to me—and I am living on the edge of a large army camp—that there are more complaints about movement of service personnel than, I think, on any other subject dealing with the camp. The complaints are these, that they have no choice of the mover. The N.C.O. in the station in charge of movements always pulls out the slip for the company which he happens to prefer at the time. There is always confusion about the insurance of the goods: they are told sometimes to cancel their insurance—they may be improperly told; some of the N.C.O.'s act as unofficial touts for insurance companies. They are never quite sure where their furniture is stored. I know the regulations will probably say something contrary to that. But there were just dozens of people—when they had the big warehouse fire in Barrie a year ago—there were dozens, a variety of officers and other ranks complaining. They did not know where their furniture was, and they had not been told it was stored there. They had cancelled their insurance on the basis it was somewhere else. There was a great deal of bitterness over the movement.

Mr. ARMSTRONG: This insurance business—especially when you have a warehouse burn down—is certainly a problem. The department has issued instructions and endeavours at every opportunity to tell the men involved, “You are responsible for insuring your furniture. The department will not assume responsibility if it is burned or lost in a fire”.

Despite this, if a warehouse does burn down we always have cases where men have failed to insure their furniture, or have insured for much less than the furniture is worth.

Mr. SMITH (*Simcoe North*): I think that cent a pound carters carry confuses people too.

Mr. ARMSTRONG: That, I think, would be the cartage.

Mr. WINCH: People seem to think if it is the government, the government is the “sucker”, and why not hook them for all you can.

Mr. ARMSTRONG: If I can make a suggestion, if you have the opportunity to advise men of this kind to carry insurance on their furniture, please advise them.

Mr. SMITH (*Simcoe North*): I always do.

Mr. ARMSTRONG: It is in their interest, and in the interest of the department.

Mr. WALKER: But you suggest the charge for moving and using the van only commences after the barrels are packed, is that right?

Mr. ARMSTRONG: Yes, that is right.

Mr. WALKER: To go half a mile would it take $10\frac{1}{4}$ hours? One would think one could roll the barrels along the street in one-quarter of that time. Ten and a quarter hours, at a charge of \$117, to roll the barrels along the road?

Mr. WINCH: They could use a rickshaw.

Mr. ARMSTRONG: This is a personal view, but I do not see that half a mile makes that much differences. You drive half a mile in the city and it takes a few minutes, or you drive four or five miles in the city and it only takes ten or fifteen minutes. It does not make much difference to the $10\frac{1}{4}$ hours.

Mr. BELL (*Carleton*): It does not take $10\frac{1}{4}$ hours?

Mr. ARMSTRONG: But he has to pack it and unpack it.

Mr. WALKER: Do you not think it is a case of *reductio ad absurdum*?

Mr. ARMSTRONG: I do not entirely agree, though we all agree in the department that it is important to find ways of reducing these charges.

We have thought of putting an arbitrary restriction on, and simply saying, "For any local move you may not spend more than a given figure".

However, we felt this would result in some real hardship in some cases, so we have gone out to every command in all three services and said, "You look at local moves in the three-month period starting last January."—We have not the report yet—"Find out why any move costs more than the average. The average costs about \$100". We are doing this, and when we have the reports we are going to have a look at this, and make a decision on what methods might result in better control.

Mr. WINCH: Are you doing the same thing on the long-distance? Do you take the \$88 difference on \$1,000 between rail and van in making the move to Vancouver?

The CHAIRMAN: Mr. Bell had a question.

Mr. BELL (*Carleton*): What concerned me in connection with this is the system of control, and I think that is what the committee should look at. But I am totally unable to understand how this invoice should have passed through a number of hands, at different levels, including treasury officers, without being questioned and without information being sought from the mover as to why it is $10\frac{1}{4}$ hours.

That having been done with this particular invoice, in how many cases do invoices slip through in other matters concerning the Department of National Defence, with similar lack of inspection?

Mr. ARMSTRONG: I would say this invoice was inspected. When you say we failed to do something we could have done about this matter, the facts are that on all the evidence which is available the mover did do this packing and did spend $10\frac{1}{4}$ hours moving this man's furniture.

Mr. BELL (*Carleton*): There never was a question raised in connection with this invoice, and when this reached the department they simply paid it without question?

Mr. ARMSTRONG: Apparently it was not questioned.

Mr. BELL (*Carleton*): That is what I cannot understand in connection with it.

Mr. WINCH: I have one or two questions in the few minutes that are left. I think we are all interested in knowing, why on long-distance?

Mr. BROOME: Before you go on to that, these controls and checks you are now putting in are as a result of this and other excessive charges?

Mr. ARMSTRONG: Yes.

Mr. BROOME: Because it is being brought to your attention, you are now making this matter the subject of a complete investigation?

Mr. ARMSTRONG: The Auditor General has brought this to our attention, and we have had similar cases brought to our attention by our own auditors; and, as a result, we are endeavouring to get a better way of doing this, to avoid these excessive charges.

Mr. WINCH: In view of the fact the Auditor General has pointed out that the long-distance cost by rail is about 25 per cent less than by van, I would like to know, when you have a matter that involves approximately \$4,000 in moving the effects of one man, why some attention has not been paid to this, and why this situation is allowed to exist. It would make it \$1,000 less, and that is a lot of money.

Mr. BROOME: Especially considering the C.N.R. deficit.

Mr. ARMSTRONG: Some attention has been paid to this.

Mr. WALKER: Could we go on to the next item?

The CHAIRMAN: We are on item 88, Mr. Walker.

Mr. ARMSTRONG: There is always some difficulty in selecting the most economical arrangement to move. Normally on a long-distance move of this kind—from Uplands to Vancouver—it would be cheaper to move by rail. In this particular case, the man involved had some 18,000 pounds of furniture and, apparently, his furniture was of a type that would require some special crating and packing. I do not now have the actual bids that were put in for these alternative types of moving. In a move of this kind the air force insist on there being an estimate of the cost, or a bid submitted for movement by rail and a bid submitted for movement by truck.

Unfortunately, those documents are retained only for one year; and I have not got them, and cannot tell you exactly what they said. It does appear, on the basis of all the information that was available, that it was decided, having regard to the special character of the furniture involved—the fact that by van it could be put in and sent out without being off-loaded and on-loaded, and so on—that the man should have his furniture moved by truck.

Since this happened, there are regulations—we have always had regulations, but the regulations have been clarified, and they provide a specific formula that the individuals in the camps and at the local units may apply in figuring out the relative costs of movement by rail and by truck.

It is true that if you applied that formula to the move the Auditor General has mentioned here, the movement by rail would be about \$1,000 less than a movement by truck. But, as I say, I have not got at this date the actual information that was considered at the time, leading to the selection of a movement by train.

Mr. BROOME: But that is directly contrary to what you stated before. That is, that if there is a choice of movers and the man elects the highest cost mover, the difference shall be charged to his account.

In this case because of the fact that it was antique furniture, or because of the special packing required for the type of furniture that he happened to have, he did not want to transfer by cartage to rail, and from rail to the house; but he wanted to go from one house to the other house—though I

cannot see why, because he would be covered by insurance, unless it happened to be the type of furniture that could not be replaced. So the government has paid for this option to take the house-to-house move, when the Auditor General clearly points out, and certainly he should point it out, it could have been done for \$1,000 less by rail. There must be something loose some place.

Mr. ARMSTRONG: What I said in the first place is correct, that if the department says, "This is the economically suitable way for you to move"—and he chooses to move in another way which costs more, he must pay the difference. The difference is—

Mr. BROOME: The difference is, the department did pay it?

Mr. ARMSTRONG: Yes.

Mr. BROOME: That is where there is something loose.

Mr. ARMSTRONG: It may be there was something loose; I am not sure.

Mr. BROOME: It looks like a special favour.

Mr. ARMSTRONG: The point is, it was decided having regard to the various factors involved in this move that the furniture should be moved by van. I do not know, frankly, what costs they had to consider as alternatives at the time.

Mr. BROOME: The Auditor General did.

Mr. ARMSTRONG: The Auditor General has used our formula, the formula we now apply. I say, on the basis of that formula, the \$1,000 difference appears to be correct.

Mr. BROOME: That is for the 18,000 pounds?

Mr. WALKER: This could not happen at the present time, could it?

Mr. ARMSTRONG: I hope it would not, at the present time.

Mr. WALKER: This man was not an art connoisseur. You were not moving art pieces?

Mr. ARMSTRONG: I am told it was very valuable furniture, and included antique furniture, and so on; I myself have not seen this furniture.

Mr. MORTON: There is the matter of the time factor here. Would he go faster by van than if he had to go by train or freight—and it takes some time? Would you have to pay the costs to that officer, or whoever was concerned, for the time he was without his furniture?

Mr. ARMSTRONG: That, apparently was a consideration at the time—that it was believed it would take longer for the furniture to be shipped by rail than by truck. Of course, while a man is separated from his furniture and is unable to set up his house, the department is involved in paying certain expenses for his accommodation.

Mr. WINCH: It would have been cheaper to accommodate him in a hotel for a couple of days.

Mr. MORTON: One more question which covers both these sections; and it concerns a matter of complaint that Mr. Smith has raised.

What is the basis of choice between the companies? We get complaints that there is some restriction, that other companies could give more competitive prices, but they are not allowed to even if the personnel being moved preferred another van. They cannot get a better competitive price because on a move in that area they are not able to give a competitive price. What control has the department to prevent that type of local restriction as to competition?

Mr. ARMSTRONG: I know of no restriction. If they are licensed operators, with proper equipment for moving furniture, there is no restriction, that I know of.

There could be a rare case of restriction arising out of some situation in which a particular mover's operations were not satisfactory to the department; but this would be a very rare instance.

Mr. MORTON: I would not like to say it is rare from the complaints I have received, but there have been changes?

Mr. ARMSTRONG: If you could let the department have more specific details, we will be very glad to look into this for you.

Mr. MORTON: I am concerned with the fact there is not some method whereby this local restriction cannot be overcome.

Mr. ARMSTRONG: I do not know of any local restriction of that kind.

The CHAIRMAN: Any other questions?

Mr. BROOME: To sum up: this is \$1,000 difference for moving antiques.

Mr. MCGREGOR: Is there any discipline on the officers that okay these bills?

Mr. ARMSTRONG: There is always a possible disciplinary measure in respect to anyone who authorizes an expenditure in the department, in the service. But only if he exercises his authority in a negligent way is that measure taken: if he used his judgment to the best of his ability the department would not discipline him.

Mr. MCGREGOR: There is not any question that these things have been okayed. Has there been any discipline to the officers that okayed them?

Mr. ARMSTRONG: No, in neither case would there have been any discipline here.

Mr. WALKER: It is pretty hard to get to the root of it. You are an excellent witness, if I may say so, and I would like to have you as my chief witness in a case. You are the front man for all these people, some of whom have been derelict in their duty. You paint a very fair picture, but nevertheless we want to know whether anything will be, or is to be done about it, in order to correct the situation.

Mr. ARMSTRONG: I have explained what is being done in the local moves, and I have also explained that since this particular case in long distance moving occurred—because there have been some others where we did not feel that the selection was as good as it should be—the directions have been clarified and a formula has been given to the people who deal with this locally, which makes it very simple to calculate.

The CHAIRMAN: On June 3, we will hear witnesses from the Canada Council.

Mr. BELL (*Carleton*): Is there any possibility of our holding another meeting at some stage when we could finish with Mr. Sellar? Perhaps we could have one or two meetings at 2 o'clock.

The CHAIRMAN: Yes.

Mr. BELL (*Carleton*): What about our meeting at 2 o'clock today to go on with Mr. Sellar, starting with paragraph 89?

The CHAIRMAN: Is that agreeable? I realize there is a meeting of the standing orders committee and the miscellaneous private bills committee today. But what about next Tuesday at 2 o'clock? We could finish with Mr. Sellar then.

Mr. BELL (*Carleton*): We should consider the convenience of our official reporting staff as well, Mr. Chairman.

The CHAIRMAN: We shall meet again on Tuesday next at 2 o'clock.

APPENDIX W

OFFICE WORK PAPER

1. The 1958 Public Accounts Committee requested the Department of Finance to report on the form of the Public Accounts. The Audit Office may be consulted, so each Supervisor of Audit has reviewed the sections of the 1958 book that are of interest to his branch. This work paper summarizes opinions.

2. The immediate interest of the Public Accounts Committee seemed to be in the number of pages and the confusing format. However, it is probable that the Department of Finance may simultaneously consider such matters as:

- (a) whether present practice of tabling nine months after the fiscal year-end tends to promote a belief that government bookkeeping is antiquated and that the book consists of 'old stuff';
- (b) the present style of Estimates Details, because Part II of the Public Accounts should provide a tie-in with Estimates Details;
- (c) the mass of particulars in Part II and the practice of listing names; and
- (d) whether the practice of binding in the Audit Report is a desirable one because newspapers and others often assume that the whole of the Public Accounts is a product of the Audit Office, although only 34 pages are prepared by the Auditor General.

What follows treats with these points and also whether more disclosure should be given to authorized forward commitments.

3. Without legislation, the nine months' interval between the year-end and tabling can be shortened by publishing a volume in July or August consisting of:

- (a) the financial review of the year by the Deputy Minister of Finance;
- (b) Revenue and Expenditure Statements for the year last ended;
- (c) a Statement of Assets and Liabilities as at 31 March.

4. Adoption should not present any administrative problem nor infringe on the rights of the House of Commons because:

- (a) the basis of the Deputy Minister's financial review is the White Paper issued the day before the Budget Speech; therefore a revised and amplified text may quickly be prepared after the books are closed for the year;
- (b) it is long-established practice to publish in the *Canada Gazette* a summary of year-end Revenue and Expenditure Statements, as well as an Assets and Liabilities Statement. These appear in either a July or August issue of the *Gazette*. Therefore, the material is available and Audit practice can be adapted to permit the Statements to be certified in plenty of time; and
- (c) the volume would later be tabled in the House and become an official document for the purposes of section 64 of the Financial Administration Act.

5. Whether this volume should contain the eleven appendices (14 pages) to the Statement of Assets and Liabilities is a matter of opinion, but Office consensus is that 1 and 5 alone may have value to parliamentarians. It is also the Office's view that schedules to the Statement of Assets and Liabilities might usefully be simplified and consolidated.

6. An affiliated question is whether the volume should include the financial statements of Crown corporations now printed as Volume II of the Public Accounts. These statements have already been tabled, except when a session

ends early. It may be a convenience to have these statements grouped together but, unless reports of Management are associated therewith (as is not now the case), documentation is incomplete. Office consensus is that these statements should be reprinted only if Members of Parliament indicate that present practice is a convenience; in that event, the proper place is in the mid-summer book.

7. *Part II of the Public Accounts.*—This is a detailed accounting of stewardship to the House of Commons and is therefore a parliamentary document which should not be released before tabling in the House. It approximates 1050 pages and is prepared by the Comptroller of the Treasury. The present style is a continuation of that followed when annual Appropriation Acts directed that:

A detailed account of the sums expended under the authority of this Act shall be laid before the House of Commons of Canada during the first fifteen days of the then next session of Parliament.

This direction was always open to the criticism that (a) it was limited to Appropriation Act expenditures and (b) it gave no directions as to revenues. Therefore, after the Financial Administration Act took effect, the text in the Appropriation Act became:

Amounts paid or applied under the authority of this Act shall be accounted for in the Public Accounts in accordance with section 64 of the Financial Administration Act.

Section 64 providing that the Public Accounts "be in such form" as the Minister of Finance "may direct", it is within the discretion of the Minister to vary the present form. However, it is reasonable to assume he will do so only if the House indicates in some manner that it is of opinion that changes would improve utility to Members.

8. To make Part II worthwhile, the material should be presented in a form which gives a tie-in with the "Estimates Details" tabled in the House with vote items. A question therefore is whether the present form of Estimates Details is satisfactory, especially when breakdowns are by 'standard objects of expenditure'. These Details are not binding on the Government although it may be morally bound to adhere to them as closely as is practicable. In law, section 29 of the Financial Administration Act applies:

29. At the commencement of each fiscal year or at such other times as the Treasury Board may direct, the deputy head or other officer charged with the administration of a service for which there is an appropriation by Parliament or an item included in Estimates then before the House of Commons shall prepare and submit to the Treasury Board through the Comptroller a division of such appropriation or item into allotments in the form detailed in the Estimates submitted to Parliament for such appropriation or item, or in such other form as the Board may prescribe, and when approved by the Board the allotments shall not be varied or amended without the approval of the Board, and the expenditures charged to the appropriation shall be limited to the amounts of such allotments.

To preserve financial control, Treasury Board often approves allotments in a form quite different from classifications given in the Details. Therefore, at the year-end accounting allotments by projects, etc., are re-cast into 'objects of expenditure'. It seems reasonable to assume that the control technique used for spending purposes would also be more informative to the Committee of Supply. The 'object of expenditure' basis is sound where a single admin-

istrative service is involved. For example, the 1957-58 Estimates Details for the Audit Office vote reasonably disclosed the character of proposed outlays:

Salaries	\$667,190
Travelling and removal expenses	65,000
Freight, express and cartage	100
Postage	300
Telephones and telegrams	750
Publication of Auditor General's Report	700
Office stationery, supplies and equipment	3,400
Sundries	350
	<hr/>
	\$737,790
	<hr/> <hr/>

9. The practice is less illuminating where a vote provides for several services, and to illustrate Vote 300 will be used because the Estimates Details give a classification by objects of expenditure and also by projects. The vote provides for the administration, operation and maintenance of the national parks and historic sites. In 1957-58 Estimates Details, about 4 pages were used to list staff establishments, then half a page gives objects of expenditure amounting to \$1,580,000. This is followed by a re-cast, in totals, of the amount expected to be spent in each park. The Public Accounts do the same. At the foot of page R-5 is a tabulation by 'objects of expenditure' while on the next page the same expenditures are classified by parks and services. Office consensus is that the latter is more illuminating.

10. The next point is the utility of elaborate breakdowns of staff establishments in the Estimates Details and the printing in the Public Accounts of the names of those who received over \$5,000. In this regard, Canadian practice is unique among Commonwealth countries. Consensus in the Audit Office is that present practice probably has little value to parliamentarians when voting Supply because: (a) in application, establishments are controlled by the Civil Service Act, (b) the Estimates annually include a Finance vote "for supplementing other votes for the payment of salaries, wages and other payroll charges" so there is no finality to an establishment listing, and (c) the vote charged is not identified. As to the last, in the paragraph above reference is made to a vote for the national parks. \$5,330,000 was spent of which about \$4,000,000 was for salaries and wages, but there is no tie-in with the salary listings on pp. R-36 to 41.

11. It is of importance to the House of Commons that the Public Accounts disclose what were the total salary charges to each vote in the year. It is less clear that the practice of naming some civil servants has parliamentary utility beyond satisfying personal curiosity. The practice originated at Confederation when all appointments were ministerial, so a listing provided a safeguard. Now Ministers are answerable for money spent but generally speaking, appointments and salary rates are no longer ministerial decisions.

12. It requires the equivalent of 200 pages to list staff establishments in the Estimates Details and a like number of pages to list names of those receiving over \$5,000 in the Public Accounts. Time consumed in preparing compilations and the cost of printing being substantial, Audit opinion is that, unless Parliament wants these particulars, consideration should be given to discontinuing these Estimates and Public Accounts practices.

13. The foregoing leads into the question: Should names of contractors and suppliers be given in the Public Accounts? In these days so much work is done by sub-contractors that it is somewhat misleading to list the prime

contractor as receiving x dollars when, in fact, most of it went to subcontractors. However, that is a matter of opinion with the views of parliamentarians alone of importance.

14. Supervisors feel more strongly on the practice of listing suppliers at the end of departmental sections of the Public Accounts. There is no consistency as to amounts: in the case of National Defence the minimum is \$25,000; in Northern Affairs and National Resources (already mentioned) it is \$10,000, and in some departments no listing is given. Thus, a National Defence contractor paid \$24,999 is unlisted while he would be if the contract were with, let us say, Public Works. An over-all consolidation might be informative but the cost of preparing would be substantial and would have no utility in the work of the Public Accounts Committee. Office opinion is that it would be prudent to discontinue the practice—the most extensive listing is that associated with National Defence. See pages N-100 to 113.

15. *Future Commitments.*—The Public Accounts have not taken notice of a practice introduced in recent years of votes ending with an authorization to the effect that notwithstanding provisions of the Financial Administration Act, future commitments up to x dollars may be entered into. Whether such a text is necessary or desirable is debatable but that is a policy question. What is of concern is that such a text may limit the future freedom of the House to criticize the amount of a vote. In the Main Estimates for 1959-60 there are several items with such a text. These provide for future commitments by various departments to a total of about \$1,340 million. The major part is, of course, the \$1,267 million covered by Vote 228 for National Defence. It would seem Members of Parliament should be able to find in the Public Accounts what commitments were actually made as a result of a vote sanction, but that is not present practice.

16. *Audit Report.*—Present practice is to bind the Audit Report with the Public Accounts. Should it be decided to issue one volume in mid-summer and another when Parliament is in session, Office consensus is that, to avoid confusion, the Audit Report should be tabled as a separate document.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

TUESDAY, JUNE 2, 1959

WITNESS:

Mr. Watson Sellar, Auditor General for Canada.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (Carleton),

and Messrs.

Benidickson	Grenier	Morton
Bissonnette	Hales	Pickersgill
Bourbonnais	Hanbidge	Pigeon
Broome	Hellyer	Pratt
Bourget	Keays	Robichaud
Bruchési	Lahaye	Smith (<i>Calgary South</i>)
Campbell	Lambert	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Latour	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Villeneuve
Denis	McGregor	Walker
Drysdale	McMillan	Winch
Fisher*	Martineau	Wratten
Fraser	Morissette	
Godin	Morris	

Antonio Plouffe,
Clerk of the Committee.

* Replaced Mr. Regier on June 2.

ORDER OF REFERENCE

TUESDAY, June 2, 1959

Ordered,—That the name of Mr. Fisher be substituted for that of Mr. Regier on the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1959.

(13)

The Standing Committee of Public Accounts met this day at 2 o'clock p.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Bourbonnais, Broome, Campbell (*Lambton-Kent*), Crestohl, Drysdale, Fraser, Hellyer, Lambert, Latour, Macdonald (*Kings*), Macnaughton, Martineau, McGee, McGrath, McGregor, Morton, Pickersgill, Pratt, Smith (*Calgary South*), Smith (*Winnipeg North*), Stefanson, Walker, Winch, and Wratten. (26).

In Attendance: Mr. Watson Sellar, Auditor General for Canada.

The Committee resumed and concluded its consideration of the Blue Book of Public Accounts, Volumes I and II, except paragraphs 50 and 51—*Payments of Interest without Authority*, and paragraphs 71 and 72—*Air Transport Tariff Rates*, and paragraphs 73 to 77—*Cost of a Motor Vessel*.

The Chairman tabled the following communications which were ordered printed:

- (a) Letter dated May 27th from the Assistant Comptroller of the Treasury to the Chairman. (*See Appendix "X" to this day's evidence*)
- (b) Letter dated June 1st from the Deputy Minister of Defence Production to the Chairman forwarding a legal opinion of the Deputy Attorney General to the Deputy Minister of Defence Production (Paragraphs—71 and 72 Auditor General's Report). (*See Appendix "Y" to this day's evidence*)

Mr. Watson Sellar was called and commented on paragraphs 89 to 139 both inclusive.

Mr. Winch referred to the continuous attendance of the Auditor General and expressed his thanks for the clarity of his explanations. This expression of thanks was unanimously well received by the Committee.

At 2.35 o'clock, the Committee adjourned until Wednesday, June 3rd, to hear representatives from the Canada Council, pursuant to its Order of Reference of Tuesday, March 10.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

TUESDAY, June 2, 1959.

2:00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. I would like to draw the committee's attention first of all, to a letter from the office of the comptroller of the treasury containing some information that we asked about the cost and numbers of public accounts which are printed each year. May we produce this to be printed? Agreed as an appendix.

Also I have a letter containing a legal opinion from the deputy attorney general on the question of air transport tariff rates. Could we also produce this as an exhibit?

Mr. McGEE: Does it say "yes" or "no"?

The CHAIRMAN: Perhaps it should also be printed as an appendix.

Mr. McGEE: Does it say "yes" or "no"? I know it is a silly question to ask.

The CHAIRMAN: Would you hand this letter to Mr. McGee so that he can read it?

Mr. WINCH: It will appear as an appendix?

The CHAIRMAN: Yes.

Mr. DRYSDALE: The only point I make is an objection to the method of producing this information, because the request was from the public accounts committee to the Minister of Justice, and the reply was from the Minister of Justice to the deputy minister of Defence Production, to the chairman of the public accounts committee.

Personally, I do not want to see this establish any precedent, because I think this committee should have the matter referred directly to them, and not through the deputy minister of Defence Production.

Mr. WINCH: That is a very good point.

The CHAIRMAN: That is a very good point. There are certain rules and regulations we might go into on that point. Might we take that up at a meeting of the steering committee?

I would like now to get on with Mr. Sellar. We have for examination paragraphs 89 to 139.

89. *An Over-reimbursement to a Public Employee.* In 1940 an External Affairs officer stationed abroad lost personal property by reason of enemy action. The Department paid \$4,000 in 1942; five years later the British authorities paid \$8,330, and a \$5,290 payment by the Canadian Government in 1949 brought the total to \$17,620. When particulars of the claims were reviewed by the War Claims Commission, the decision was that \$16,315 was fair compensation for loss suffered. The officer had therefore been overpaid \$1,305. This decision has been on record for over a year and the salary rate of the officer is such as to tolerate recovery by deductions from salary. However, that has not been done; instead, the sole administrative effort seems to have been to urge amendments to the regulations to permit more generous interest allowance to claimants.

90. *Irregular Employment beyond Normal Retirement Age.* While there were several irregular payments of salary in various departments of government in like circumstances during the year under review, attention is drawn

to the following case because the amount is substantial and involves an employee of the Audit Office. When Public Service Superannuation Act contributors reach the age of 65, the employing department either superannuates or arranges for extensions of service up to age 70, the contributor then automatically ceasing to be a member of the Public Service.

91. The case now noted of an employee recruited for the Audit Office in 1941, then giving his birth date as 9th October 1895. A birth certificate was requested in January 1958, and when delivered in March it was found that the man was 72, his date of birth being 9th October 1885. He was released forthwith. An opinion was sought from the law officers as to superannuation status, because he was already over 65 when certain pertinent statutory regulations took effect. In due course they advised that the irregularity was limited to salary payments totalling \$11,700 made between October 1955 and March 1958, after the man was 70 years old.

92. Although the Audit Office was deceived, fair value was received for salary paid; therefore the law officers were asked to draft an appropriate text to be included in the 1959-60 Estimates item for the Audit Office, in the hope that Parliament may be disposed to regularize the payments. The Office, of course, has amended its practice with respect to securing birth certificates for record purposes.

93. *A Contract with a Civil Servant.* The following case is noted because it is unusual and of doubtful regularity. A Colombo Plan government sought technical assistance from Canada in establishing greater efficiency in a phase of administration. Opinion was that the expert selected (a civil servant) should spend approximately three months on the job, and the financial arrangement was that in addition to his salary (\$11,000 per annum) and expenses, he would receive an honorarium of \$2,500.

94. An administrative problem was to devise an arrangement that would allow the honorarium to be paid without coming in conflict with section 16(1) of the Civil Service Act:

16. (1) In the absence of special authority of Parliament, no payment additional to the salary authorized by law shall be made to any deputy head, officer, clerk or employee permanently employed in the Civil Service in respect of any service rendered by him, whether in the discharge of his ordinary duties of office or of any other duties that may be imposed upon him, or that he may undertake or volunteer to discharge or otherwise perform.

After the officer had gone overseas it was arranged with the Civil Service Commission that leave of absence without pay be granted. After he returned, a formal contract agreement was signed in August 1958 and he was paid \$5,989 out of Colombo Plan moneys, whereupon he refunded to the Receiver General the \$3,292 already paid to him as salary in the period from 1st February to 19th May 1958.

95. *Double Salary Payments.* In certain circumstances it is possible that a public servant simultaneously performs the duties of two positions. Reference is now made to two cases which were observed where postmasters had been pensioned with annuities computed on the basis that each had served as a postmaster and had at the same time been a janitor for the Department of Public Works. One case will be used to illustrate what happened.

96. In 1921 a postmaster in an Ontario town was appointed part-time caretaker of the Post Office building. He continued in that status to 31st

March 1947, at which time he was receiving \$900 a year for the work. On 1st April 1947 he was appointed full-time caretaker and was receiving \$2,160 annual salary as caretaker when retired in 1957. Throughout, of course, he received salary as postmaster. The position was one of unclassified 'revenue postmaster' until April 1948 when it was classified by the Civil Service Commission. When retired, the man was receiving \$4,620 as postmaster, along with the \$2,160 as caretaker, his combined annual remuneration from the Government of Canada totalling \$6,780. For each position, contributions had been made to superannuation so two separate pension awards were made: \$2,429 annually for the postmaster position and \$757 for the caretaking work. Later, these were combined and a consequence was that the part-time caretaker service prior to 1948 was treated as full-time for computation purposes. The effect was to increase the annual pension by \$403. That is, it became \$3,589 instead of two pensions totalling \$3,186.

97. *General Elections' Expenditures.* The 1957-58 accounts include expenditures with respect to the general election held on 10th June 1957 and also that of 31st March 1958. Expenditure charges with respect to the June election approximated \$6,800,000 while over \$6,200,000 was expended in connection with the March election. By the time the audit was completed a further \$2,500,000 had been disbursed as a charge to the fiscal year 1958-59. Administrative opinion is that the \$8,700,000 approximates 80% of accounts to be paid in connection with the 31st March election.

98. The increase in the cost of the second election was, in the main, due to upward revisions in the tariff of fees authorized by the Governor in Council. The minimum allowance payable to a returning officer for personal services during an election was increased from \$500 to \$1,500. A deputy returning officer's allowance was increased from \$15 to \$18, and that of poll clerk from \$10 to \$12. The printing allowance per name on the preliminary lists of electors was increased from 15 to 17 cents in urban divisions and from 14 to 16 cents in rural divisions. Allowances payable to urban enumerators were increased from 10 cents a name, with a minimum of \$25, to \$25 plus 10 cents a name; comparable increases were given to rural enumerators.

99. A matter that attracted notice in the review of transactions related to the June 1957 election was that in a few electoral districts ballots printed far exceeded the number of electors. The outstanding case was a constituency with 14,700 electors where 23,500 ballots were printed. While this was not repeated in that constituency during the March election, it was observed that some returning officers had ordered substantial numbers of ballots to be printed in excess of names on voters' lists.

100. Section 100 of the Canada Elections Act stipulates that no person be appointed returning officer, election clerk, deputy returning officer, poll clerk, enumerator or revising officer unless he is an elector in the electoral district within which he is to act. In 82 polling divisions of St. Paul's (Toronto) enumerators appointed for the March election were not electors in that district. A second enumeration cost \$12,053: payments to enumerators \$8,438, and re-printing the preliminary list of electors \$3,615. The Chief Electoral Officer directed an inquiry and in the resulting report it is recommended that:

If the residential requirement of enumerators is of substantial importance the oath of office of enumerators should be amended to require the enumerator to swear that he is qualified to vote in that electoral district.

101. The authority for the appointment of a constable at a polling station is section 48 of the Act, which provides that:

Any deputy returning officer may appoint a constable to maintain order in his polling station throughout polling day; this authority, however, shall not be exercised unless the services of such constable are deemed absolutely necessary; a constable may be appointed only when there is actual or threatened disorder, or when it is likely that a large number of electors will seek to vote at the same time; . . .

On election day in 1957 constables cost \$40,000, while on 31st March 1958 the cost rose to \$53,000, due mainly to the constable allowance having been increased from \$5 to \$6. In some electoral districts the authority to appoint constables was used extensively. For example, in one New Brunswick electoral district constables were appointed at 183 of the 206 polling stations, and in an Ontario electoral district constables were appointed at 211 of 247 polling stations. One instance was noted where a constable was listed as an invalid on the list of electors. It was also observed that a number of the constables were women.

102. *Purchase of Real Estate.* In January 1958 the Department of National Defence secured Treasury Board consent to purchase a piece of real estate in New Brunswick for \$28,500. On 30th April 1958, a cheque was drawn payable jointly to the vendor and the legal agent of the Government. The amount is recorded as a 1957-58 expenditure charge although the cheque was not delivered to the payee nor transfer of title effected until 14th May. Section 35 of the Financial Administration Act permits payments to be made during the month of April as a charge to the fiscal year last ended only for "goods received or services rendered prior to the end of the fiscal year". Moreover, the charging of 1957-58 accounts with a payment not actually made until 14th May is inconsistent with a direction of the Treasury Board that

payment may be made out of funds available for the fiscal year in which the Board approval was given provided that evidence of a clear title and other subsidiary matters required by the regulations are delivered in time to allow payment to be made within the thirty days immediately following the end of the fiscal year . . .

103. *Unpaid Accounts.* A few cases were observed where departments failed to live entirely within the amounts available for administrative and operating expenses, when unpaid accounts were taken into consideration. The major instance was in connection with services for the welfare and education of Indians, administered by the Department of Citizenship and Immigration. Examinations made in April and May indicated that approximately \$390,000 of accounts which were due and payable were carried forward into 1958-59 in the Welfare item, and \$560,000 in the Education item. When the accounts were closed for 1957-58 it transpired that there were lapsings in these items of \$20,000 and \$140,000, respectively.

104. *Prairie Farm Emergency Fund Deficit.* The special account in connection with the Prairie Farm Assistance Act, c. 213, R.S., is (a) credited with collections of the statutory 1% levy on grain purchased by licensed buyers, (b) charged with awards made to farmers under the Act, and (c) credited with advances made by the Minister of Finance whenever the balance in the Account is insufficient to pay awards.

105. The Act dates from 1939 and annually there were deficits until 1951-52 when collections exceeded awards. In two other years since, there also were surpluses. Throughout the entire period, practice has been annually to charge a deficit to Expenditure, without securing parliamentary authority so to do.

106. On the other hand, when a year's activities produced a surplus, practice is to leave it at credit of the Account (as part of the liability item "Deposit and Trust Accounts", in the Statement of Assets and Liabilities) with the amount used to cover deficits in subsequent years. Thus, as at 31st March 1957, a balance of \$3,249,245 stood at the credit of the Account, representing the surplus resulting from 1956-57 operations.

107. In the year under review, awards exceeded levy collections by \$9,152,118. After applying the surplus balance of \$3,249,245 noted above, a debit balance of \$5,902,873 remained in the Account. An order in council of 22nd May 1958 has authorized the Minister of Finance to "make an advance out of the Consolidated Revenue Fund" to cover this deficit; nevertheless, in accordance with established practice, the amount has been written off as a charge to Expenditure in the year, without a vote authorizing that to be done.

STATEMENT OF ASSETS AND LIABILITIES

108. There are a few changes in the form of the 1957-58 Statement. One is to include under a new heading, "Securities held in trust", securities previously treated as deductions from the related liabilities' items (with the exception of the Unemployment Insurance Fund investment in bonds). In addition, contractors' security deposits made in the form of bonds or undeposited certified cheques are now included under the new heading. Related liabilities' items are, of course, now included at the full rather than net amounts.

109. Interest deferred under the United Kingdom Financial Agreement Act, 1946, as amended in 1957, has been capitalized, with the offsetting credit included in the liabilities' item, "Suspense accounts" (see paragraph 124). A similar change has been made with respect to the St. Lawrence Seaway Authority loan (included in the item "Loans to, and investments in, Crown corporations") by capitalizing interest accrued, the offsetting credit again being included in the liabilities' item, "Suspense accounts".

Assets

110. In summary form, the assets as at 31st March 1958, in comparison with the two previous year-ends, were:

	31st March 1956	31st March 1957	31st March 1958
Current assets	\$ 1,591,042,000	\$ 947,057,000	\$ 696,832,000
Exchange Fund Account	1,950,000,000	2,021,000,000	1,975,000,000
Sinking Fund investments, etc.	210,847,000	210,805,000	211,741,000
Loans to, and investments in, Crown corporations	1,998,455,000	2,250,506,000	2,554,267,000
Loans to national governments	1,549,804,000	1,478,559,000	1,487,985,000
Other loans and investments..	656,241,000	655,189,000	662,790,000
Securities held in trust	9,382,000	9,607,000	22,646,000
Unamortized loan flotation costs	56,874,000	63,920,000	77,535,000
Unamortized actuarial deficiency in Super- annuation Account	189,000,000	139,000,000	139,000,000
Suspense accounts	50,015,000	9,432,000	2,000
Inactive loans, etc.	87,970,000	89,456,000	90,854,000
	<u>8,349,630,000</u>	<u>7,874,531,000</u>	<u>7,918,652,000</u>
Reserve for losses on realization of assets	496,384,000	546,384,000	546,384,000
	<u>\$ 7,853,246,000</u>	<u>\$ 7,328,147,000</u>	<u>\$ 7,372,268,000</u>

111. *Superannuation Account Deficiency.* The audit certificate is again to be regarded as qualified with respect to the \$139 million item representing the unamortized portion of the actuarial deficiency in the Superannuation Account. Following an actuarial valuation made in 1949, a \$214 million credit was entered in the Superannuation Account on the liabilities' side, with an offsetting charge on the assets' side. Special parliamentary appropriations have since reduced the amount to \$139 million.

112. Audit opinion continues to be that the Superannuation Account balance on the liabilities' side should reflect only credits authorized by law, and that no item should appear on the assets' side with respect to an actuarial deficiency.

113. *Inactive Loans and Investments.* These approximated \$91 million at the year-end. The total increased \$1,400,000 during the year because the Minister of Finance paid that amount on account of a guarantee given in 1946 with respect to bank loans for the construction of ships in Canadian yards on the order of the Ming Sung Industrial Company of Canada Limited. A total of \$10,500,000 has now been paid by reason of the guarantee, which became operative when the Government of China failed to honour its undertaking to the banks.

Liabilities

114. The Statement of Assets and Liabilities records a total of \$18,418,542,000 in liabilities as at 31st March 1958, a summary classification in comparison with the two previous year-ends being:

	31st March 1956	31st March 1957	31st March 1958
Current and demand liabilities	\$ 969,465,000	\$ 1,002,909,000	\$ 874,874,000
Deposit and trust accounts..	180,643,000	175,318,000	187,018,000
Annuity, insurance and pension accounts	2,187,255,000	2,429,021,000	2,712,813,000
Undisbursed balances of appropriations to special accounts	343,673,000	312,556,000	285,367,000
Suspense accounts	45,009,000	47,578,000	113,363,000
Unmatured debt	15,407,570,000	14,368,416,000	14,245,107,000
	\$ 19,133,615,000	\$ 18,335,798,000	\$ 18,418,542,000

115. *Unemployment Insurance Fund.* The balance at the credit of this Fund is included in the amount shown for Annuity, Insurance and Pension Accounts only to the extent of \$15,050,000 because the practice is to deduct, in the supporting schedule, that part of the Fund which is invested under the authority of section 85 of the Unemployment Insurance Act, c. 50, 1955. Actually, the Fund had resources of \$755 million at the end of the fiscal year—a decrease of \$131 million when compared with the previous year-end.

116. *Undisbursed Balances of Appropriations to Special Accounts.* Attention is again drawn to the listing of the following as liability items:

	31st March 1956	31st March 1957	31st March 1958
National Defence Equip- ment Account	\$ 281,934,000	\$ 236,075,000	\$ 211,739,000
Colombo Plan Fund	52,489,000	65,923,000	60,368,000
Railway Grade Crossing Fund	7,142,000	9,526,000	12,648,000
National Capital Fund	1,960,000	960,000	543,000
National Library Purchase Account	53,000	72,000	65,000
National Gallery Purchase Account	95,000		4,000
	<u>\$ 343,673,000</u>	<u>\$ 312,556,000</u>	<u>\$ 285,367,000</u>

Generally regarded, these items are unspent balances of parliamentary appropriations that are distinguishable from annual votes only to the extent that power to spend is without time limit. The largest is the National Defence Equipment Account. In the course of the Budget Speech on 17th June 1958, the Minister of Finance announced:

... we propose to eliminate the balance remaining in the National Defence Equipment Account. This Account was set up in 1950 when NATO was being organized, and to it was credited the value of all equipment given by Canada to our NATO allies. At its peak there was about \$310 million in this Account. The former Government drew on this Account from time to time by charging to it, and not to budgetary expenditures, the cost of replacing such equipment. On the basis of past practice there would be about \$165 million in this Account at the end of this year. We believe that in the interests of good accounting practice and the maintenance of proper parliamentary control of expenditures this Account should be liquidated during the current year.

117. The audit certificate appearing on the Statement of Assets and Liabilities is accordingly to be regarded as qualified.

118. *Veterans Insurance Account.* Although not explicitly required by the Veterans Insurance Act, c. 279, R.S., a special account has been maintained in the Consolidated Revenue Fund since 1945, to which premiums received have been credited and payments made under the Act have been charged. The practical value of the Account rests in the fact that it provides a ready means to establish the financial position of this insurance scheme. As of 31st March 1958, the balance at credit of the Account was \$17,842,000.

119. The matter now referred to concerns the propriety of leaving an \$800 payment as a charge in the Account. The facts are: A veteran took out a policy, with his wife named beneficiary. Subsequently he obtained a Reno divorce, remarried and named the new wife beneficiary. Following the death of the insured in 1955, the Department paid her \$1,656. The first wife successfully contested this and payments were also made to her. Action was then started to recover the first payments on the ground that they had been made in "mistake of fact". A defence was that payment having been made in "mistake of law", the amount was unrecoverable. Before trial, a compromise settlement resulted in \$856 being paid to the Receiver General. No undertaking was given to repay \$800, representing premiums paid after the second marriage. An order in council of 24th September 1957 directed that no action be taken to recover the \$800.

120. The \$800 write-off of a balance due to the Crown may not be regarded as a proper charge to the Veterans Insurance Account. The charge should have been to an appropriation.

121. *Permanent Services Pension Account.* The Defence Services Pension Act does not specify the amount of the contribution to be made by the Crown. That is done by a vote in annual Appropriation Acts. For several years, the contribution has been one and two-thirds the amount paid by contributors. In a sense, the contribution is a 'bookkeeping' expenditure since actual outlays are less than receipts, but actuarial estimates are that the Account is now in deficit position to the extent of \$326 million. Therefore it is reasonable to assume that in due course Government contributions will involve large payments unless (a) contribution rates are increased or (b) drastic revisions are made in the legislation.

122. The current state of this Pension Account is the reason why attention is drawn to a recent award, although one may wonder whether Parliament contemplates that section 49 of the Act may be used to grant a life pension of \$964 annually to a 30-year-old man in good health. The section permits, among other things, grant of pension to a contributor, regardless of age, if he has the necessary service, is not otherwise barred, and Treasury Board accepts a certificate that his retirement "will promote economy or efficiency". In the case now noted, an airman, with almost five years service, was given a five year commission in 1951, which was later extended for one year. Upon the commission terminating on 17th May 1957, the young man ceased to be an officer of the Force. In turn, Treasury Board accepting the Department's certificate that his retirement "will promote economy or efficiency", a \$964 life pension took effect from that date.

123. The Act does not define the phrase "retired compulsorily" so another illustration of administrative application is given. The senior officer involved had long service but less than 35 years so was subject to section 3(2):

(2) An officer who retires voluntarily after twenty-five years' service is entitled to a pension for life, twenty per cent less than he would be entitled to if he were retired compulsorily.

In December 1957 he was appointed Lieutenant Governor of a province, "effective on the 15th day of January 1958". Before that date, Treasury Board concurred in a departmental recommendation that he be granted retiring leave with pay from the 15th January to the 2nd October when he would be compulsorily retired on full pension of \$10,900. In passing, because of a 1948 Court decision, a lieutenant governor may be paid salary and pension without abatement; however, the audit concern is whether it is appropriate to regard appointment to a civil position as cause to invoke "retired compulsorily" provisions in the Defence Services Pension Act.

124. *Suspense Accounts.* This item has increased from about \$47,600,000 to \$113,363,000 and includes the following items which, since they will generate revenue amounts in future years, might more appropriately have been classified under a Deferred Credits heading:

Deferred interest under United Kingdom Financial Agreement Act, 1946	\$44,174,000
Credits arising out of agreements of sale of Crown assets	18,955,000
Accrued interest on loans to the St. Lawrence Seaway Authority	4,743,000
Government equity in agency account of Crown Assets Disposal Corporation	5,763,000

In the accounts for the current fiscal year, these items are being treated as deferred credits by the Department of Finance.

125. A balance in the Suspense Accounts' item which merits consideration is the \$58,500 associated with a railway bridge in Prince Edward Island. In 1900 Parliament ratified an agreement between Canada and Prince Edward Island for the construction of the Hillsborough River Bridge, which would be used by the Canadian Government Railways and also serve as a highway bridge. The Province undertook to pay \$9,750 annually towards the interest on the cost of construction and maintenance of the bridge. When the bridge was subsequently transferred to the C.N.R., the amounts recovered from the Province were paid over to the railway company. However, in 1951 the Board of Transport Commissioners forbade railway traffic over the bridge and granted permission to the C.N.R. to abandon the Hillsborough section of the Murray Harbour branch, and the payments to the railway company were discontinued. The \$58,500 represents amounts recovered from the Province from 1st January 1952 to 31st December 1957.

126. *Public Savings Plans.* The first issue of Canada Savings Bonds was offered to the public in 1946 and, regardless of cash needs of the Government, there has been an issue every year since, because a purpose is to combat inflation and at the same time make available to small investors a Government bond which may be purchased by means of payroll deductions or other instalment payments, and which is redeemable at par on demand. The 1946 campaign produced subscriptions of \$535 million while the cost of the campaign was \$4.5 million. Within five years, about \$292 million of the bonds had been presented for redemption and at the end of ten years only about \$57 million remained outstanding. The most recent issue with a time-record is that made in the fall of 1956: subscriptions totalled \$834 million, with the cost of the campaign amounting to \$8.6 million. Redemptions have been at such a rate that almost 56% of the issue was redeemed within 18 months.

127. Since 1946, sales of Canada Savings Bonds have approximated about \$7 billion but only bonds to a value of around \$2,550 million were outstanding as at 31st March last, with about 50% representing proceeds of the 1957 campaign.

128. Over the period, flotation costs have amounted to \$67 million. Of course, in addition to these costs, and interest payments during the periods bonds remain outstanding, there are the costs incurred by the Bank of Canada in handling redemptions.

129. Up to the 1920s the Department of Finance was required by the Savings Banks Act to operate a savings office in each province of Canada. The Post Office relied on the same Act to operate the Post Office Savings Bank. The Savings Banks Act was repealed in 1951 but section 5 of the Post Office Act provides that the Postmaster General may, among other things, establish and operate a post office savings bank, while sections 47 to 52 treat with phases of operations.

130. As at 31st March 1958, Post Office Savings Bank deposits, included in "Deposit and Trust Accounts", approximated \$35 million—a decrease of over \$4 million in the past five years and about a million in the past year. The current interest rate is 2½%, but a departmental estimate is that cost is about 3.4% when administrative costs are added.

131. These savings schemes represent policy decisions, therefore the foregoing statistics are inserted simply to describe the current situation.

Net Debt

132. As of 31st March 1958, the Net Debt, being the excess of liabilities over recorded assets, was \$11,046,274,000, representing an increase of \$38,623,000 during the year under review.

CROWN CORPORATIONS

133. Crown corporations are classified in schedules to the Financial Administration Act as departmental, agency or proprietary. Departmental corporations are financed in the same manner as branches of departments, with expenditures and revenues detailed in the appropriate sections of the Public Accounts. The accounts of the following 21 corporations were examined and reported on by the Auditor General:

	<u>Minister</u>	<u>Year-end</u>
<i>Agency Corporations</i>		
Atomic Energy of Canada Limited ..	Trade and Commerce .	31 March
Canadian Arsenals Limited	Defence Production ...	31 March
Canadian Commercial Corporation .	Defence Production ...	31 March
Canadian Patents and Development Limited	Trade and Commerce .	31 March
Crown Assets Disposal Corporation .	Defence Production ...	31 March
Defence Construction (1951) Limited	Defence Production ...	31 March
Federal District Commission	Prime Minister	31 March
The National Battlefields Commission	Northern Affairs and National Resources .	31 March
National Harbours Board	Transport	31 December
Northern Canada Power Commission	Northern Affairs and National Resources .	31 March
Park Steamship Company Limited ..	Transport	31 December
<i>Proprietary Corporations</i>		
Canadian Broadcasting Corporation.	National Revenue	31 March
Canadian Farm Loan Board	Finance	31 March
Canadian Overseas Telecommunica- tion Corporation	Transport	31 March
Eldorado Aviation Limited	Trade and Commerce .	31 December
Eldorado Mining and Refining Limited	Trade and Commerce .	31 December
Export Credits Insurance Corporation	Trade and Commerce .	31 December
Northern Ontario Pipe Line Crown Corporation	Trade and Commerce .	31 December
Northern Transportation Company Limited	Trade and Commerce .	31 December
Polymer Corporation Limited	Defence Production ...	31 December
The St. Lawrence Seaway Authority	Transport	31 December

134. Section 87 of the Financial Administration Act requires the auditor of a Crown corporation to report whether in his opinion:

- (a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

- (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

135. All information required for audit purposes was readily provided and the performance of the audits was facilitated by the co-operation and assistance of accounting and other officers of the corporations. What follows relates to points noted in the audits.

136. *Canadian Patents and Development Limited.* This corporation is a subsidiary body of the National Research Council and exists to administer patents and inventions having commercial attributes. \$6,978 earned during the year from royalties, licensing fees, etc., in respect of inventions by public servants who are not members of the staff of the National Research Council, is reported as income of the Crown corporation. As the Public Servants Inventions Act seems applicable to such inventions, the amount referred to is public money and therefore payable to the Receiver General.

137. *Crown Assets Disposal Corporation.* The Surplus Crown Assets Act, c. 260, R.S., provides that the Corporation may retain such percentage of the net proceeds of sales as the Governor in Council may fix to meet administrative costs and other expenses. Over the years, 10% has been the authorized percentage. Administrative costs and other expenses actually incurred by the Corporation have consistently been less; for example, in the last three fiscal years, the relation of expenses to net proceeds of sales was: 6.18%, 5.38% and 6.23%, respectively. A consequence has been that the Corporation had a surplus balance of \$575,518 as at 31st March 1958, after making voluntary surrenders to the Receiver General of \$5,037,000 in 1951, \$1,727,000 in 1952, \$1,000,000 in 1956 and \$500,000 in 1957.

138. In the year ended 31st March 1958, the Corporation made no outright surrender to the Receiver General, but it did make a special deposit of \$475,000 on general account (along with one of \$500,000 on agency account). Thus the Receiver General has the use of the money, while the Corporation is being paid interest and at the same time protecting itself against a deficit position in the future. The practice of invariably allowing a 10% commission, while at the same time permitting the Corporation to accumulate surplus balances, appears inconsistent with the aim of the legislation.

139. *National Battlefields Commission.* In reporting on the transactions of the Commission, it was noted that doubt was entertained as to the statutory power of the Commission to spend for a particular purpose. Subsequently, by Vote 582, Parliament appropriately ratified the action of the Commission.

The CHAIRMAN: How would you suggest that we deal with these, one by one Mr. Sellar?

Mr. Watson SELLAR (*Auditor General of Canada*): Mr. Chairman, it so happens that a great number of the paragraphs have already been disposed of either during previous discussions of this committee or by action of government or by other committees. There are relatively few points I think this committee need take notice of, except to be brought up to date. Of course, I make an exception of paragraphs 90 to 92, where I am a scoundrel. You can go after me as hard as you like on those.

The CHAIRMAN: We will certainly have to go into that carefully. Perhaps the word "laughter" should appear in the report.

Mr. WINCH: May I suggest, in view of what Mr. Sellar said, and in view of his having been at all our meetings, he is now drawing to our attention the remaining paragraphs which he thinks have not yet been covered.

Mr. SELLAR: Paragraph 89, sir, was not considered before, but it has been dealt with by the government amending the regulations concerned to allow interest from the time property is lost, rather than from January 1, 1946. As a result, this claim of \$1,300 which was to be recovered is now wiped out.

The next paragraphs—90, 91 and 92—deal with a case where a fellow anxious to get war work approached us in 1941 and, scared we would not take him on because of his age, lied and gave it as ten years younger. We did not get his right age until a year ago. He gave first-class service throughout. As soon as we realized that he was over 70 we put him out, and he is now getting a pension of only \$837 a year. The Department of Justice reviewed the case and drafted an item for the estimates to regularize the transaction. We slipped up. However, he was one of those fellows who looked younger than his age. He did give good service and earned his money. We were wrong, however, in not checking up. As it is now, we have ages verified of everyone over 50 and are working back to the younger ones.

Paragraph 93 is a little unusual. It indicated that a civil servant had made \$2,500 in a roundabout way. The facts are these. The government of Pakistan wanted a man to teach them how to tighten up income tax collections. The income tax department was asked to provide a man. It did. He was willing to go without any profit to himself, but wanted to take his wife with him. The \$2,500 represented her return fare by airplane plus incidental expenses while he was there for three months. There was nothing crooked about the deal. The Civil Service Act will be revised and it may not happen again. Strictly speaking, there was a little irregularity, but there was no intent of profiteering at the expense of the government.

Mr. BELL (*Carleton*): This is something which would be taken up by the special committee on the Civil Service Act next year?

Mr. SELLAR: Yes, sir.

The same is true in respect of paragraphs 95 and 96, where you have postmasters acting as caretakers of the post office and drawing the two salaries. There is a little confusion in respect of that. The case before you is in respect of the post office at Kincardine. We have another one out in the prairies. It is a matter to be dealt with when the Civil Service Act is to be revised.

Mr. BENIDICKSON: What was the maximum remuneration?

Mr. SELLAR: In this case, the postmaster received \$4,600 as postmaster and \$2,200 as caretaker.

Mr. FRASER: Did he keep the place clean?

Mr. SELLAR: Yes. They may farm out the jobs to a subordinate, but still collect the pension benefit in due course. It is really a matter for the Civil Service Act.

Paragraphs 97 to 101 inclusive are before your Elections Act committee. They are in my report by way of information. I am not criticizing anything. It is merely to give information. For example, we refer to too many ballots being printed in some places. Suitable action was taken to reduce the print orders. However, in some districts the number is still rather excessive. In paragraph 101 you have a rather unusual situation respecting constables employed at the polls. We, of course, did not examine all constituencies because we proceed by test audit. However, in four cases they are highly in excess of the average. In Essex East there were 211 constables, in Westmorland 183, in Saint John-Albert 177, and in Cape Breton South, 173.

Mr. WINCH: I do not have one in my riding.

Mr. SELLAR: In three instances we noticed women being employed as constables.

Mr. BELL (*Carleton*): And invalids.

Mr. SELLAR: Also an invalid. There was one person who was registered as an invalid.

Mr. BELL (*Carleton*): This is an abuse which ought to be taken up by the Privileges and Elections Committee. I think in our report we should draw these paragraphs to the attention of the Privileges and Elections Committee and ask them, when they have completed their study of the elections act, to deal with them.

Mr. SELLAR: They have already dealt with some.

Mr. BELL (*Carleton*): Not these. There are undoubtedly certain people who are attempting to get a lot of patronage for their friends through this back door technique.

Mr. DRYSDALE: Is "constable" defined in the elections act?

Mr. SELLAR: No; he is appointed under the regulations by the deputy returning officer.

Mr. FRASER: I think the trouble is that some of the deputy returning officers are not familiar with the proceedings and appoint constables without consulting anyone else. I know that has happened in my riding, but only in a couple of instances.

The CHAIRMAN: Paragraph 102.

Mr. HELLYER: I do not think the impression should be left that women under all circumstances are not suitable. In Toronto we have several women constables who are proving quite satisfactory in the performance of their duties.

Mr. SELLAR: One rather thinks of a constable being hired for rough and tumble work. That is why I mentioned it.

Mr. CRESTOHL: Have you found a number of constituencies where there were a lot of constables? Was there one employed for each poll, or more constables than actually there were polls.

Mr. SELLAR: No. In the case of Essex East it was 211 for 247 polls; in Westmorland, 183 for 206 polls; in Saint John-Albert, 177 for 236 polls; and Cape Breton South, 173 for 203 polls. This was just a test. I do not say it is representative of all Canada. We noticed those cases.

Mr. WINCH: I never heard of a constable being appointed in British Columbia. I am amazed at this information.

Mr. BENEDICKSON: Are these figures for the 1957 or 1958 election?

Mr. SELLAR: The 1957 election.

Mr. BENEDICKSON: I notice that more money was spent in 1958 for those purposes.

Mr. SELLAR: The rates were increased.

The CHAIRMAN: Paragraph 102 is next.

Mr. SELLAR: You do not need to worry about paragraph 102, because the treasury board ruling quoted at the end is now being applied; it is comprehensive and practical.

The CHAIRMAN: Paragraph 103 is next.

Mr. SELLAR: This is a housekeeping item and originates in the fact that Indian Affairs has so many activities in the far north that it has not as close control as it otherwise would. However, they are endeavouring to improve things.

The CHAIRMAN: We went into this last year.

Mr. SELLAR: Yes, under a different heading. This is more in connection with the education; last year it was in connection with health.

The CHAIRMAN: Paragraph 104 is next.

Mr. SELLAR: While I agree with the old practice of writing this off because I do not think we will get the money back, it was not strictly in accordance with the law, and the Minister of Finance this year is observing the law strictly. I do not think you need worry about it. Since this act has come into effect, we have spent \$201 million and have recovered \$100 million by the levy.

The CHAIRMAN: Next there are paragraphs 105, 106 and 107.

Mr. SELLAR: I do not think you need to take any action with respect to those.

Mr. BELL (*Carleton*): Any of them?

Mr. SELLAR: No. The minister's action is quite legal with the practice as it is today. I do think it should be amended some day, but that is a question of policy.

The CHAIRMAN: Under statement of assets and liabilities, we have paragraphs 108, 109 and 110.

Mr. SELLAR: Paragraphs 108 and 109 are merely by way of information. You might be interested in the St. Lawrence seaway authority, which is mentioned in paragraph 109, because as of March 31, 1958 it had advances of \$172 million. They are required by law to recover that over the next 50 years.

Mr. WINCH: Mr. Chairman, I have a question at this point. I would like to know from the Auditor General if it is within the power of his department to examine the contracts, expenditures and the claims for additional moneys. Have you any check on that as Auditor General?

Mr. SELLAR: I regard myself as having that power, as the appointed auditor of the crown corporation.

Mr. WINCH: Then I would like to ask this question. Have you—and when I say “you”, I mean your department—made a close audit of the expenditures and contracts on the seaway authority and, in particular, have you made any audit in your department—and this was according to an order of return that was filed by the minister—of the millions upon millions of claims for extra money? Have you examined those claims?

Mr. SELLAR: We have concerned ourselves exclusively with the actual payments, not with claims on record. We know there are claims on record, but we have limited our audit to the actual expenditures. In many contracts we have made what we regard as an interim audit because until the whole thing is completed and the amounts settled, we would be going over the same ground a couple of times. There is a lot of work still to be done in connection with the audit of the expenditures of the seaway.

Mr. WINCH: May I ask a further question? In view of the fact that this committee of public accounts can only go over a certain year, because you have not yet been able or found it necessary to audit certain claims which will cover this year, will this committee be blocked next year from examining these items?

Mr. SELLAR: I do not think so, sir, because, if my recollection is correct, the St. Lawrence seaway authority has a December 31 fiscal year and I imagine their last report is now on the table or is about to be tabled. I know I have certified the accounts. That report as well as the next year's report will automatically come before this committee, because they will be printed in the public accounts.

Mr. WINCH: And will you be examining all the expenditures of the seaway authority?

Mr. SELLAR: Yes we will be. The audit office may still have to face the fact that there may be some not finalized where we make our audit.

Mr. WINCH: You will be examining all these things?

Mr. SELLAR: Yes, we have our men regularly on these audits.

Mr. WINCH: May I ask, because there are millions involved, as to how you check the requests for additional payments as a line to the authority of treasury board to authorize these payments? Will you be employing any engineering or special accounting staff on that kind of investigation?

Mr. SELLAR: No, we will not be engaging engineering staff. We deal with payments only. These accounts have been audited in the past by our Montreal office and they are good experienced men. Since the move to Cornwall this spring we transferred that audit to our head office, and periodically we send men to Cornwall to examine the accounts. I had two men in Cornwall last week.

Mr. WINCH: How large a staff do you have at the audit branch examining payments on the St. Lawrence seaway?

Mr. SELLAR: It will vary. There are approximately 16 auditors in the corporation audits branch. Rarely will more than three or four be assigned to this audit at a time. We examine at intervals throughout the year.

The CHAIRMAN: Is there anything else?

Mr. SELLAR: Paragraph 110 is just a summary.

The CHAIRMAN: Paragraph 111.

Mr. SELLAR: In paragraph 111 we are still dealing with the treatment of the superannuation account deficit. I suggest that you ignore it because a new actuarial valuation of the fund is now being made; let the audit office and the Department of Finance fight it out when we have the new figures.

Mr. BELL (*Carleton*): You are engaged in fighting it out now?

Mr. SELLAR: The actuaries are working on their valuation. We wonder if they overestimate the deficit, but we are not experts on it.

Mr. WINCH: Do you have the same initial authority on the rearrangement of it?

Mr. SELLAR: We have had arguments with Finance ever since this figure was put in five or six years ago, and they have modified things.

Mr. BELL (*Carleton*): The Auditor General does not think the deficit is quite as large as the superannuation officials think it is?

Mr. SELLAR: No, we take the view that until parliament says the actuarial deficiency is to be put in the financial accounts, it should be left out.

Mr. WINCH: In your report to parliament you have to give complete and full information. Do I get from what you just said you think there is something that ought to be left out?

Mr. SELLAR: There is now set up an estimated actuarial deficiency of this fund which is forecast over the lifetime of everyone contributing. The superannuation act says that when a general increase in salary is made the Minister of Finance shall have an actuarial examination made of the effect of the general increase, and thereupon the government shall contribute the amount necessary to make good the shortage in the fund as a result of the general increase.

Mr. BENEDICKSON: This only refers to the old time estimated deficiency.

Mr. SELLAR: No; two years ago there was a general increase across the service. The Minister of Finance had the necessary calculations made by the

department of insurance, and \$44 million was credited to the account. That is shown as an added liability. Then, there is the long term forecast, but the actuarial figure is not required by law to be contributed by the government. In fact, the government cannot contribute; Parliament alone can contribute, and it has not made an appropriation for the purpose. Until parliament does so, I say it should not be listed as a liability.

Mr. FRASER: It is based to a great extent on life expectancy too.

Mr. SELLAR: Life expectancy and also the life expectancy of the widows, and everything else.

Mr. FRASER: But life expectancy is going up each year.

Mr. SELLAR: Yes.

Mr. FRASER: So this should be changed every few years.

Mr. SELLAR: I think they are changing it a little too fast.

Mr. FRASER: How often do you think it should be changed?

Mr. SELLAR: I mean the scale is going up a little too fast.

Mr. FRASER: How fast?

Mr. SELLAR: They have to have a valuation every fifth year.

Mr. FRASER: That is right; every five years.

Mr. SELLAR: The act requires it every fifth year.

The CHAIRMAN: Paragraph 112 sets out your opinion?

Mr. SELLAR: Yes.

Mr. BELL (*Carleton*): Is there any chance of recovery of any of this money in paragraph 113?

Mr. SELLAR: No.

Mr. BELL (*Carleton*): We might as well write it off?

Mr. SELLAR: The Government has to pay roughly \$4 million in connection with the Ming Sung loans.

Mr. WINCH: As auditor general, are you in a position to advise this committee as to whether or not you think, in good auditing practice, it should be written off, instead of carried on year by year?

Mr. SELLAR: I think it should be rated a bad debt; but I do not think the government should write it off before the banks ask for the money. This money was loaned by three banks to the Ming Sung company, and under the Export Credits Insurance Act the government guaranteed payment of the principal. Three instalments have not matured yet. Anything can happen in this world and, while I do not think it could happen—

Mr. WALKER: To write it off would be to admit that the national government of Formosa could never land on the mainland, would it not, Mr. Sellar?

Mr. WINCH: Which, of course, they will not.

The CHAIRMAN: Liabilities, paragraph 114.

Mr. SELLAR: Paragraph 114 merely gives you totals; there is nothing in it. Paragraph 115 in connection with unemployment insurance, you have already debated many times this session in committees and in the house. There is nothing I can add to that; everything is in order, as far as I am concerned.

The CHAIRMAN: Paragraph 116.

Mr. SELLAR: The big item is National Defence equipment account. The audit office has contested the listing for several years. The present Minister of Finance shares our view and has exhausted it in the past year. The others, I would not worry about for the time being.

Mr. WINCH: That is one way of getting rid of it.

The CHAIRMAN: Paragraph 117.

Mr. SELLAR: That is the same thing.

The CHAIRMAN: Paragraph 118.

Mr. SELLAR: In 118 there is only \$800 involved. I telephoned the department yesterday. They said they had not taken any action, simply have overlooked it; but they were going to correct it immediately.

Mr. WALKER: It is the principle involved there, is it not?

Mr. SELLAR: It is the principle involved. It is charged to the wrong account.

Mr. WALKER: And they are going to correct it?

Mr. SELLAR: They are going to correct it.

Mr. BELL (*Carleton*): Is it not rather surprising that, considering the time this report has been out, they did not take any action until yesterday? Who would be responsible for that?

Mr. SELLAR: Who is? One would say it is the treasury, and the other would say it is the department. It just fell between two stools. When I checked it up—expecting you might ask me this question today—they said they would get busy on it right away.

Mr. BELL (*Carleton*): I, for one, do not find it very smart on the part of the department.

Mr. SELLAR: No; but it is going to be corrected.

Mr. BELL (*Carleton*): I think it should have been corrected a long time ago, and this committee should tell them that in the future they should not carry on in that way.

Mr. BENIDICKSON: I agree, Mr. Chairman. The auditor general has to inform the committee, perhaps in a short time, about these things. I know that the auditor general would not in any way mislead us, but he would be making a completely improper statement if he said that every other paragraph has been rectified. But if it was done only yesterday, the committee might like to have some information with regard to this, and we would like to give the auditor general the opportunity to tell us about that.

The CHAIRMAN: Paragraphs 119 and 120 are the same thing.

Mr. BROOME: Mr. Chairman, I should like to go along with that, because we can use this committee as a club for something to be done. If the department did not take enough interest in this time that the report has been out, I think something should be done about it—something should be done to the department concerned.

Mr. SELLAR: You have done it in the last two minutes. They will read this report. You have given them a lesson.

Mr. BELL (*Carleton*): I hope the other departments will take seriously what we have said about this department in the last two minutes, because this committee is not fooling in relation to the work it is doing on public accounts.

The CHAIRMAN: Shall we continue?

Mr. WALKER: I suggest we finish up, Mr. Chairman.

The CHAIRMAN: Paragraphs 121, 122 and 123.

Mr. SELLAR: These paragraphs deal with the Pension Act governing the services, and there is notice of a resolution on the order paper to amend that act. I do not know what amendments are going to be made; I do not know whether you are interested in this or not.

Mr. BELL (*Carleton*): I do not like paragraph 123. I think the lieutenant governor ought not to have taken retirement on that basis; I do not care which lieutenant governor it is.

Mr. WINCH: That is the lieutenant governor of Nova Scotia, is it not?

Mr. BELL (*Carleton*): Yes, it is.

The CHAIRMAN: Are there any other questions on 123? Paragraph 124.

Mr. SELLAR: There is really nothing in it; this is just a summarization.

Mr. WINCH: I am sorry; may I go back to 123? We have had evidence before the estimates committee that, with regard to any person going from uniform to a civil job, the pension had to be taken into account in the salary. On this stand, a person going out of the service into a lieutenant governorship can do so without any abatement of his salary and pension; is that not right?

Mr. SELLAR: That is right. It is based on what is known as the Carroll decision, where the lieutenant governor was held to be an officer of the state, not employed in the public service of Canada.

The CHAIRMAN: Paragraph 125: is there anything there?

Mr. SELLAR: Mr. MacLean asked me, when we came to this item, to tell him whether the matter has been brought up to date. A reference has been made by the Departments of Finance and Transport to the Department of Justice as to whether or not legislation would be necessary to stop deducting this \$9,750 from the Prince Edward Island subsidy and returning the province the \$50,000 odd. No opinion has been received.

The CHAIRMAN: Paragraphs 126, 127, 128 and 129.

Mr. SELLAR: Paragraphs 126 up to and including 129 deal with matters where I end by saying they are simply put in by way of information. While there is an improvement in the way the Canada savings bonds are being retained, there is still a tremendous redemption rate in connection with them, and that makes the plan rather expensive. But the Minister of Finance told me last fall that he was confident he was coping with the situation.

The post office savings bank—that is a question of whether or not you need that at all now. But there we get into policy.

Mr. BELL (*Carleton*): Your view is, we do not, is it not?

Mr. SELLAR: Yes, my view is that we could quite usefully wind it up.

Mr. FRASER: Could Mr. Sellar say whether there is any profit in that, or is there a loss?

Mr. SELLAR: My opinion is, we lose money in operating the post office savings bank.

Mr. FRASER: You have no idea how much?

Mr. SELLAR: No; let us take Peterborough, for example.

Mr. FRASER: That is the best city in Canada.

Some hon. MEMBERS: Hear, hear.

Mr. SELLAR: There would be no person in the post office specially assigned to savings bank work, so we are not able to ascertain the real cost.

Mr. BROOME: What was the original purpose of the post office savings bank?

Mr. SELLAR: It was copied from England. A great many years ago—actually, about 30 years ago—I urged on the government that it should contemplate winding up the bank, but chartered banking opinion then was that that would be imprudent, because there were people from Europe, afraid to go into our bank buildings, who would go to the post office, rather than keep money under the mattress.

An hon. MEMBER: It was useful during the war too, was it not?

Mr. SELLAR: Yes, we encouraged it during the war. But it is a hard business to control.

The CHAIRMAN: Paragraph 132.

Mr. FRASER: Is it a fact that in England some of the banks will not take deposits from anyone unless you have a reference?

Mr. SELLAR: That is quite true; and they use the post office over in England for a great many purposes. They pay a great many pensions, and things such as that, through the post office.

Mr. BELL (*Carleton*): If we are losing money on it, and it is serving no useful purpose, I think we should ask the Postmaster General to take a look at this to see whether or not it should be wound up.

Mr. WALKER: We have no need for it here; we have so many branch banks.

Mr. PICKERSGILL: That is all very well for parts of the country where there are branch banks, but in parts of the country the post office savings bank is regarded as the only possible facility for saving money. I am told, I do not know this of my own knowledge, but this is what I have been told—that there are people who are not used to trusting banks at all and who use the post office savings bank a good deal.

This question came up twice—twice we were on the point of liquidating it—in the government, but there was influence in the other direction.

Mr. BELL (*Carleton*): Would you be willing to have the Postmaster General have a look at it?

Mr. PICKERSGILL: Certainly.

The CHAIRMAN: Paragraph 133, Crown corporations.

Mr. SELLAR: All I think you may be interested in, sir, starts at paragraph 136.

The CHAIRMAN: Paragraph 136, then.

Mr. SELLAR: In 136 legislation was put through at the present session clearing up that audit comment.

The CHAIRMAN: Paragraph 137.

Mr. SELLAR: Within the last few weeks the governor in council has acted in reducing the percentage that the crown assets disposal corporation may retain; that is, it now gets 4 per cent on land and buildings and 10 per cent on commodities. That more or less meets the point. As to paragraph 138, the governor in council has directed that, instead of being allowed to have say \$500,000, the company is not to have more than \$100,000.

The CHAIRMAN: Paragraph 139.

Mr. SELLAR: That was corrected by legislation by way of a vote at the last session of parliament.

The CHAIRMAN: Gentlemen, we will have the Canada Council tomorrow morning at 9.30.

Mr. WINCH: Before you adjourn, Mr. Chairman, this being the end of the auditor general's report, I believe that all members of this committee owe a great vote of thanks to Mr. Sellar, who has been before us now week after week in continual attendance. I, personally, want to express my appreciation for, not only his attendance, but for the clarity with which he has answered all questions, and I wish to say, also that I think he is doing a wonderful job.

The CHAIRMAN: Are you moving a motion?

Mr. WINCH: I would like to, if I have a seconder.

Mr. BROOME: I second that.

The CHAIRMAN: Carried unanimously.

Mr. MORTON: At the last meeting I was not counted as present, yet on page 310 I was asking a question.

The CHAIRMAN: We will correct the record right now, Mr. Morton.

Mr. WALKER: We have a caucus tomorrow morning at 9.30.

Some hon. MEMBERS: Nine o'clock.

Mr. WALKER: We may be over by then.

The CHAIRMAN: The Canada council is supposed to start at 9.30, with Mr. Claxton.

Mr. DRYSDALE: What happened to the information given by Mr. Jackett?

The CHAIRMAN: Could we take that up later, at the end of the Canada Council meeting? If you want to have more meetings you will have to suggest them.

Mr. DRYSDALE: I thought someone mentioned they were closed.

Mr. BELL (*Carleton*): I think we could perhaps arrange another two o'clock meeting. We have done well in the half hour we have had today.

The CHAIRMAN: Tomorrow, Wednesday?

Mr. BELL (*Carleton*): Let us see about it at the meeting tomorrow morning.

Mr. DRYSDALE: Are we meeting tomorrow?

The CHAIRMAN: Yes, at 9:30.

APPENDIX X

Office of the Comptroller of the Treasury

Ottawa, May 27, 1959.

Dear Mr. Macnaughton:

At yesterday's meeting of the Public Accounts Committee, Mr. Balls undertook to let you know the number of copies of the 1957-58 Public Accounts which were acquired by the expenditure of approximately \$56,000.

I am now informed that 1,147 copies were delivered, of which 1,000 were in English and 147 in French.

Incidentally, the cost to date is \$57,620.64.

Yours very truly,

J. O. HODGLIN,
Asst. Comptroller of the Treasury.

Mr. Alan Macnaughton, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa.

APPENDIX Y

Deputy Minister of Defence Production

June 1, 1959.

Dear Mr. Macnaughton:

In connection with the request of the Public Accounts Committee that the Department of Justice be asked to advise with reference to the helicopter contracts which are currently under consideration by your Committee I have now received an opinion from the Deputy Attorney General which I enclose.

Yours sincerely,

D. A. GOLDEN,
Deputy Minister.

Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Ontario.

Office of the Deputy Minister of Justice and
the Deputy Attorney General of Canada

Ottawa, May 28, 1959.

By Hand

185480

Re: Contracts with Okanagan Helicopters Limited et al.

Dear Mr. Golden:

I have to refer to our telephone conversation the other day with reference to the request of the Public Accounts Committee that this Department be asked to advise with reference to the contracts entered into by your Department with the above and other companies for the rental of helicopters.

The matter came before the Public Accounts Committee, as I understand it, as a result of the following paragraphs in the Auditor General's Report for the 1958 fiscal years:

71. Air Transport Tariff Rates. This paragraph treats with two cases where contractors are willing to refund to the Government amounts totalling about \$93,000, but a statute stands in the way. In the spring of 1956 the Department of Defence Production chartered helicopters for use in the transport of freight and personnel required on the Mid-Canada Early Warning Line project. The aircraft were chartered for only a short period because it was expected that the RCAF would take over the work. That not occurring, the helicopters continued in use throughout the summer and fall. This materially reduced costs to the contractors, so in the summer of 1956 the Department negotiated with them to substitute, with retroactive application, rates that would have been paid under the approved tariff if the contracts had originally been entered into for the longer periods.

72. Air rates are, by the Aeronautics Act, subject to the approval of the Air Transport Board, and once a rate is approved the carrier may not reduce charges without the consent of the Board. The proposed new agreement was therefore brought to the notice of the Board by the Department. The Board declined to approve, apparently because, unless an approved tariff provides for retroactive adjustments, the extension of the period of the agreement is not cause for automatic concurrence by the Board. In money, the consequence is that one company has around \$73,000 and another about \$20,000 which they would willingly refund to the Crown were that not a breach of the law.

The questions raised by the Public Accounts Committee read as follows:

1. Did the Air Transport Board have the right, at the particular time the new contract was negotiated, to give approval to the new contract?
2. Accepting the conclusions of Mr. Sellar in paragraphs 71 and 72 as factual, is there any legal reason why the Air Transport Board cannot make the necessary decision under its regulations by which the Department of Defence Production can recover the \$93,000 referred to in Mr. Sellar's Report?
3. Could the Justice Department think of any other way the Government of Canada can recover this \$93,000?

My understanding is that the problems which concern the Public Accounts Committee can be considered in the light of the following facts:

- (a) DDP Contract Serial 2-P-5-2217 dated March 29, 1956, was a contract for the rental of three helicopters from Okanagan Helicopter Limited for the period from April 1, 1956 to May 31, 1956, under which the Crown was to pay, in addition to Flying Hour Charges, a "term toll" of \$18,000 per helicopter per month. (This was in accordance with the filed tariff of the Company under which there was a sliding scale of term tolls decreasing in amount as the number of months in the term of rental increased.)
- (b) At the end of the two month period provided for in that contract, the Crown continued to use the helicopters and, before entering into a contract with the Company for a further period of rental, your Department wrote to the Air Transport Board on July 3, 1956, as follows:

The subject charter covers the period 1 April 1956 to 31 May 1956, and it is proposed to amend the contract now to extend the charter for a further period of three (3) months, 1 June 1956 to 31 August 1956, a total term of five (5) months, at the following rates per aircraft in accordance with the carrier's filed tariff:—

Term Toll—\$17,000.00 per month retroactive to the commencement of the charter.

Flying Hour Charges—

- (a) (Gasoline and oil supplies as free issue)—\$22.00 per hour
- (b) (Gasoline and oil provided by carrier)—\$40.00 per hour.

Plus crew expenses while positioning aircraft.

The original contract did not provide for a renewal period; however it is considered in order now for the Department to apply the term toll applicable to the five (5) month term.

May we have your approval please.

- (c) On July 4, 1956, the Secretary of the Air Transport Board wrote to your Department as follows:

"Please refer to your letter of July 3, 1956, in connection with subject contract.

The Board feels that, since the subject contract has expired and did not contain a renewal clause, a new contract is required.

Therefore, the term toll for a further 1-3 months contract will be \$18,000.00 per month."

- (d) After further correspondence, a new contract was entered into for an additional term of six months with the same company for the same helicopters at the rates applicable, in accordance with the company's filed tariff, for the period of the extension and not at the lower rates that would have been applicable if there had been one contract for the rental of the helicopters for a combination of the periods in the two contracts.

I understand that similar facts existed in connection with the rental of other helicopters with the same company and another company and that the \$93,000 referred to in the Auditor General's Report is approximately the aggregate of the difference between the amounts which would have been

payable in accordance with the filed tariff of the company if there had been, in the case of each helicopter, a single contract for the total period of usage instead of two or more contracts for each in respect of portions of that period.

As I understand the facts, there is no question that the larger amounts that have been paid are the amounts which were payable in accordance with the terms of the contracts that were entered into with the company. There is therefore no suggestion that the Crown has paid any more under these contracts than was payable in accordance with the terms of the contracts. There has not therefore been an overpayment in the ordinary sense of that word.

Without going into the details of the Aeronautics Act or the Regulations made thereunder, my understanding is that there is no question being raised as to the validity of the company's filed tariff of tolls and that it is common ground that the company was bound by the provisions of the Aeronautics Act and the Regulations made thereunder to charge for the rental of its helicopters in accordance with the provisions of that tariff.

As far as I have been able to ascertain, there is nothing in the statute or the regulations which requires the approval of the Air Transport Board of the terms of any proposed rental contract or otherwise gives any power to the Air Transport Board to affect the validity of such a contract. If such a contract is in accordance with the filed tariff and other requirements of the law, it is a valid contract. If it is not in accordance with the provisions of the filed tariff, it would probably not be a binding contract and could not be given validity by approval of the Air Transport Board.

When your Department wrote to the Air Transport Board on July 3rd, 1956 in the terms quoted above, I assume that it was informally seeking the views of the Air Transport Board as to whether the desired objective could be achieved by the proposed agreement to amend the original contract. The Air Transport Board appears to have so read your letter since it replied to the question, so understood, by saying that, as the original contract had "expired" a new contract was required. This answer to the question so understood would appear to me to have been correct.

Your Department's letter of July 3rd did not, in terms, request from the Air Transport Board approval for the entering into of a contract at reduced rates under s. 14 of the Aeronautics Act, which approval the Board appears to have had legal authority to grant and it would not appear that the Board construed your letter as a request for such approval. Such approval would, I should have thought, have to be given before the contract could be entered into for transportation at reduced rates.

With reference to the question whether there is any legal reason why the Air Transport Board cannot now make the necessary decision so that the Crown can recover the \$93,000 referred to in Mr. Sellar's Report, the only possibility that occurs to me is that, if the Companies are "willing to refund to the Government" the amount of \$93,000, as the Auditor General indicates, the company might make an application to the Board for approval to remit a portion of the tolls charged under these contracts in that amount, which approval it would appear the Board might give under Regulation 14(3) of the Commercial Air Services Regulations. A review of such of the papers as I have had an opportunity of reviewing indicates that the company may have been willing at the time it entered into the respective extension contracts to enter into such contracts at the lower rates if that were permissible in accordance with its filed tariff. It does not necessarily follow that the Company is, at this time, prepared to remit a corresponding portion of the tolls to which it became entitled under the contracts.

I should also say that I have no knowledge as to what principles are applied by the Board in dealing with applications of this kind and I must not be taken as expressing any opinion as to whether this would be a proper case for approval by the Board.

With reference to the third question raised by the Public Accounts Committee, as to whether this Department can think of any other way the Government of Canada can recover this sum of \$93,000, as indicated above, my understanding of the facts is that the tolls that have been paid under the contracts in question are the tolls payable in accordance with the terms of the contract and, in the absence of some statutory provision, which I have no reason to believe exists, the only possibility of having the money repaid to the Crown is a voluntary remission by the company with the approval of the Air Transport Board.

Yours truly,

W. R. Jackett,
Deputy Attorney General.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

REPRINT

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon
and
The Canada Council

WEDNESDAY, JUNE 3, 1959

WITNESSES:

Mr. Watson Sellar, Auditor General for Canada; Honourable Brooke Claxton, Q.C., P.C., Chairman, and Mr. A. W. Trueman, M.A., D.Litt., Director, The Canada Council, Ottawa.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (*Carleton*),

and Messrs.

Benidickson	Grenier	Morton
Bissonnette	Hales	Pickersgill
Bourbonnais	Hanbidge	Pigeon
Broome	Hellyer	Pratt
Bourget	Keays	Robichaud
Bruchesi	Lahaye	Smith (<i>Calgary South</i>)
Campbell	Lambert	Smith (<i>Simcoe North</i>)
(<i>Lambton-Kent</i>)	Latour	Smith (<i>Winnipeg North</i>)
Campeau	Macdonald (<i>Kings</i>)	Spencer
Charlton	Martin (<i>Essex East</i>)	Stefanson
Chown	McGee	Stewart
Crestohl	McGrath	Villeneuve
Denis	McGregor	Walker
Drysdale	McMillan	Winch
Fisher	Martineau	Wratten
Fraser	Morissette	
Godin	Morris	

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, June 3, 1959.

(14)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan MacNaughton, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Bruchési, Campbell (*Lambton-Kent*), Charlton, Drysdale, Fisher, Fraser, Hellyer, Lambert, Macnaughton, McGee, McGrath, McGregor, Morissette, Morton, Pickersgill, Pigeon, Pratt, Robichaud, Smith (*Calgary South*), Stefanson, Stewart, Walker, Winch, and Wratten—(26).

In attendance: Honourable Brooke Claxton, Chairman; Messrs. A. W. Trueman, Director; P. M. Dwyer, Superior of Arts Programme; Eugène Bussière, Associate Director; Miss Lillian Breen, Secretary; Mr. Douglas Fullerton, Treasurer, The Canada Council, Ottawa.

Mr. Watson Sellar, Auditor General for Canada.

On Paragraphs 50 and 51—

The Chairman tabled a mimeographed copy being an audit report on The Canada Council by the Auditor General, dated April 28, 1958 which was ordered printed as an appendix. (*See Appendix "Z" to this day's Minutes of Proceedings.*)

Mr. Watson Sellar was called. He read a statement, copies of which were distributed and which was ordered printed as an appendix. (*See Appendix "Z-1" to this day's Minutes of Proceedings.*) Mr. Sellar was questioned and, as requested, commented on the present ending of the fiscal year of The Canada Council.

The Committee then proceeded to consider the Order of Reference of Tuesday, March 10th, which was read by the Clerk.

The Chairman introduced Honourable Brooke Claxton and the other officials accompanying him.

Mr. Claxton gave a detailed outline of the foundation of The Canada Council, reviewed its activities and was questioned thereon. He was specifically examined on The Canada Council Act, Section 8. Answering questions on the building of dormitories and residences of Canadian universities, he tabled a letter dated March 13, 1958 which he wrote to Mr. George E. Beament, Q.C. and a legal opinion received from Mr. Beament on April 10th, 1958. This information was ordered printed as an appendix. (*See Appendix A-1 to this day's Minutes of Proceedings.*)

Dr. Trueman supplied answers to questions on Libraries.

Mr. Claxton made a brief statement on the end of the fiscal year of The Canada Council which is March 31st and he gave his reasons why he thinks it should remain unchanged.

The Chairman expressed to Mr. Claxton and the other officials of The Canada Council the Committee's appreciation.

On Paragraphs 71 and 72—

After discussion and following a suggestion of Mr. Smith (*Calgary South*), that a representative of the Helicopter Transportation Companies concerned

appear, Mr. Broome moved, and the Committee agreed, that the question of determining whether witnesses should appear, be referred to the Committee on Agenda and Procedure.

Before adjournment, Mr. Bell (*Carleton*) moved, seconded by Mr. Walker, that Exhibit P-6—being Amounts paid to Shipyards and to Naval Architects—filed May 27th, be printed. (*See Exhibit P-6 in this day's Minutes of Proceedings.*)

At 12.25, the Committee adjourned until Tuesday, June 9, at 2 o'clock in the afternoon.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

APPENDIX "Z"

AUDITOR GENERAL'S OFFICE

April 28, 1958.

To: The Canada Council
The Prime Minister of Canada

The accounts and financial transactions of the Canada Council have been audited for the period from March 28, 1957 (the date of establishment) to March 31, 1958, in accordance with the requirement of section 22 of the Canada Council Act, and this is the report on the audit.

Section 14 of the Act provides that \$50,000,000 constitute the Endowment Fund, while section 17 directs that the University Capital Grants Fund be credited with \$50,000,000. Both funds were duly established.

Financial Statements. The following financial statements were submitted by the Council for audit certificate:

Balance Sheet as at March 31, 1958, comprising an Endowment Fund section and a University Capital Grants Fund section; and

Statement of Income and Expenditure and Surplus of the Endowment Fund for the period from March 28, 1957 to March 31, 1958.

These statements are certified subject to the observations in this report.

Endowment Fund. Interest and dividends earned on Endowment Fund moneys amounted to \$2,368,819 for the period under review, while expenditure—comprising \$180,316 for administrative expenses, and \$1,416,632 for authorized grants and awards under section 16 of the Act—amounted to \$1,596,948. This left a surplus of \$771,871 to be carried forward as available for expenses and grants and awards in future years.

University Capital Grants Fund. Interest earned on investments amounted to \$2,151,393, and net profit on disposal of securities was \$183,592, while charges to the fund for authorized grants under section 9 of the Act amounted to \$4,084,300, leaving a balance of \$48,250,685 at the credit of the fund at March 31, 1958.

In the review of the transactions it was observed that grants of 50% of estimated cost were authorized with respect to the construction of student residences at four universities. These grants are now noted in order to illustrate a point. The Canada Council Act is not free from ambiguity, but section 9 contemplates that the Council make grants only "in furtherance of its objects", which are defined in the Act as follows:

The objects of the Council are to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

No problem is present where a grant is made towards the cost of constructing a building having direct and immediate association with courses of study related to the arts, humanities or social sciences. What is now referred to is the legal position where the association might be regarded as indirect or remote. The status of the Council in administering this fund being similar to that of a public trustee, it is suggested that consideration be given to defining boundaries with respect to grants from the University Capital Grants Fund.

Acknowledgment. Every opportunity was afforded Audit Office staff to examine accounts, vouchers and related documents, and all supplementary information required was freely provided by the Director, Treasurer and other officers of the Council.

(Sgd.) Watson Sellar,
Auditor General of Canada.

APPENDIX Z-1

NOTE ON AUDIT REPORT ON 1957-58 ACCOUNTS OF THE
CANADA COUNCIL

1. Section 22 of the Canada Council Act, c.3, 1957, directs that:

22. The accounts and financial transactions of the Council shall be audited annually by the Auditor General, and a report of the audit shall be made to the Council and to the member of the Queen's Privy Council for Canada designated under section 23.

2. A little unusual is the direction to report on the "financial transactions" as well as the accounts, so notice has been taken of parliamentary debates when the legislation was in Bill form. For example, on 5 February 1957 this exchange is recorded in the House Debates between a Member and the Prime Minister of the day:

There is no limitation on the Council as to how the money should be applied?

No, none; but the fact that they will be operating in public and that their operations will be reported upon annually by the Auditor General in a report that will be tabled in Parliament will ensure that the Council is very conscious that the Canadian public will feel that it is their money that is being administered by this Council; and they will want, I think, to use it in a manner that will commend itself to the majority of the Canadian people. (Debates, p. 1009)

3. The section has been regarded as calling for the equivalent of a parliamentary audit, with the attention of Parliament to be drawn to any transaction that may appear to merit parliamentary notice. The Auditor General has no responsibility beyond reporting; for example, any action to recover an ultra vires payment would presumably be in the field of the Attorney General of Canada.

4. Parliament (a) allocated the amount in the Capital Grants Fund between provinces, (b) limited grants to projects of universities or the equivalent, (c) directed that no grant exceed 50% of cost, and (d) stipulated that the project be one that would promote the objects of the legislation. On 18 January 1957, during the resolution stage, Mr. St. Laurent replied to a question whether the Bill would spell out precisely the formulas to guide the Council in the distribution of the \$50 million for construction purposes. In part, he said:

The terms are not determined in full detail, but it is provided that the contribution on the part, of the Council will not be more than 50% of the cost of the building or the equipment being provided, and it will be for the kind of buildings required to carry out the objectives for which the council is established. If buildings are required for other purposes in the university they should be provided for otherwise than through the Canada Council, the objective of which is to foster these developments of studies in the humanities, social sciences and arts.
—(p. 402)

5. On 5 February 1957, Mr. St. Laurent, in replying to a similar question, said:

Mr. Chairman, this resolution is not intended to provide for the establishment of increased facilities for a greatly increased number of students in engineering, medicine, dentistry and sciences. Under the

Bill that would be introduced if and when this resolution is adopted the \$50 million would be for capital assistance to projects that the Council would determine to be in furtherance of the general objectives of the Council. That would probably be construed as relating to other than specifically engineering, medical, dental or scientific faculties. It would probably be construed as limiting the participation within this \$50 million to projects for the furtherance of the study and promotion of the humanities, the social sciences and the arts generally. That was the general instruction given to the draftsmen of the Bill and I think hon. members will feel that the general instruction has been implemented, although of course in quite general language, in the Bill itself. (p. 984)

6. It was because of statements like the foregoing that, in the audit, the review included an examination of the purposes of construction projects to observe whether any had interlocking utility to the university as a whole. The audit report includes the following observation:

In the review of the transactions it was observed that grants of 50% of estimated cost were authorized with respect to the construction of student residences at four universities. These grants are now noted in order to illustrate a point. The Canada Council Act is not free from ambiguity, but section 9 contemplates that the Council make grants only "in furtherance of its objects", which are defined in the Act as follows:

The objects of the Council are to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

No problem is present where a grant is made towards the cost of constructing a building having direct and immediate association with courses of study related to the arts, humanities or social sciences. What is now referred to is the legal position where the association might be regarded as indirect or remote. The status of the Council in administering this fund being similar to that of a public trustee, it is suggested that consideration be given to defining boundaries with respect to grants from the University Capital Grants Fund.

7. The audit perplexity might be illustrated this way: Two brothers attend the same university, one to study Arts, the other Engineering. Is the second boy ineligible to live in a students' residence because it had been financed, in part, by a Canada Council grant? Alternatively, if both are eligible, it follows that there is nothing to prohibit the residence being wholly occupied by engineering, medical, etc., students.

8. The Act does not empower the Council to associate conditions (other than financial) with a grant, and the then Prime Minister clearly indicated that in no way would the legislation detract from the freedom of universities in conducting their affairs. Therefore, it may be that the legislation contemplates that assistance be extended only where a construction project, at the time of grant, is exclusively and directly to promote study of the arts, humanities and social sciences.

APPENDIX A-1

THE CANADA COUNCIL

March 13, 1958.

Mr. G. E. Beament, Q.C.
Beament, Fyfe and Ault
56 Sparks Street
Ottawa, Ontario
Dear Mr. Beament:

The Canada Council would like to have your opinion on the following questions relating to payments out of the University Capital Grants Fund and the Endowment Fund set up by The Canada Council Act, which is Chapter 3 of the Statutes, 1957 (first session).

1. Is the selection of the "universities and similar institutions of higher learning" to which grants may be made under section 9 a matter for the sole discretion of the Council?

2. The "building construction projects" mentioned in section 9 in respect of which grants may be made must presumably be "in furtherance of its (the Council) objects" which under section 8 are "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences". Has the Council discretion to say what building construction projects qualify under the provisions of section 9 of the Act? When the Council is selecting individuals, organizations and projects to be included in its programme of assistance under the Act, does it have the right to interpret for these purposes the following words: "arts", "humanities", "social sciences"? In this connection, would the purchase of existing buildings be included? Would additions to an existing building be included? Could a grant be used for a building used for students' residences? In this latter connection see a note by Dr. Trueman which is attached and also an article in the last number of the Queen's Quarterly.

3. To qualify for a grant must a building:

(a) be commenced after the coming into force of this Act on March 28, 1957?

or

(b) be incomplete at that date when it would qualify only for the cost of completing the building?

or

(c) be complete but not entirely paid for when it would qualify only for the balance unpaid? Could a university qualify if the contractor had been paid off out of a bank loan and then only in respect of the unpaid balance of the bank loan?

4. Should the cost of administering the University Capital Grants Fund be paid out of income earned on the Endowment Fund alone?

If you desire further information, I would be only too glad to endeavour to satisfy you.

Yours sincerely,
(signed) Brooke Claxton

(Letterhead — BEAMENT, FYFE & AULT)

April 10th, 1958

The Hon. Brooke Claxton, PC,
Chairman,
The Canada Council,
140 Wellington Street,
Ottawa 4, Ontario.
Dear Mr. Claxton:

This will acknowledge receipt of your letter of 31st March last for which I thank you and is further to my recent telephone conversation with Dr. True-man.

I am now pleased to give you my opinion on the questions raised by you. Before dealing with the questions specifically it may perhaps be helpful for me to make a few general observations. In this letter when I refer to the Act I mean, of course, the Canada Council Act 5-6 Elizabeth II Chapter 3 which received the Royal Assent on 28th March, 1957.

I understand that no advance was in fact made to Council under the provisions of Section 15 of the Act and accordingly that no Order-in-Council was issued pursuant to that section. It is also my understanding that no Order-in-Council relevant to the questions raised by you has issued under any other section of the Act.

In construing the Act for the purpose of answering the questions propounded, it is helpful to bear in mind the general principles set forth in Section 15 of the Interpretation Act, Revised Statutes of Canada 1952, Chapter 158, and particularly the following extracts therefrom—

“15. Every Act and every provision and enactment thereof shall be deemed remedial. . . and shall accordingly receive such fair, large and liberal construction and interpretations as will best ensure the attainment of the object of the act and of such provision and enactment, according to its true intent, meaning and spirit.”

The Act is entitled “An Act for the Establishment of a Canada Council for the Encouragement of the Arts, Humanities and Social Sciences” and Section 8(1) in its opening clause states the objects of the Council in similar general terms, namely, “to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences”. Certain powers of the Council to be exercised in furtherance of its objects, but without limiting the generality of its objects as set forth above, are defined in Paragraphs (a) to (f) of Section 8(1).

The objects of the Council accordingly lie within three main areas—the arts, humanities and social sciences. The expression “the arts” for purposes of the Act is defined in Section 2 to include seven specific arts “and other similar creative and interpretative activities”. This latter phrase is not in my opinion to be construed ‘ejusdem generis’ with the seven specific arts which precede it as they do not themselves constitute a genus. Such other creative and interpretative activities might be similar to only one of the seven specific arts set forth in Section 2. Accordingly, the definition of “the arts” for purposes of the Act is broad.

Neither of the other two main areas, namely the humanities and social sciences, is defined for purposes of the Act. These expressions are not terms of art and are not susceptible to exact definition. The expression “the humanities” is defined in the shorter Oxford dictionary as “learning or literature concerned with human culture, as grammar, rhetoric, poetry, and especially the ancient Latin and Greek classics” and I have no reason for believing that it is susceptible

to any more precise definition in Canada. In Scotland it would appear that the expression is somewhat less comprehensive. So far as I am able to learn the term "the social sciences" is essentially North American in its origin and I have been unable to find any acceptable definition of this expression. It may be presumed that it comprehends the inexact sciences concerned with the constitution of society and the problems related thereto. It will, therefore, be appreciated that these three main areas which are fundamental to the objects of the Council and to a correct construction of the Act are themselves susceptible to broad interpretation. It is somewhat easier to say in a specific instance whether a particular matter lies outside this scope than it is to attempt to state what lies within. It is, of course, quite possible to suggest borderline cases where the decision is difficult. Presumably Parliament felt that any attempt to define these three areas more precisely would be limiting in its effect and that this was undesirable. It is my opinion, therefore, that in any particular instance unless the Council is satisfied that a particular matter lies outside each of these three areas; it is justified in treating such matter as being within the scope of one or other of these three areas. If the Government or Parliament disapproves of the action of the Council on this basis, it will be necessary in my opinion for Parliament to enact amending legislation drawing more precisely the boundaries of each of these three main areas. The foregoing general remarks are referred to by me more specifically in answer to your question 2(b) below.

Referring to your specific questions my opinion is set forth in the answers thereto as follows:

Question 1: Is the selection of the "universities and similar institutions of higher learning" to which grants may be made under Section 9 a matter for the sole discretion of the Council?—*Answer:* Yes, provided the discretion of the Council is exercised honestly and fairly on the basis of considerations which include the following:

- (a) the grant must be a furtherance of the objects of the Council as defined in Section 8 (1) of the Act within one or more of the three main areas—the arts, humanities and social sciences;
- (b) if the grant is not to a university it must be to a similar institution of higher learning. In common usage a university is a corporate body pursuing higher learning with the power of conferring degrees. The broadest construction that could be fairly placed on the expression "similar institution of higher learning" would be an organized body pursuing learning at a level higher than that of the secondary schools, whether or not it has the power of conferring degrees; and
- (c) the grant must be within the limitations imposed by Paragraph (b) of Section 17(2) of the Act dependent upon the Province in which the recipient of the grant is located and prior grants made by the Council to recipients located in such Province.

Question 2(a): Has the Council discretion to say what "building construction projects" qualify under the provisions of Section 9 of the Act?—*Answer:* Yes, provided that such proposed construction is in furtherance of the Council's object as defined in Section 8(1) of the Act within one or more of the three main areas and subject to what is said below in the answers to Question 3 with respect to the phrase "building construction projects".

Question 2(b): When the Council is selecting the individuals, organizations and projects to be included in its program of assistance under the Act, does it have the right to interpret for these purposes the following words: "arts", "humanities", "social sciences"?—*Answer:* Yes, it has of necessity an interpretative function with respect to each of these expressions. The general

remarks set out above at Pages 2 and 3 are relevant to this Question and there is really very little further that I can usefully add. Unless the Council is satisfied that a particular matter or activity lies outside each of the three main areas included in the phrase "the arts, humanities and social sciences", it is entitled in my opinion in the exercise of its necessary interpretative function to treat such matter or activity as lying within the boundaries of one or more of these three main areas. You will appreciate that if any of these expressions in the context of your Act came before a Court of Law in proceedings which involved its construction, that such Court of law would exercise an unfettered interpretative function with respect to it.

Question 2(c): Would the purchase of existing buildings be included within the phrase "building construction projects" in Section 9 of the Act?—*Answer:* No. The purchase of an existing building might be within an overall building project of the grantee, but the purchase of an existing building cannot be within the meaning of the phrase "building construction project" as it appears in Section 9 without disregarding the word "construction" in its ordinary grammatical meaning as it appears therein.

Question 2(d): Would additions to an existing building be included?—*Answer:* Yes. Structural additions to an existing building, as opposed to mere renovations, are within a correct construction of such term "building construction projects".

Question 2(e): Could a grant be made for a building to be used as a students' residence?—*Answer:* Yes, provided the proposed residence is to be established and operated as more than a mere rooming or boarding house so that its existence and operation may fairly be said to be in furtherance of the Council's objects as defined in Section 8(1) of the Act. Drawing a precise line in this respect is not easy, and indeed is probably not necessary. Clearly the inclusion in a residence of such facilities as a library, music room, common room, discussion room and so on, with a warden and possibly one or more members of the faculty living in, makes such residence much more in the developing life of a resident student than a mere rooming or boarding house.

Question 3: In dealing with the several parts of this question which are set out in detail below, it is my opinion that the crucial date in every case is the date upon which the Council unequivocally exercises its discretion to make a specific grant to a specific recipient. The Council may exercise its discretion in this respect without communicating the same to the recipient. However, it is clear that it has so exercised its discretion when it makes a firm commitment to the recipient. It is also my opinion that in the phrase "building construction projects" in Section 9 of the Act, the word "projects" is significant as importing a necessary element of futurity. Neither this phrase nor any of its component words are defined in the Act and one is, therefore, thrown back on the ordinary grammatical meaning of the word "project" which seems clearly to negative that which has been executed in the past. A building which has been constructed has ceased to be a "building construction project"; a building partially constructed remains a "building construction project" to the extent to which construction is required to be carried out at the time in question in order to complete the building.

Question 3(a): To qualify for a grant must a building be commenced after the coming into force of the Act on 28th March, 1957?—*Answer:* No. A building may have been commenced prior to 28th March, 1957, although construction with respect to it remains uncompleted on the date on which the Council exercises its discretion to make a grant relating to the cost of completing its construction. The interpretation implicit in this answer does

not give retrospective operation to the Act. In my opinion the usual presumption against retrospective operation of an act applies to the Act and the Act only operates prospectively. Thus, grants could only be made by the Council under its provisions after 28th March, 1957, when it received the Royal Assent, but such grants can be made by the Council with respect to any building construction project to the extent that construction remains to be carried out after the date upon which the Council exercises its discretion to make the grant.

Question 3 (b): To qualify for a grant may a building be incomplete at that date when it would qualify only for the cost of completing the building?—*Answer:* Yes, as already stated in the answer to Question 3 (a) above, it being understood that such building would only qualify to the extent of the cost of carrying out the uncompleted construction of the building at the date the Council exercises its discretion to make the grant.

Question 3(c): To qualify for a grant may a building be complete at that date but not entirely paid for when it would qualify only for the balance unpaid and could an institution qualify if the contractor had been paid off out of a bank loan and then only in respect of the unpaid balance of the bank loan?—*Answer:* No. If a building is complete at 28th March, 1957, but not entirely paid for, it has nevertheless ceased to be a building construction project on any possible date upon which the Council could exercise its discretion to make a grant. For the reasons set out above any particular method used by an institution to finance the construction of such a completed building, e.g. a bank loan, can not in any way alter this answer.

Question 4: Should the cost of administering the University Capital Grants Fund be paid out of income earned on the Endowment Fund alone?—*Answer:* Yes. The cost of administering the University Capital Grants Fund is an expenditure made for the purposes of the Act and Section 16 (a) of the Act provides that "any expenditure made for any of the purposes of this Act, except Section 9, may be paid out of the return on investments made out of the Endowment Fund;". The cost of administering the University Capital Grants Fund is not an expenditure made for the purposes of Section 9. That section deals solely with the making of grants to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects. The Act is silent as to the disposition to be made of the income earned on the University Capital Grants Fund and the residue thereof from time to time remaining in the hands of the Council and no expenditures are specifically authorized by the Act to be made from such income. Accordingly, such income as earned is to be treated as an addition to the corpus of the University Capital Grants Fund and disposed of by the Council under the provisions of Section 9 and Section 17(1) and (2) of the Act.

It is my hope that this letter sets forth adequately my opinion on the questions raised by you. I shall, of course, be only too pleased to supplement it or clarify it in any respect which you may consider to be desirable. If you feel that it would be of assistance to discuss any of the points touched on, I would, of course, be only too glad to meet your wishes in that respect.

Yours faithfully,

(signed) G. E. Beament.

EXHIBIT No. P-6

DEPUTY MINISTER OF TRANSPORT

Ottawa, Canada

May 26, 1959.

Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. Macnaughton:

At the meeting of the Public Accounts Committee last week, I was requested to supply certain information in connection with the construction of the vessel, "Lord Selkirk".

The information requested, as I understood it, was as follows:

(1) Statement of the amounts paid to the Naval Architects, giving the breakdown between the amount received under the 11½% fee arrangement and the amount received for additional expenses.

(2) General breakdown of the total cost paid to the shipyard which constructed this vessel, showing the main component parts in accordance with the main headings authorized by the Department of Defence Production for costing purposes.

This information is contained in the attached sheet.

Yours sincerely,

(signed) J. R. Baldwin,
Deputy Minister.

M.V. "LORD SELKIRK"

Total Cost Paid to Shipyards

Direct Labour	\$1,097,685.62	
		\$1,623,340.50
Overhead Provisioning rate @ 55%	525,654.88	
Direct Materials		
Purchases	1,050,359.91	
		1,264,739.96
Materials ex stores	214,380.05	
Misc. Direct Expenses	147,413.74	147,413.74
Sub contract Guildfords Ltd.	40,239.00	40,239.00
Fixed Fees	130,000.00	130,000.00
	<u>\$3,205,733.20</u>	<u>\$3,205,733.20</u>

Total Cost Paid to Naval Architects

(A) 11½ Fee Arrangement	\$368,659.32	\$368,659.32
(B) Additional Expenses:		
Telephone & Telegrams	10,752.46	10,752.46
Extra work due to basic design changes	7,850.00	7,850.00
	<u>\$387,261.78</u>	<u>\$387,261.78</u>

NOTE: 1. A duty drawback claim amounting to \$21,671.93, now being processed, will be credited to construction costs reducing the total to \$3,184,061.27, and consequently will reduce the amount paid to the Naval Architects to \$384,769.50. The final cost audit is not presently available, but it is presumed that the balance of authority left on the contract (\$20,995.73) will be sufficient to cover the final payments.

2. Overhead provisioning rate is the general overhead allowed the company on the contract and was calculated as a percentage rate of direct labour costs.

EVIDENCE

WEDNESDAY, June 3, 1959
9:30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. I would like to welcome Mr. Douglas Fisher, a new member of our committee.

Mr. FISHER: It is a pleasure, especially when I see that revolutionary Mr. Smith, here in the same committee.

The CHAIRMAN: I had not quite finished my remarks. I think Mr. Fisher will fall into the pattern of things.

Mr. CHARLTON: He will fall into something.

The CHAIRMAN: Gentlemen, this morning we have the advantage and privilege of having six witnesses from the Canada Council, and I would like to name them: the Hon. Brooke Claxton, Chairman of the Canada Council; Dr. A. W. Trueman, Director, Monsieur Eugène Bussière, Associate Director; Miss Lillian Breen, Secretary; Mr. Douglas Fullerton, Treasurer; and Mr. P. M. Dwyer, Supervisor of Arts Programme.

It was suggested that we start first with our good friend, Mr. Watson Sellar; but before doing that, with your permission, I should like to file as an appendix the auditor general's report on the finances of the Canada Council, dated April 28, 1958. Is it agreed that this report be printed.

Agreed.

(See appendix Z)

The CHAIRMAN: You have all received the first annual report of The Canada Council to March 31, 1958, and you have copies of the auditor general's report, together with various other documents of The Canada Council. The first witness then is Mr. Watson Sellar.

Mr. WATSON SELLAR (*Auditor General for Canada*): Mr. Chairman, the audit report on the Canada Council affairs for the year ending March 31, 1958, is not printed in The Canada Council book. That was not done deliberately; it just happened by chance. I understand that this coming volume will contain the little report on the last fiscal year which ended on March 31, 1959. For that reason, your secretary had me supply copies yesterday of my audit report, which I understand has been circulated.

I had to appear before a Senate committee on the same subject, and as I made a little observation in the report, and as I am very anxious to get instructions from this committee as to what type of audit you want performed, I have taken the liberty of preparing a statement, so that I would use the same words before the Senate and this committee. That is the sole reason for its being typed. With your consent, Mr. Chairman, I will read it.

The CHAIRMAN: Agreed.

(*For statement read, see appendix Z-1*)

(On conclusion)

Mr. SELLAR: That, Mr. Chairman, is what I read to the Senate committee. I would like to make one point clear, I am in no way critical of students' residences; it is just a question of whether they come within the meaning of this act, and I would like to know how far this committee expects us to

go; if this sort of thing included last year is along the lines that is expected of the auditor general in reporting to parliament.

The CHAIRMAN: Thank you, Mr. Sellar. I have had the advantage of reading the minutes of proceedings before the standing committee on finance of the Senate on The Canada Council. We should ask you what your views are with regard to the annual fiscal year ending on March 31.

Mr. SELLAR: Yes, Mr. Chairman. Let us be quite frank: I raised that point in the Senate, not a senator. Then the chairman asked me if I would bring it to the notice of this committee. Thank you for giving me the opportunity to do so.

The point is this. Both Mr. Claxton and myself are in the somewhat ridiculous position of appearing today to explain accounts for a financial year that is now 14 months past. I have already certified the accounts for the fiscal year that ended on March 31 last. Therefore, to talk about some old stuff seems a little out of date. For that reason, I suggested to the Senate that as the Canada Council was a very enterprising body and was anxious to promote goodwill and support, it might be more interesting to members of parliament and to the Senate were it possible to have financial accounts before them as nearly up-to-date as possible. For that reason, a financial year other than March 31 had attractions. The council is required to submit its report, along with financial statements and the audit report, within 90 days after the close of the financial year.

Canada Council is not a crown corporation; it is a wholly independent body. A crown corporation is allowed to have any date in the year as its financial year: some have March 31, some have December 31, and one has the crop year—that is the Canadian wheat board.

It seemed to me it would have attractions if this financial year were different than March 31, so that the report would be in the hands of parliament before you get into the last minute rush. I think that argument could be countered to a degree, by a reference to the Interpretation Act, which states that in certain circumstances the fiscal year, when mentioned in an act, is to be March 31. But that section really relates to where moneys are currently being provided to finance the operation. In this instance, parliament made outright grants of \$100 million and the council is now wholly dependent on the income it earns from those moneys.

Mr. WALKER: Mr. Sellar, we are listening to your recommendations, and so on; but has parliament any control whatever over The Canada Council?

Mr. SELLAR: In my opinion, no, sir.

Mr. WALKER: So that the chairman and the members of the council are free to do pretty well as they like?

Mr. SELLAR: That is my view, and that is why I am asking for instructions in the audit report.

Mr. WALKER: They can go their own sweet way and do what they like, and they are accountable to no one?

Mr. SELLAR: Within the act.

Mr. WALKER: And, as a matter of fact, they are almost an independent body like the public trustee, are they not?

Mr. SELLAR: I would assume they are, sir.

Mr. WALKER: And you can make recommendations, you can make a report; but you can do no more than that?

Mr. SELLAR: That is my view.

Mr. WALKER: There is no minister with whom you can take the matter up?

Mr. SELLAR: No.

Mr. WALKER: They are a law unto themselves.

Mr. SELLAR: Again, within the act.

Mr. WALKER: And a former liberal cabinet minister is chairman.

The CHAIRMAN: In the report of the auditor general for 1958 you have two paragraphs, 50 and 51. Is this the time to make any comment on those paragraphs?

Mr. SELLAR: I do not think The Canada Council is involved at all. That is a decision of the government of the day, for which the Department of Finance would be the one to provide the answer. That is my view. Canada Council may take a different view; but I do not think it is before the committee today.

Mr. FISHER: Mr. Chairman, may I ask one question. If Mr. Walker brought out, through questioning Mr. Sellar, that the council is not accountable to anyone, how do we explain the fact that it is here before a parliamentary committee?

Mr. SELLAR: Because it is required to table a report in parliament through the designated minister who, in this instance, is the Prime Minister; and I am required to make an audit. In my statement I noted that the then Prime Minister—who sponsored the bill in the house—kept referring to what the functions of the auditor general would be. After these reports were tabled during the present session of the house, the house referred them to this committee.

Mr. FISHER: Would you interpret that as placing any limitation upon the recommendations that this committee may make regarding The Canada Council.

Mr. SMITH (*Calgary South*): Or the area of examination?

Mr. FISHER: Yes; or the area of examination?

Mr. SELLAR: I think you could make recommendations to the house in connection with the legislation itself, but I do not think you are entitled to go beyond that.

Mr. MCGEE: In other words, if we came across something with which the entire committee disagreed, in connection with The Canada Council as presently constituted, this would be a purely academic interest.

Mr. SELLAR: Yes. I am really the only one here to whom you could give instructions.

Mr. SMITH (*Calgary South*): And you can deal specifically in only one area. As I gather, under the act you are required, as I believe you stated, to present the audit to us.

Mr. SELLAR: I am required to audit the accounts and the financial transactions.

Mr. WALKER: So, in effect, this is just a sounding board. The chairman of the Council is giving us a report, but anything we wish to do is like flailing the air; we have no power at all.

The CHAIRMAN: I would not say that.

Mr. WALKER: I am not asking you; I am asking Mr. Sellar. Mr. Sellar is a lawyer as well as an auditor.

Mr. SELLAR: You flatter me.

Mr. FRASER: Some lawyers go wrong at times.

Mr. WALKER: That is why I am asking the questions.

Mr. SELLAR: The whole aim of The Canada Council Act was to make it an independent body. As to why, I cannot tell you; but my belief is, it is because education is within the sphere of the provinces.

Mr. BELL (*Carleton*): The act itself does provide that a report of the Canada Council shall be submitted annually for parliamentary review. It was a section which was put in at the insistence of the present Minister of

Public Works. Certainly we have the right to review the report and make any recommendations to parliament which we feel so inclined to do. After that it is up to parliament as to whether they take any action to amend the act.

Mr. FISHER: On a point of information, Mr. Chairman, were you a member of the house when this bill, setting up this council, was passed?

The CHAIRMAN: Yes, I think so; I am quite certain I was.

Mr. FISHER: Do you recall whether or not it had unanimous support in the house?

The CHAIRMAN: I do not recall it at this stage, but I would point out—

Mr. PICKERSGILL: If I may speak, Mr. Chairman, I was a member and I do not remember that anyone voted against it. I recall that the present Minister of Transport complained over and over again because it was not done sooner.

The CHAIRMAN: Are there any other questions?

Mr. PICKERSGILL: I am reminded by Mr. Lambert that my statement is quite inaccurate and that the Social Credit party voted against it. However, no party now represented in the house voted against it. Of course, we did not have the inestimable advantage in those days of having the hon. member for Rosedale there.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. DRYSDALE: In the interpretation section does the fact that the word "arts" is defined and humanities and social sciences are not, cause any difficulty?

Mr. SELLAR: No, because when the bill was before the house the question was asked of Mr. St. Laurent why only the word "arts" was defined and not the others. He gave two definitions, which are not part of the act, but seemed to be acceptable to the house; and as far as I am concerned those are followed.

Mr. DRYSDALE: The definitions Mr. St. Laurent gave?

Mr. SELLAR: Yes.

Mr. DRYSDALE: But he did not feel they should be included in the act?

Mr. SELLAR: He did not include them because he did not want to make the act too restrictive.

Mr. FISHER: I would like to ask Mr. Sellar a question in connection with the specific point he has brought up about residences. I think you suggested the terms should be determined in full detail. Are you suggesting that the recommendations in this report should go to the house and then there should be a change or amendment in the legislation?

Mr. SELLAR: My thought does not go that far. My thought is simply this: twenty-one members constitute The Canada Council; let us assume that some payment is made, not necessarily for residences because I am using this to illustrate. It is challenged as being ultra vires and in due course proceedings are taken and the decision goes against The Canada Council. It may be impossible to recover the money from the authority that received it; therefore, it might follow that as trustees the individual members of The Canada Council might be personally liable. I am just surmising that possibility and my endeavour is to protect the twenty-one members of that council so they will not be liable to flank attacks for something they do with the best intentions in the world.

Mr. MCGEE: Is it a fair question to ask the Auditor General if, in his opinion, some effort should be made to bring this body more within the control of parliament than it obviously is.

The CHAIRMAN: Do you want to answer this question, Mr. Sellar?

Mr. SELLAR: It is a fair question, but it is a policy question which I would not attempt to answer.

The CHAIRMAN: Gentlemen in this connection I should have asked the secretary at the beginning of the meeting to read the terms of reference appearing on page 9 of our printed proceedings. Mr. Clerk, would you read our order of reference on The Canada Council.

The CLERK OF THE COMMITTEE (*reads*):

Tuesday, March 10, 1959.

Ordered: That the report of the Canada Council for the year ended March 31, 1958, laid before the house on July 10, 1958, be referred to the Standing Committee on Public Accounts in order to provide a review thereof pursuant to section 23 of the Canada Council Act.

The CHAIRMAN: And then there is a further one:

The CLERK OF THE COMMITTEE (*reads*):

Ordered: That the public accounts volumes I and II and the report of the Auditor General for the fiscal year ended March 31, 1958, and the financial statements of the Canada Council and the report of the Auditor General thereon for the fiscal year ended March 31, 1958, be referred to the Standing Committee on Public Accounts.

The CHAIRMAN: Thank you very much, Mr. Plouffe.

Gentlemen, it is my pleasure now to introduce to you, if that be necessary, the Hon. Brooke Claxton, P.C., D.C.M., Q.C., LL.D. At present Mr. Claxton is vice-president and general manager for Canada of the Metropolitan Life Insurance Company. First elected to the House of Commons in 1940, he represented the constituency of St. Lawrence-St. George. Mr. Claxton has rendered long and distinguished service to his country. He held the portfolio of National Defence, he resigned his Cabinet post on July 1, 1954, to go into private practice. Gentlemen, our witness has had fourteen years of experience in the House of Commons and is familiar with the problems connected with the federal government. I now call upon the Hon. Brooke Claxton, chairman of The Canada Council.

THE CANADA COUNCIL

Hon. BROOKE CLAXTON, P.C., D.C.M., Q.C., LL.D (*Chairman of the Canada Council*): Thank you, Mr. Chairman; I am very glad to be here. I must say that having been 14 years in parliament, I have a great regard for this institution, but today I am not too sure that I would not rather be on your side of the table than on this side.

I wonder, Mr. Chairman, if it would be your wish and that of the committee if I endeavoured to deal now with the two points raised by Mr. Sellar, or if it would be more useful for me to refer to the report, which is before you, and deal with some of its highlights. I might also describe the organization and its manner of working. I will do whatever the committee wishes.

The CHAIRMAN: I think you might start with a general outline first, and then you could follow up with the details.

Mr. CLAXTON: Mr. Chairman, the bill setting up the Canada Council was enacted by parliament following the report of the royal commission on the arts, letters and sciences, generally known as the Massey report. This report recommended the establishment of an organization to be called the Canada Council, and that followed the recommendations of a large number of organizations. I think there were some 300 in all. The bill was intended, according to the words of the then Prime Minister, to carry out the functions of the

Massey report, and it seems to have been discussed in parliament on that basis.

The bill received royal assent on March 28, 1957. The council was appointed on April 15 and it met for the first time on April 30 and May 1. At the first meeting, as is described in the report, it set up the organization, adopted by-laws and also received and heard views on the working of foundations of this type from representatives of the Ford foundation, the Rockefeller foundation and the Carnegie corporation, which are the three largest organizations which operate in a similar field in the United States.

After its first meeting the council secured office space at 140 Wellington street, directly opposite the parliament buildings. It recruited a staff, starting with the director and associate director who were appointed by the governor in council and whose salaries are fixed by the governor in council.

Here I do come up against a difficulty raised by Mr. Sellar in that he has said it is 14 months since this report was adopted, and I will explain why we chose that fiscal year. However, at the present time it would seem a little academic to refer you to the organization of the staff then and while it has not changed very much, I think I might briefly refer to it as it is today. The only difference is that we have added two people. This is illustrative of the kind of thing we have in mind. The staff is set out in this chart.

Twenty-one members constitute the Canada Council. The chairman and vice-chairman are appointed for a five-year period: six members are appointed for two years; six members are appointed for three years and seven members are appointed for four years.

There is an executive committee of seven members, and reporting to them are the director and associate director. Miss Osborne and Miss Boudreault are their secretaries. There is an investment committee consisting of five members, of which Mr. Graham Towers is chairman, the other members being Mr. J. G. Hungerford, Mr. James Muir, Major General George P. Vanier, with myself *ex officio* a member.

Mr. WALKER: That is the investment committee?

Mr. CLAXTON: Yes. Reporting to them is Mr. Fullerton and his staff, as set out here—his secretary Miss Morris, the assistant treasurer, accountant and a stenographer; Miss Breen is the secretary to the council with her staff—the assistant to the secretary, a clerical staff of three, two office boys, a records division of two. There also is a scholarship division consisting of three; the supervisor of the arts program, Mr. Dwyer, who is here, and his secretary, Miss Demarque.

Then in connection with UNESCO, Mr. Bussière has been appointed secretary of the National Commission. He has had a great deal of experience in this field and is a graduate in social sciences. He has a secretary and a secretariat of two. The UNESCO commission was set up by The Canada Council following a directive to this effect by the present governor in council, and that was adopted in consequence of authority given by the statute. I might say there are 81 countries in UNESCO and there were only seven without a national commission. Now, Canada has set one up. In addition, we have two vacancies for additional staff in UNESCO which are now being filled. We hope to have a head of a scholarships division, but we have not as yet been successful in finding a suitable bilingual person.

After setting its organization meeting, the council started to invest its \$100 million. As directed by the act \$50 million of this was for the university capital grants fund. This fund had to be invested in government securities, including treasury bills. There was then \$50 million in the endowment fund which could be invested, under the terms of the act, in any securities. The

Canada Council itself passed a resolution which directed the investment committee as to the kind of securities in which it would invest its money. Generally speaking, I can say this is very conveniently described by saying that the practice and policy has been to limit investments in the endowment fund to those classes of securities falling under the general heading of insurance "legals." As of the end of the fiscal year 1958 the council was earning 4.3 per cent on the university capital grants fund and 5.3 per cent on the endowment fund. At that time it had made substantial capital profits on both these funds.

In the administration of the university capital grants fund the council thought it desirable right at the outset to seek the advice of the universities. At that time there were 86 universities organized into the national conference of Canadian universities. On June 8, 1957 the Very Reverend Father Georges-Henri Levesque and I, together with other officers of the council attended the national meeting held in Ottawa. We discussed with the membership as a whole some of the problems we would have in administering the university capital grants fund. Incidentally, I raised at that meeting the question as to whether or not we would give money for residences.

The conference appointed a subcommittee, under the chairmanship of Dr. Andrew Stewart, now chairman of the board of broadcast governors, and at that time president of the University of Alberta. This subcommittee included the heads of four universities.

We sat down with them in a room in this building, not having space of our own, and we discussed with them how the needs of the universities would best be met by grants made within the terms of the act. We worked out with them, on the morning of Monday, June 10, the general lines of investment grant assistance policy toward the universities, entirely in accordance with their recommendations.

Following that, a draft resolution was prepared, and that is in the annual report appearing before you. It is at page 41. This was then circulated to the executive committee of the national conference of Canadian universities. They recommended its adoption with some amendments. These were adopted, and this resolution has been followed by the Canada Council in the administration of its funds ever since.

In accordance with this, at the end of the first year, the council had made grants totalling \$4,084,300. They are listed at page 9 of the first annual report now before you.

Here (*Pointing to chart*) is the university capital grants fund for the year ending March 31, 1958. The capital at the beginning of the year is \$50 million; the amount of grants authorized in the year, \$4,084,000, and the grants paid, \$1,340,000.

Grants are paid in four instalments: first, when the foundations are finished; second, when the building has been roofed over; third, on completion of the interior work, and fourth, after a final accounting has been made and the building is occupied. This is all done in accordance with certificates made by the architects of the university in question. The plans have to be filed with us in advance.

The income from the fund was \$2,151,000; we had a realized profit of \$184,000; and a balance available for grants at the year's end of \$48,251,000. The yield on cost at year end was 4.3 per cent.

As I said the list of universities which received grants appears in the annual report before you, at page 9.

Since then, as a matter of interest and information, the number of grants has been increased to 42; the total grants amount to \$12,816,000; and 31 institutions have been assisted in this way. There are, today, 91 universities, or equivalent institutions, which have been recognized by the national con-

ference of Canadian universities, as eligible for university per capita grants, which have been acted upon by the federal government.

We thought it desirable to recognize as eligible for grants the same list approved by the national conference of Canadian universities themselves, and acted upon by the federal government.

In deciding how much would be available for universities, we are, of course, bound by the act to allocate the money within each province in the proportion that the population of that province bears to the total population of Canada, as determined at the last available census.

Within each province the amount available is, and has been, as a matter of policy by the council, earmarked for universities in the proportion in which the number of their students working to a degree bears to the number of students within the province. On that basis, for example let us take British Columbia: the number of the population, as at the June 1, 1956, census, is 1,398,464. The population of Canada is given as 16,049,288. The amount of \$50 million divided in that proportion makes \$4,357,000 earmarked for British Columbia.

Take the University of British Columbia, which has 8,540 students working toward a degree out of 9,311 students in the province. Out of that \$4,357,000, \$3,996,219 is earmarked for the University of British Columbia. This earmarking enables the university to plan its capital building program. It knows the money is to be made available for it, and it does not have to rush to get ahead of the rest, to make sure it gets in its applications before the money is exhausted; and it enables both the universities and the council to do job in an orderly fashion.

That involved no difficulties in administration whatever. The only difficulty we have had is that some of the, what might be called, "satellite" institutions have wanted to get money direct, rather than have it pass through the hands of the parent institution.

We adhered to the practice followed by the national conference of Canadian universities in administering the per capita grant by paying the money in precisely the same way as they have done—that is, through the parent institution.

Turning to the endowment fund, on this chart you see the picture for the year 1958. The income was \$2,369,000. It is interesting to contrast that amount of income, \$2,369,000, with the income available from same capital in the university capital fund of \$2,151,000.

The grants authorized during the year were \$1,417,000; and grants paid, \$346,000. Administrative expenses totalled \$180,000; and the balance available for grants at year end was \$772,000.

The investment position is described in detail in the annual report. All the securities are listed there with their prices and values.

Short-term bonds at cost—and we will not go through the details, but you will see there are \$3 million odd; provincial bonds at cost, \$11,531,000; municipal bonds, \$11 million, corporate bonds, \$8,800,000; NHA mortgages, \$11 million, equities \$6,900,000—practically \$7 million. That is a total of \$52 million odd.

During the year there was a realized profit on transactions of \$855,000. Also the excess of market value over cost at the end of the year was \$1,296,000. The yield on cost at year end was 5.3 per cent. So that between the two funds there was a realized profit of about \$1 million at the end of the first year's operation, with a total income of approximately \$4,500,000.

In the administration of the endowment fund, again, the council decided that it would be the best course for it to take the advice of the agencies already working in this field. We saw the humanities research council at their meeting in June, 1957, here in Ottawa. We met them on several occasions, and

received their advice. The humanities research council had been operating in the field of the humanities since the year 1953. It was an organization formed by the universities for the purpose of administering scholarships, fellowships and giving assistance to publication.

We thought it very desirable we should not compete. We looked essentially to them for cooperation and we got it; and since then they have advised us in the administration of scholarships, fellowships and assistance in publication.

Likewise, we saw the social science research council, a similar body, formed in the year 1938, and agreed on a line of policy.

We also saw the Canada Foundation, which was formed in the year 1945, to administer some money left over from grants made for purposes similar to these during the war years.

These three agencies had been in receipt of contributions from the Rockefeller Foundation, from the Carnegie corporation, and other agencies. They had been acting in precisely the same way as the Canada Council would be expected to act; so it was very much in our interest to secure their cooperation and advice; and that, I must say, has been given most generously. We have made arrangements with them whereby they continued to advise us on the selection of scholars and on the allocation of the money for publications.

With them we worked out a plan of ten categories of scholarships, fellowships, and other grants to individuals in different categories, all of which are mentioned in the annual report.

Here you have the results of the second year. In category No. 1, pre-master's—this is all for post-graduate work, or the equivalent—pre-master's, 296 applications, 88 awards, and a total estimated cost of \$101,300. (Of course, all that has not been distributed yet.)

Category No. 2, pre-doctor's degrees—that is, people working for a degree of doctor of philosophy—377 applications, 110 awards, \$211,000.

Category No. 3A, senior research, 56 applicants, 24 awards, at a total estimated cost of \$104,000.

Category No. 3B, senior arts workers—that is painters, musicians and the like—68 applicants, 27 awards, and \$119,500.

Category No. 4, arts scholarships: 227 applicants, 47 awards, \$84,100.

Category No. 5, secondary school teachers and librarians: 92 applicants, 31 awards, \$48,800.

Category No. 6, arts teachers and museum staff: 22 applicants, 9 awards, for a total estimated cost of \$14,750.

Category No. 7, short-term grants—these are grants to enable people doing graduate and post-graduate work at the university to continue their work during the summer, in the event it is not suitable that they should get a summer job—210 applicants, 130 awards, for \$91,000, approximately.

Category No. 8A, senior non-resident—these are awards limited to five in number, for people of very great distinction—the award is \$5,000, plus travel, plus two-thirds of the travel allowance for a wife—there were 10 applications, and 9 awards, some of them partial. These people, for the most part, are chosen rather than apply. They are chosen by the universities or equivalent institutions.

Category No. 8B, junior non-resident: 208 applications, 79 awards, \$169,700.

Category No. 9, journalists, broadcasters and film makers: 39 applications, 8 awards, \$24,000.

In the general category, category No. 10, there are 15 applicants, 5 awards, and \$35,000.

Then we set up, during the year, four special senior awards, category No. 11, for people of very great distinction in Canada. This is really by way of

an award rather than a grant of assistance to be set up for them; but we made none of them during the first fiscal year.

I should mention these totals: 1,620 applicants for 571 awards.

I may say, with regard to the present year, the number of applicants is running about the same. We have about three applicants for each vacancy, so the standard of the people selected should be pretty good. Whether or not all these people will turn out to be winners, of course, no one can say. But we felt the very best investment that the Canada Council could make was in young people of promise, to give them opportunities for further work and further study.

In this thought we fell in line with the unanimous recommendations of the universities and the three organizations I have mentioned. We followed the pattern generally followed by the great foundations in the United States.

Mr. DRYSDALE: I notice that is for 1959 and 1960.

Mr. CLAXTON: That is right. The other sheet was given to me.

Miss BREEN: The previous ones are in the report, at page 11.

Mr. CLAXTON: They are in the report at page 11.

The CHAIRMAN: This just brings it up to date though?

Mr. CLAXTON: Yes, this brings it up to date.

The CHAIRMAN: Could you also explain the item "plus travel, \$150,000"?

Mr. CLAXTON: Yes, in accordance with the practice of agencies giving scholarships, where travel is involved we add in the actual expense of travel, on a lower berth basis, or tourist air. In the case of the older members, where they are more likely to be married, two-thirds of the travel allowance is allowed for the travel expenses of the wife.

Mr. WINCH: Or of the husband, if it is the other way around.

Mr. CLAXTON: Yes, we have had that kind of case. We had an application, to that effect, but we did not think it desirable at the moment in the interests of marital bliss, to grant it.

The specifications for these scholarships are set out in booklets. These are the booklets that have been issued by the Canada Council. Here is a sheet that was sent around to all of the universities and other institutions, to be posted on all their notice boards. They specify the qualifications needed for each class.

Then application forms are distributed. These have to be sent in, together with two recommendations from people who have known the candidate and are familiar with his work.

That sheet has the same information on it as this booklet, here. Since the end of the fiscal year, since 1958, we have twice revised the specifications and categories, but not in any substantial way. It was found from experience that the amount awarded in category 1 was not sufficient and we increased the amounts by \$300—from \$1200 to \$1500—and made other similar increases, to be better in line with actual costs.

I should say a word about administration. At the end of the first year we had a staff of 19, as I have mentioned. The income and administrative costs for 1957-58 are here. The total income is \$4,520,000. We have broken down the administrative costs rather arbitrarily as \$110,000 for the endowment fund, \$50,000 for the university capital grants fund and \$20,000 for last year for UNESCO. That is a total of \$180,000.

Total administrative cost as a proportion of the endowment fund income is 7.6 per cent; endowment fund cost as a proportion of endowment fund income, 4.6 per cent. Generally speaking, it can be said that on any basis the cost of administration has remained rather less than 6 per cent. We have compared this with the administrative costs of the American foundations, which are listed in a book called *Philanthropic Foundations*, by Emerson Andrews,

and we have also had the advantage of having these figures brought up to date by him. It would look as if the average costs of administration of similar foundations in the United States own from 8 to 12 per cent. But these figures must not be taken as directly comparable, due to the fact that there are differences in accounting practices, differences in the functions of the organizations; and a long established foundation like the Rockefeller Foundation spends a good deal more money on rendering services and giving information in proportion to handing out grants than a new foundation like ours.

However, I mention those administrative costs to indicate that they are well below the average, and I hope we keep them that way. One job that was given to the Canada Council by the act is support of UNESCO. That, as I say, was handed to us by order in council. Now that the National UNESCO Commission has been established, a budget has been arrived at for the national commission of \$100,000 a year. You see here the publications it has issued. I mentioned the work of the council as it relates to university capital grants, which account for about half of its total expenditure; scholarships, fellowships and other grants of that kind to individuals, account for another quarter. So that about three quarters of the assistance given by the council is for the support of educational activities at the higher level, post graduate level in the universities or equivalent institutions.

We have left about \$1 million, which the council has used for the support of the arts through organizations. This program could only be partly developed during the first year. It appears on page 13, and you will see that the grants which are all listed in the annexes show an expenditure, the first year, on music of \$230,200; festivals, \$75,000; arts councils, \$20,000; theatre, et cetera, \$250,000; other, \$64,100. That is a total of \$639,300. Assistance to organizations concerned with the humanities took \$67,100; and social sciences \$32,800. As the program has developed more fully in the second year, we arrived at these breakdowns, where you will see—if you are interested—\$181,400 for symphony orchestras; \$20,400 for summer concerts; \$5,000 for commissioning orchestral works; \$50,800 for travelling groups; \$11,099 for choirs; other organizations, \$116,660. That is a total of \$385,359.

I will not go through the details, but they are here for the theatre, ballet and opera, \$345,785; visual arts, \$153,935; festivals \$157,500; the Canada Council train, \$40,000; arts councils, \$13,500 and aid to publication, \$52,300. That is a grand total of \$1,148,379. That can be taken as a pattern of what might be regarded as a normal year's operation.

For the year 1959-60—the current fiscal year in which we are operating—we have a budget which indicates that all the money of the Canada Council available for support of the arts, humanities and social sciences from the endowment fund is now earmarked; that is, it is now within the program, and if we are to give more money during the current fiscal year to XYZ orchestra above what has been earmarked for it, that money will have to be found by spending less on something else. In other words, the full revenue of the endowment fund is now programmed for.

There is one further point I should mention, and that is that the council is charged with responsibility for the projection of Canada abroad. Canadian resident have been offered scholarships, fellowships, and so on, some 30 countries. The only assistance given in return was out of the blocked funds available for the Netherlands, Belgium, France and Italy. They ran out. And we had, from the province of Quebec, scholarships for France. It was felt desirable that we should reciprocate and offer scholarships to other countries, not only in the interest of an interchange of relations at that level, but also so that we would have the advantage of either having the student go back and be an ambassador of Canada, we would hope, in his own country, or else stay with us and enrich our own life. We offered this last year to all the

countries where we had diplomatic missions, and the result was that 50 awards were made last year and 79 this year to students from 50 different countries who were to come to Canada to work for their masters degrees.

An arrangement was made with the World University Service to extend hospitality and give them assistance. This was a very difficult operation to get going at first, but I think it is going much more smoothly now. The original screening is done by our diplomatic missions abroad, which receive applications from students in the country. The screening is done by a member of the mission, usually the ambassador or minister; a leading Canadian citizen in the neighbourhood—if there is one and a representative of the local Department of Education.

The required number of selected candidates is sent back here, where a final screening is done by representatives of the Department of External Affairs, the University of Ottawa, Carleton University, the national conference of Canadian universities, and the Canada Council, with the result I have mentioned. We will have 79 of these students in Canada this year. Similarly, we have sent a large number of Canadians abroad, and they have gone to 27 different countries, so that this is becoming a two-way interchange.

Mr. FRASER: May I ask a question there? Do the other 27 countries pay for our students who go over there?

Mr. CLAXTON: No.

Mr. FRASER: We are the only ones who pay for the foreigners coming into Canada?

Mr. CLAXTON: No; over 30 countries have offered scholarships available to Canadians. There is no direct interchange; it would be too complicated to work out. For example, Rhodes scholars go to England, Nuffield scholars go to various places, Carnegie and Rockefeller and Ford scholars go to various places. And there are many outside of the United States and England—the governments of Germany, France, and several other national governments have scholarships. We are getting into a pattern that is very widely developed by the United States government in the field of the sciences, mass media and public relations, also the Fulbright scholarships, and so on. This is a big international interchange today, which we hope is making a network of human relations around the world.

I think it is a fair statement to say that the Canada Council has come into existence at a time which has corresponded with a very considerable upsurge in the arts in Canada. The Canada Council is not responsible for this, but it has come into existence at a good time to help it along.

We have a large group today of Canadian artists who are internationally recognized. I might mention a lot of names, but then I might leave some out. But they are such people as Glenn Gould, Betty Jean Hagen, Lois Marshall, Maureen Forrester, and about 50 others who are today internationally recognized.

The national ballet has probably travelled more extensively in the United States and Mexico than any other ballet company, and it is very well recognized. We have organizations like the Bach choir of Montreal and the Hart House orchestra which were very well received abroad. These developments are occurring from end to end of the country.

Also, we see great festivals being built up, like the Montreal festival, the Stratford festival, the music festival of Winnipeg, the Vancouver festival, and others. All these are leading to large increase in community interests. The Canada Council could usefully spend twice as much money as it has for these purposes. It has had to select; and in that, of course, we are assisted by the best guidance we can get. We refer applications wherever possible to an outside panel and receive their guidance. The way we try to work is

this: we try to use our money—that is, your money; the council's money—in the way in which it can best provide “leverage”—to use the technical expression of the “philanthropoids”—that is, to ensure that the expenditure of a dollar by the council will result in the recipient body raising and spending at least that sum in new money and increasing its activities, enlarging its audiences and improving its standards. To show how this worked in the first year I can give you one illustration. The council gave seven different symphony orchestras \$105,000. The number of concerts given by those orchestras was increased during the year from 93 to 175; the attendance was increased from 320,000 to 477,000. But the most interesting point was that whereas the council gave \$105,000, the orchestras themselves raised, through subscriptions, through municipal contributions and through the box office, \$840,000. For this year the figures regarding assistance to symphony orchestras and the resulting increased number of concerts, increased attendance and increased expenditure by them is even more striking.

We have had a large number of meetings of the council and with a possible attendance of 21, despite the fact that these people are very busy and come from every province of Canada, the average attendance has been over 18—almost 18½ on the average. I think it is accurate to say that no member of the council has failed to attend a meeting except through his being out of the country or being unable to come by reason of illness. They have shown great interest in the work. The meetings are interesting and long.

I should conclude by saying that in this work the council is starting out on something new, something that had never been tried here—or, for that matter, anywhere else—in precisely this form, though in Britain there is the Arts Council of Britain, which receives a grant of about £1 million a year from parliament; repeated every year. About 60 per cent of that money is spent on the ballet, opera and the Old Vic theatre; the rest is divided around. In the United States, the foundations—of which there are said to be over 10,000, but of which there are, I think, nine having funds of \$100 million or more—have programs which correspond in part to those of the Canada Council, and we have had great cooperation from our American friends. As I say, we have had a great deal of cooperation from everyone in every part of Canada, and it has been a pleasure to serve in this way.

Mr. BROOME: May I ask a general question? I notice under scholarships, fellowships and other grants to individuals, it says: “For the time being, at least, these objectives are taken as not including social work”. Considering that under section 1 aid is given to a bachelor of arts to go on to a master's degree, and considering that for social work degrees, or post graduate degrees, you have to have your B.A., and also that social work has become more and more prominent as a social science—I happen to know that in the University of British Columbia under the United States scholarships, there are students from Burma, Siam, Taiwan, and half a dozen other Far Eastern countries. No one in social work is deliberately omitted from Canada Council?

Mr. CLAXTON: Yes, for the reason that social work, as such, is considered to be a professional occupation; in the same way as some aspects of law and education have been omitted. But if a social worker wants to do a study in sociology, in social sciences, he or she can qualify for a grant for assistance in that work.

The CHAIRMAN: Mr. McGee is next.

Mr. McGee, Mr. Fisher, Mr. Pratt and then Mr. Walker.

Mr. MCGEE: Just to start things off in good humour, I wonder if we could have some explanation of the fall-out, or the dropping out in the seal. Are they tear drops, rain drops, or passing clouds?

Mr. CLAXTON: The seal was done by Commander Beddoe, who I think is the leading authority in this field. This is the tree of knowledge being nurtured by the drops of beneficence.

Mr. MCGEE: They would be dollar bills then.

Mr. WALKER: It is like the University of Toronto coat of arms.

Mr. FISHER: You hope to obtain donations and bestowals from wealthy people in the future, is that not correct?

Mr. CLAXTON: That is correct.

Mr. FISHER: What relationship do you think that money will have, going into the fund, to the relationship which parliament seems to have, or the House of Commons committee seems to have, towards the fund? Eventually, we could reach the stage where private benefactions might outweigh what has been put in by parliament. This may be turning it inside out; but I am wondering; the very fact that parliament may be reviewing this thing and may be able to make certain recommendations, may in the long-run be a deterrent to some benefactors who may be skeptical about the control of parliament.

Mr. CLAXTON: I think the question should be answered in the affirmative.

I may say, of the inquiries we have received—and we have received several from lawyers and trust companies—as to the way in which these kinds of benefactions to the fund might be handled, I think there are two things which struck the inquirers.

The first is, this was set up by parliament as an independent foundation, which would be permanent in character, more permanent even than a trustee. Secondly, I think they were impressed by our investment record. I was hesitant about approaching trust companies and lawyers and notaries, and the like, to draw to their attention the tax and other advantages of the gifts to the fund, until we had a record to show.

Now the investment committee has established a good record of sound investments, with a relatively high interest return, I think we can go to the people with more confidence and ask them to make contributions.

Mr. MCGEE: Is the hon. member skeptical of parliamentary control?

Mr. FISHER: No, I do not want to militate against whatever the parliamentary committee may do, but this could be a very serious problem as the years develop. I am wondering if you have any suggestions, in terms of a sharper definition, as to, let us say, almost the rights and duties of a parliamentary committee. It seems to me we have a real dilemma here, when you project it into the future, especially as we hope there will be sizeable benefactions.

Mr. CLAXTON: It is not for me to suggest to this committee or parliament what it should do. But the fact is the inquirers, almost all of them, have in mind earmarking funds for certain purposes. The technique which we have worked out to deal with it, and which has been submitted to them, involves Canada Council acting as trustee for a special fund. The gift would be put into a special fund and kept apart from the rest of the Council's funds. I think that would be fundamental to our approach to this. Perhaps the first question you asked should not cause too much concern. Also, the benefactors, as a rule, quite properly want their names to be identified with the fund they contribute—the "XYZ" fund. They would frequently want the money to be earmarked for certain purposes—for example to offer scholarships, to a certain group of universities, or for a certain class of work. We have indicated that we will carry out the intentions of any benefactor, in so far as lies within the powers given us by the act.

Mr. FISHER: If you are going to get benefactions that are earmarked, might that not throw the whole ratio of your contributions in various field out of kilter, and might it not eventually lead to much more of your money going into some particular field which has been derelict as far as some of these benefactors are concerned?

Mr. CLAXTON: It might, but for one thing, and that is not our scholarship, fellowship and personal assistance program falls so far short of the need for this kind of assistance today. We could have another \$100 million and spend the income from that as well on helping deserving students. If we were reaching the point where we were covering the field what you suggest might happen. But then it would be very easy for us to help people towards, doctor's degree rather than a master's degree, or else help doctors to publish their learned publications. There would be no difficulty over a space of a year to make a switch to accommodate ourselves to the unlikely event of having too much money in any one field.

I should add one thing. In Wilson Woodside's book on the universities in Canada, he stated there were 3,600 scholarships and fellowships available for post-graduate work in Canada. Of those 270 were available in the field of the humanities and social sciences. So that prior to the coming into force of the Canada Council Act and the setting up of the council, there were only 270 post-graduate scholarships available in these fields. We have added about 500 a year to that number. So that this is a substantial contribution; but it is still not filling the need.

Mr. McGEE: I have a supplementary question to that.

The CHAIRMAN: And then Mr. Pratt, because I know he soon has to leave.

Mr. McGEE: Mr. Fisher raised the question of skepticism of parliamentary control in this field.

Mr. FISHER: Nonsense. A person cannot even ask a question without another person saying that it is skeptical, or something else.

Mr. PRATT: Mr. Chairman, I would like to ask Mr. Claxton if any grants have been made towards architecture?

Mr. CLAXTON: Yes, there have. I could mention some. For example, recently 20 grants were offered to enable professors of architecture at Canadian universities to attend a week's seminar course together. Then a grant was made to the University of Manitoba for the purpose of bringing a Le Corbusier exhibition to Canada for six months—not only for the University of Manitoba, but for others too, at an expense of \$15,000.

The architecture seminar conference for teachers may cost \$5,000; the Toronto city hall architectural competition—you will remember there was a competition for the design of the Toronto city hall. The architects represented to us it would be very desirable to have the results photographed so they would continue to be available in Canada; and we made a grant of \$900. Then for the school of architecture in Toronto—that is what I mentioned before, \$2,500.

Mr. WALKER: Mr. Chairman, with Mr. Fisher's permission, I would like to ask one or two questions.

Mr. FISHER: Granted.

Mr. WALKER: Dr. Claxton—

Mr. CLAXTON: That is the first time I have been called doctor.

Mr. WALKER: With all those qualifications I thought you might be. Dr. Claxton, what were the total grants made to universities? What were the total capital grants to universities for buildings?

Mr. CLAXTON: Up to the present time, \$12,816,000.

Mr. WALKER: What percentage, or what amount of that would be for residences and dormitories?

Mr. CLAXTON: It would be 47 per cent.

Mr. WALKER: I know under the objects of the act, section 8, as set out in the Canada Council Act, page 27 of the opening proceedings, it says:

The objects of the Council are to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences, and, in particular, but without limiting the generality of the foregoing, the Council may, in furtherance of its objects

I also notice under section 9 you have the right to make grants for building construction purposes in furtherance of the objects aforesaid. That is, in the field I have just mentioned.

As a matter of interest, to us laymen, would you be good enough to tell us under what authority in the act or in the regulations in connection with the act were 47 per cent of the grants, of all the capital grants granted for the purpose of building residences and dormitories?

Mr. CLAXTON: Mr. Chairman, the council took the advice of the national conference of Canadian universities, and they represented to us that they regarded residences as an integral part of university life, related particularly to the university work in the broadest possible sense, including what was covered by arts, humanities and social sciences generally.

As soon as Mr. Watson Sellar raised the point about this, we sought legal opinion on it, and I secured an opinion from Mr. G. E. Beament, Q.C., of Ottawa, dated April 10, a copy of which you can have if you wish, advising us this was in accordance with our powers. Once it is legal for us to act in this way, then I think the view of the council is that we can decide what proportion, if any, we should give.

The CHAIRMAN: Do you wish that opinion produced?

Mr. WALKER: Perhaps a little later on. I would ask you another question, first. Mr. Arnold Edinborough, editor of Toronto *Saturday Night*, on March 14, 1959 in an article about culture said:

The Canada Council still goes blithely on dispensing enormous funds for the building of student dormitories. How this disbursement of funds can be justified under the legislation by which the Canada Council operates is not immediately apparent.

Mr. PICKERSGILL: Are questions being asked, or are we having articles read to us?

The CHAIRMAN: This is just laying the ground work for a question, I presume.

Mr. WALKER:

How this disbursement of funds can be justified under the legislation by which the Canada Council operates is not immediately apparent.

There is the question which is in the minds of a great many Canadian people, Mr. Claxton. You have a legal opinion on the subject, which will no doubt be very long and very weighty; but does this appear to you to follow out the spirit of Canada Council?

Mr. CLAXTON: Yes, absolutely.

Mr. WALKER: In what way does that promote culture, being called on to build dormitories?

Mr. CLAXTON: You say this is engaging the attention of a great number of Canadian people. As far as I can ascertain, this is only restricted to one editorial in the Kingston *Whig-Standard* and one written by the same writer,

in the *Toronto Saturday Night* who had moved to *Toronto Saturday Night* during that interval. A reply to this was given by N. A. M. Mackenzie, president of the University of British Columbia, in the *Toronto Saturday Night* of May 9, 1959.

I feel certain that good residences, with adequate and proper staffs, will contribute very greatly to the purposes for which the Canada Council was created.

I should also say there was an article in the *Queen's Quarterly*, which I have and which is available here and to the same effect; and another in *Canadian Commentator*.

Mr. FISHER: Who is that article by in the *Queen's Quarterly*?

Mr. CLAXTON: T. H. B. Symons and R. L. Watts. I do not know who they are. There is something which I think puts this rather more neatly than anything else—

Mr. WALKER: Are special kinds of dormitories needed to encourage the arts?

Mr. PICKERSGILL: Could we not hear the answer?

Mr. WALKER: Go ahead, Mr. Claxton.

Mr. CLAXTON: In the *Financial Post* of June 5, 1958 they said this:

Do university residences, where students live, read, talk, eat and sleep while working for their degrees, promote study and enjoyment of literature, art and philosophy?

Most people, graduates or not, would say they do. It's well known that in any university—

Then he goes on and says this:

Stephen Leacock, if he were still in circulation, might approve of the council's choices.

Then they have a quotation from Leacock:

If I were founding a university, he once wrote, I would found first a smoking room; when I had a little more money in hand I would found a dormitory; then after that a decent reading-room and a library. After that, if I still had more money, I would hire a professor and get some text-books.

Mr. WALKER: I think Stephen Leacock would have had a beer parlor in there. Is that the answer, then? Is that your answer to my question?

Mr. CLAXTON: Yes, this is the view of the council, that dormitories are an integral, fundamental part of a modern or ancient university. All universities are suffering from a lack of them; and the addition of them to the university equipment adds to the work they do in the field of the arts, humanities and social sciences, and is a direct service performed, for which the Canada Council was set up.

The CHAIRMAN: Do you want that legal opinion?

Mr. PICKERSGILL: I think it would be interesting to have it filed.

The CHAIRMAN: This then we will append as an appendix, a legal opinion dated April 10, 1958, from Mr. Beament, of Beament, Fyfe, Ault and Hutton, attorneys of Ottawa.

Mr. CLAXTON: I wonder if the committee would permit me, while I am answering the comments of Mr. Sellar, to deal with his question on the financial year?

Mr. FISHER: I have another question on residences.

The CHAIRMAN: It is now eleven o'clock. Would you like to meet at two o'clock?

Mr. FISHER: Can we go on?

The CHAIRMAN: The Liberal members have a caucus.

Mr. FISHER: Could we go on for half an hour?

Mr. PICKERSGILL: I see no reason why the committee should not proceed, notwithstanding the fact that it is eleven o'clock.

Mr. DRYSDALE: It is a mutual sacrifice; we sacrificed part of our caucus, and you can sacrifice part of yours.

The CHAIRMAN: Then it is agreed we continue. Mr. Lambert?

Mr. LAMBERT: Turning back to the point that was raised by Mr. Fisher, on the matter of the differentiation in the fund received—the possible fund received—under public endowment, I wondered whether Mr. Claxton felt that that formed part of the responsibility of reporting back to parliament? Admittedly, under section 20 of the act the council is empowered to receive and administer these moneys and to maintain them in separate funds; but then there is no differentiation as to its responsibilities for the accounting of such funds, and I am wondering—this may have been Mr. Fisher's problem; it certainly is mine—does Mr. Claxton feel that that, too, will be an integral part of its report back to parliament, and perhaps there might be some revision of the draft here?

Mr. CLAXTON: This has been the first time this has been raised with me, and all I can answer you is through the basis of my personal experience. I would say, yes, a transaction in connection with a benefaction made to the council would naturally be included in its reports, its financial statement, and therefore would be laid before parliament. But I would think that the report in respect of such benefaction, and the accounts in respect of such benefaction would be in separate parts, and I would think that after that report had been laid before parliament, parliament and this committee, in its wisdom, would not pay too much attention to that part of the report and statement.

Mr. LAMBERT: What bothers me is this—and this is a supplementary question. Parliament, in this act, has laid down a certain line of conduct in general terms for the Canada Council, yet the Canada Council is empowered to receive these funds on the terms upon which they are made available to the council, which may be completely contrary to the general terms of the act?

Mr. CLAXTON: Yes.

Mr. LAMBERT: And yet parliament is charged with looking at the activities, and here, under the final section—the reporting section—you are obliged to report back to parliament and this committee is then charged with making a review. I would submit there is some inconsistency here.

Mr. CLAXTON: I do not see it, with all due respect.

Mr. DRYSDALE: What about a grant to social work, as Mr. Broome has suggested?

Mr. CLAXTON: We would include that in a special report, an annex to our report, which would be filed with parliament.

Mr. FISHER: That does not mean you would get off into the field of social science itself?

Mr. CLAXTON: Yes.

Mr. FISHER: Or theology?

Mr. CLAXTON: Yes.

Mr. FISHER: I want to come back to residences. I might preface my question by saying that I do not represent a rooming-house district, like Mr. Walker, so I am detached in this.

Mr. WALKER: I am very proud that I represent Rosedale, which includes cabbage town and Regent Park, the most modern housing development in Canada.

Mr. FISHER: There is a misunderstanding, from my experience, around universities about the humanities side of this residence business. I have heard it from at least two different universities. One of the ways residences qualify is because they put in a reading room and a small library, and this is really an arts and humanities integrator, so I understand. Is there anything to that?

Mr. CLAXTON: On page 42 of the report you will see the conditions under which grants are made out of the university grants fund. It is paragraph 5(c) on page 42.

The buildings in respect of which the council may allow a grant are buildings for the arts, humanities and social sciences and, without limitation of the foregoing, may include

(c) students' residences, provided they have a library and reading room considered adequate.

Mr. FISHER: I am a librarian, and I would like to know what is considered adequate?

The CHAIRMAN: Then perhaps you can answer your own question.

Mr. CLAXTON: Could I ask Dr. Trueman to answer that question. He has been a president of two universities and he is well qualified to answer your question. He also administers this section.

Dr. A. W. TRUEMAN, M.A., D.Litt., LL.D. (*Director, The Canada Council*): Mr. Chairman and members of the committee, we have not set down a formula or a specification. We examine these plans carefully when they are submitted to us to see that there is a room which could be used as a reading room and a general meeting room which seems in proportion to the number of students which the building holds. We have asked the universities if they will provide, in connection with the room, a general list of books and periodicals and that which would constitute a good reading room for say, 100 men in a residence. We have not said there must be so many books per man because that is an arbitrary thing.

Mr. FISHER: You do not require the collection to be catalogued as an integral part of the university collection?

Dr. TRUEMAN: No. Our point was that the virtues of having students of different disciplines living together in a proper hall or residence should, to be most effective, have a room in which they may read a small collection of books and periodicals. Most of the plans that have been submitted to us contain not only—library is too grand a term—a reading room, with a collection of books, but a music room and a room where they can play records and, in some cases, television has been discussed.

Mr. FISHER: Your experience with university residences has been such that you feel that these kind of reading rooms fill a real function, can be looked after properly and really contribute something?

Dr. TRUEMAN: Yes, indeed.

Mr. FISHER: I am sorry, but I have to disagree.

Dr. TRUEMAN: I do not say that the justification of building a residence depends solely upon their having a reading room. We want to have it, but it is not the sole justification.

Mr. FISHER: Well, that is partially satisfying, because in this connection I have been around enough residences to know that you cannot control that kind of a collection unless there is an administrative check by the library itself; otherwise, who is responsible for the collection?

Mr. CLAXTON: I might say this, gentlemen. About a year ago I was asked by the department of political science of Queen's university to go and meet some of their senior students and give them a talk. We met in a students' residence. There were forty people present. In the room next door there was another students' meeting going on dealing with some aspect of literature and in another room on the same floor of this residence at Queen's there was music being played to a group of students who were listening to it from a high fidelity reproducer. I felt this was making a contribution in the field of the arts, humanities and social sciences.

Mr. FISHER: I worked at Queen's a couple of years and I must remain skeptical.

Mr. MCGEE: Mr. Fisher was reluctant that I should introduce the question of skepticism in connection with parliamentary control, but here we have an example. He has a view which I share, which is in conflict with the feelings of the Canada Council, and this is why I raised the question of skepticism. It seems to me that this act in its origin and development was based on that skepticism, and I wonder if as a result of the experience to date the witness shares that skepticism of parliamentary control or parliamentary participation in the policies and terms of the Canada Council.

Mr. CLAXTON: It is not for me to interpret an act of parliament, but I would suggest this: even if the committee has as little power as was suggested by you in your original question to Mr. Sellar, even though the views of the committee do not appear in a resolution or in a report and even though they are not adopted by parliament, the fact that these discussions take place and different questions are raised, cannot fail to be taken into account by the Canada Council. I do not say it is precisely the same as thoughts of a newspaper editor, but I would say that very much more weight would be attached to your considerations.

Mr. MCGEE: In other words then, the opinions expressed by the elected representatives of this committee would carry less weight than those expressed by a newspaper?

Mr. CLAXTON: No, the opposite.

The CHAIRMAN: Was not one of the reasons for The Canada Council having a great deal of independence to avoid any form or shape of nepotism?

Mr. CLAXTON: I do not know about the use of the word "nepotism".

Mr. WALKER: What do you mean by that word?

The CHAIRMAN: I mean to be as independent and judicial as possible in the awarding of scholarships.

Mr. PICKERSGILL: As a matter of fact, I would like to make an observation based on one made by Mr. McGee. I happen to be the only person in this room who in fact had anything to do with the decision to introduce this legislation into parliament. I think that if there was anything that was clear from the whole record in connection with universities of every kind, it was that the people who introduced this legislation and, I think, most of those who supported it, felt the views of the national conference of Canadian universities should carry the very greatest possible weight; because when the current grants to universities were taken away from the treasury for distribution, it was to that body they were given. It seems to me the Canada Council would be interpreting pretty clearly the views of those who sponsored the legislation. I think the majority of those who supported it in parliament felt that the national conference of universities should have a say as to how this building fund was to be used, so long as it was done within the law.

Mr. FRASER: But it also clears with the council because it lets them off the hook, because it is the conference of universities that are responsible.

Mr. CLAXTON: We are not off any hook.

Mr. FRASER: But if the council gave a grant to one university without the conference of universities sanctioning this, they would be in dutch.

Mr. CLAXTON: Not at all.

Mr. FRASER: They likely would be because another university would say that they did not get as much.

Mr. PICKERSGILL: If I understood Mr. Claxton correctly, it was the criteria you consulted the conference of universities about, and not the distribution of the money?

Mr. CLAXTON: That is right.

Mr. DRYSDALE: I think to a certain extent I share the skepticism of Mr. Fisher in regard to the university dormitories. You quoted Mr. Mackenzie. I think the University of British Columbia is unique because of its isolation from downtown. I wonder if any differentiation is made between a university that is relatively isolated and where dormitories are a necessity, regardless of the library and reading room, as opposed to universities like McGill or Toronto which have a more central location. Does that factor of isolation make any difference?

Mr. CLAXTON: The Canada Council does not go out and find residences to which it will give money. We have earmarked for planning purposes funds for each province and for each institution within the province. Each institution knows that money is there. Now, so long as it keeps within the broad language of the act, each institution is the sole decider as to what it will use this money for, because as long as it gives us a plan which is adequate and a system of financing which indicates that it has the money and can put up 50 per cent and that the purposes are generally within the terms of the act, that money is there waiting to be received. Now, every university in Canada—I mention "every" university—there may be an exception, but out of the 91, I think nine-tenths will need far more, a far larger amount of money than they have earmarked for them by the Canada Council for building purposes for the arts, humanities and social sciences. However, those terms are described within the next ten years. They are doing their programming, depending on the Canada Council money being available for them, so they can plan their progress in an orderly fashion.

If the University of British Columbia, having already got a very fine arts building, to which the Canada Council and the province of British Columbia made substantial contributions, feels it now needs residences which conform to the qualification I have indicated to Mr. Fisher, then that is a thing on which the University of British Columbia is the best judge. Therefore, in acting in that way the Canada Council is acting in accordance with the unanimous opinion of all the universities across Canada. The broad purpose of the act was to help the universities in the fields of the arts, humanities and social sciences. So we are convinced—and we have legal authority for saying so—but without the legal authority we are convinced this is what the universities want. We are convinced this is in accordance with the terms of the act. We are convinced that not to carry it out would be doing something contrary to the purpose of the act and to the desires of the universities and their real needs.

That is the view of the council; and in arriving at that view we have taken the advice of the people who are most concerned with this \$50 million universities capital grants fund, and that is the universities themselves.

I repeat, there is no doubt but that those universities will want in the next ten years or so far more than \$50 million in matching the grants to construct buildings for the arts, humanities and social sciences.

It seems to me that out of one newspaper editorial and one comment by Watson Sellar—for whom I have the greatest possible respect, of course, and I think that he was quite right in bringing it to the attention of parliament—you are devoting, if I may say so, a very considerable proportion of your time to this point.

Just in conclusion on this, I may say that the view we take—and this is shared by, as far as I know, all the educational authorities, including those at Oxford and at Cambridge—they regard the residential factor as being one of more importance—and I am serious about this—than the teaching factor.

The people who have been at Oxford and Cambridge—and there are, at least, three in this room that I know of—know that is true. It is a fundamental part of university life. Residences are more needed in a great city than they are in another locality.

Mr. WALKER: Surely you are not suggesting, that to promote the arts, humanities and social sciences this will be done by funds being allocated to the building of a dormitory?

Mr. CLAXTON: To the building of a college residence.

Mr. WALKER: A dormitory?

Mr. CLAXTON: Yes, certainly.

Mr. WALKER: On which a lot of this money is being spent? You are not serious about that, surely? You are getting the highest faculty of education, at Oxford—

Mr. FISHER: Not necessarily.

Mr. WALKER: In the opinion of the speaker, no doubt. But supposing a grant were given to Oxford university for the promotion of the arts, and of humanities, are you suggesting there is a possibility that it would be devoted to building a dormitory?

Mr. CLAXTON: I am still of the opinion it would be perfectly proper for that money to be spent on the building of a students' residence.

Mr. WALKER: Do you?

Mr. CLAXTON: Yes, I think it could be. By the way, on that we have a report of the British university grants committee. I might read it, if you would like me to.

Mr. WALKER: Is it relevant?

Mr. CLAXTON: I think so.

Mr. WALKER: Are you talking about grants for the arts and humanities, for the promotion of that? This is what this Canada Council was established for, and it is set out in section 8 of the act.

When you say there has been only one editorial, that may very well be so; but there is a lot of questioning in the minds of the public on the allocation of the money.

Mr. CLAXTON: I think this article is relevant, if I may say so. This is the British university grants committee and these are extracts from the report of the subcommittee on halls of residence to the university grants committee.

The vice chancellor of the University of Manchester stated to the university court on May 11, 1955, "We can confidently say that we are offering our students good educational facilities . . . but too few are learning to undertake responsibility, to find a real purpose in life, to acquire poise and to develop those qualities of character and personality which are essential for leadership. Experience has convinced me that the only way to remedy this defect is to take steps to become ultimately, and as quickly as possible, a residential university."

Then there is this extract:

But a hall of residence can, and often does, mean far more than a place in which to eat and sleep. From the establishment founded by nineteenth century pioneers to house students who came from a distance, the hall has grown into an institution in its own right, with important educative functions. We believe that its educational possibilities are great. It can provide the student with a society to which he really belongs. In it he will have the stimulus of free and informal discussion among a wide variety of his contemporaries. The experience of living with others, the friendships he makes, his every-day contacts with people from very different backgrounds, all extend his social experience; and if his hall has the right spirit these social experiences will not be divorced from his intellectual life. Moreover, the academic influences which should surround the resident student have time to sink in and become effective, for unlike the students in homes and lodgings he does not have to adapt himself to a daily jolt into another world. The witness who deplored the "nine to five mentality" added that a good hall was the place in which to lose that outlook. For the resident student, university experience is not connected only with the place where he works by day, but with the whole of his life at one of its most vigorous and impressionable stages.

It goes on—and I will not weary you, but I submit with confidence that kind of activity and life described in the extracts, as I have just said, is to the benefit of work in the arts, humanities and social sciences.

Mr. DRYSDALE: Do you suggest dormitories for members of parliament?

Mr. PICKERSGILL: Let us not be facetious.

Mr. DRYSDALE: I am not being facetious.

Mr. WALKER: You were good enough to tell us you allocated to the different provinces an amount at the capital fund; you pro-rated them according to population.

Mr. PICKERSGILL: Parliament did that.

Mr. WALKER: Parliament did, for each of the provinces. Have you got the amount for the province of Quebec?

Mr. CLAXTON: Yes, that is right.

Mr. WALKER: You have that separate?

Mr. CLAXTON: Yes.

Mr. WALKER: That has not been taken up yet?

Mr. CLAXTON: Yes. It is not separate; it has not been spent; it is in the funds of the council.

Mr. WALKER: But there is a fixed amount for Quebec?

Mr. CLAXTON: Yes.

Mr. WALKER: Are you also allowing the province of Quebec to have interest on that share which has been allocated to it?

Mr. CLAXTON: There has been no allocation of interest as between the various provinces yet. There are technical accounting reasons I do not need to go into here, why we do not want to allocate interest until we approach the period when each of the institutions have drawn down their full amount.

Mr. WALKER: Quebec has had so much allocated to it so far, is that right?

Mr. CLAXTON: Yes.

Mr. WALKER: How much is that?

Mr. CLAXTON: \$14,419,000. It appears at page 41 of the report.

Mr. WALKER: Thank you. Would it not be fair, in view of the fact that amount has not been used by Quebec yet, they should be allocated the interest on that sum?

Mr. CLAXTON: They would have the aliquot,—if I am using the correct word—interest in the interest on the whole sum.

Mr. WALKER: But most of the provinces have used part of their fund?

Mr. CLAXTON: Yes, but none of them has used any of the interest.

Mr. WALKER: Exactly; none of them has used any of the interest; but the full amount of the province of Quebec fund remains intact, and does not that fact entitle them—because they have not used theirs and the other provinces have—should they not be entitled to the interest on the total amount allocated to them?

Mr. CLAXTON: When the time comes for the province of Quebec institutions to draw down the money,—if it does come,—then they will receive the appropriate amount of interest from the fund as a whole.

Mr. WALKER: From the time the amount was set aside for them?

Mr. CLAXTON: No, that is not the way the interest is being dealt with, so far.

Mr. WALKER: I appreciate that, and that is why I am raising the question. You see the point, do you not?

Mr. CLAXTON: Yes, but I do not think there is a point in it.

Mr. WALKER: You do not think there is a point in any of the questions raised this morning, do you?

Mr. CLAXTON: Yes, I do. I think the accountants would be able to tell you that the way the council has been to handle the interest is to keep adding it to—

Mr. WALKER: To the general fund?

Mr. CLAXTON: Yes, to the general fund.

Mr. WALKER: That is right.

Mr. CLAXTON: At a later date, when the general fund is re-allocated in proportion to population, interest will be allocated in proportion to those allocations.

Mr. WALKER: Up to the present time, if the province of Quebec had spent the money which it could have spent, it would have amounted to several million dollars. The fact it has been saved in a separate fund for the province of Quebec, should they not be allowed interest for the fund that would have already been expended?

Mr. CLAXTON: The province of Quebec money is not in a separate fund. It has been earmarked for the Quebec institutions, and no separate fund has been set up. If a separate fund had been set up for each province, then I think there would be no doubt but that interest would be accumulating, as you described it. But that would not be the practical way of working the finances of the council, I do not think.

Mr. WALKER: Do you not think it would?

Mr. CLAXTON: No.

Mr. PICKERSGILL: Mr. Claxton, is it not true that in those provinces—because it does not go to the provinces, but to the universities—in those provinces where there is not much drawn in earlier years there will be a proportionately higher share of the interest in the later years?

Mr. CLAXTON: That has not been decided.

Mr. WALKER: That is what he said.

Mr. PICKERSGILL: He did not say anything, one way or the other.

Mr. CLAXTON: That has not been decided, as a matter of policy, by the council. At the present time we are working on the basis of 91 universities or equivalent institutions. Already, since the council came into existence, in two years the number has increased from 86. This allocation for planning purposes has to be constantly adjusted within each province. How the interest will be dealt with pursuant to the adjustment has not yet been decided by the council. But, unquestionably, it will decide when the time comes to deal with interest, it will in proportion to the amount, at least, of the original allocation, province by province. The answer to you is that you will get for Quebec what you think Quebec should have.

Mr. PICKERSGILL: That is precisely the point.

Mr. BELL (*Carleton*): I would like to ask Mr. Claxton here if the entry of Canada Council has resulted in any lessening of the benefactions in Canada of the great private foundations?

Mr. CLAXTON: The American foundations?

Mr. BELL (*Carleton*): The Rockefeller foundation, Ford, and the Carnegie.

Mr. CLAXTON: They assured us they have not; so far as we can judge, they have not. But you do have things like, for instance, grants to the humanities research council by the Rockefeller and Carnegie, which were being ear-marked to them for five years. The five years are coming to an end, and the grants are coming to an end and are not being renewed. They would not have been renewed anyway, because it is the practice of Rockefeller and Carnegie not to continue making grants indefinitely to an institution.

We have been assured by them they have not made any reductions.

Mr. BELL (*Carleton*): What is the degree of liaison between The Canada Council and these individual foundations?

Mr. CLAXTON: We work closely with them from the point of view of exchanging views as to administrative problems, and the like. We do not exchange views as to applications. The practice of the American foundations is not to exchange views as between other regarding applications. They do not do it with regard to each other; and they would not do it with regard to us. This would get them into very bad relations with the universities.

Mr. BELL (*Carleton*): May I continue on another matter, in connection with university funds? I recognize, of course, the population basis which is used is a statutory base.

Mr. CLAXTON: Yes.

Mr. BELL (*Carleton*): I am only asking this to see whether there has been consideration given by Canada Council to any other base which might work more fairly, certainly to the provinces, and particularly the maritime provinces who believe, at least, they are discriminated against by the use of that base. Would Canada Council have any recommendations as to an alternative which, of course, would require an amendment to the statute?

Mr. CLAXTON: No, we would not, and our view would be that the educational institutions in the maritime provinces, having been established a longer time than those in the western provinces, have a larger proportion of their capital necessities met by existing buildings and have a smaller need for capital assistance for building construction than the rapidly growing universities like Saskatchewan, Alberta and British Columbia.

Mr. BELL (*Carleton*): So such discrimination as exists in the university grants, you would say does not exist in the capital grants system?

Mr. CLAXTON: That is right.

Mr. BELL (*Carleton*): May I refer to one other matter. I notice on the chart the total amount given for opera is \$60,000. Is that grant made entirely to opera companies in the one area?

Mr. CLAXTON: It is all the Opera Festival Company for two tours covering Canada and for work at home base.

Mr. BELL (*Carleton*): That is the Toronto company, is it?

Mr. CLAXTON: The opera festival association.

Mr. BELL (*Carleton*): Of Toronto?

Mr. CLAXTON: Of Toronto. It is just in the process of changing its name to the national opera. If I might, I would show another chart here, which shows the assistance given, the way in which assistance is given by the Canada Council to various organizations, worked out for the months of October, November and December, 1958; that is, for the period not covered by this annual report as there was not so much doing the year before. You have the Canadian players playing in Romeo and Juliet and Pygmalion, and they are at Halifax, Bridgewater, Liverpool and Yarmouth. They played As you like it and the Devil's Disciple at Orillia, Cobourg, Brantford, Sudbury, North Bay, Owen Sound, Brockville.

The Halifax symphony orchestra played at Corner Brook, Grand Falls, St. John's, Newfoundland. This, I may say, was the first major cultural—it is the first time I have used the word—musical organization to visit Newfoundland from Canada with a grant of the necessary expenses. I say that because, you see, I date from before the union.

We were able to get a service aircraft to fly the orchestra over, and that visit covered pretty well the whole of the island. It was also received by the school children and played to the air force of the United States at Harmon Field and our air force at Torbay. This was a very useful activity. It cost \$5,400, whereas taking an orchestra of that type by chartered plane would have cost \$60,000. The Jeunesses Musicales du Canada, on Circuit A, Presti and Lagoya, guitarists, played at Ste. Anne de la Pocatière, Montmagny, Rivière du Loup, Matane, Rimouski, Bathurst, Moncton, Baie Comeau, Québec-Montcalm, Lévis, St. Georges de Beauce. That was in October, 1958.

In December there was the western tour of Guy Fallot, cellist, and Opera Festival Association of Toronto played in November, in Whitby, St. Thomas, London, Windsor, Kingston, Moncton, Saint John, N.B., Wolfville, Halifax, St. Joseph, Sackville and Charlottetown.

Then "Le Théâtre du Nouveau Monde", in October and November, played a tour right across Canada, as well as in Brussels and Paris. All these organizations were assisted by Canada Council. The organization asked the Canada Council for assistance and we gave it to assist them in overcoming the geographical difficulties in connection with making these tours. With regard to the places outside the home base of the associations, to a considerable degree they were assisted by Canada Council grants.

Mr. BELL (*Carleton*): If I might come back specifically to the grants for the encouragement of opera—to put it directly, I am receiving very considerable complaints in the national capital area that the grants for opera go to some areas of the country only, and the grand opera association of the national capital area has not been able to make any impact upon the thinking of the council. Would you state why that situation is, and whether there is in fact any geographical or other discrimination?

Mr. CLAXTON: No discrimination whatever—but no grant. I think the answer must be evident, that across Canada from St. John's, Newfoundland, to Victoria, Vancouver Island, there is a number of amateur opera organizations; there is a large number of amateur orchestras and theatre groups. These run into thousands, I assure you. We have lists of them, and we know

where they are. We have had applications from numbers of them. It is outside the power economically, of the Canada Council to assist all these, so that being limited with regard to funds and we have followed the practice followed in the United States and in Britain of singling out a number of leading organizations and endeavouring to enable them to put their opera players and orchestras on as near a full time basis as possible. This is the only way in which we can build up opera in this country, and if Canada can afford to have one pretty good opera organization on a professional basis, that will be about as far as we can expect to go.

Mr. BELL (*Carleton*): Does not that theory involve the possible collapse of all others?

Mr. CLAXTON: No; they have got along very well until now. This is another thing—

Mr. MCGEE: Is this theory that you seem to be stating here, that rather than support all the roots of culture—if I may use the word—you support the goal? In other words, at the higher level, whether it is in opera or ballet, you support the highest and the best developed of that particular culture form in the hope that this will provide a goal towards which these root organizations might attain: is this your operating principle?

Mr. CLAXTON: That is part of it; and I should add, not only does it provide a goal, but it also provides an avenue for professional work towards which the players can themselves strive, so that we could employ Canadian artists full time in Canadian musical organizations—a very desirable thing. But we must combine with that a recognition that Canada has 10 provinces and is stretched across six time zones, and is near to the United States. Our problem is to combine these two objections but without spreading our money so thin that it will not be any good.

We have a program for assistance for the drama, for example, whereby we assist the dominion drama festival by a grant of \$10,000 to hold the final festival. We assist in the payment for the publication of plays that have been winners at drama competitions. We give some assistance towards the qualification of directors. We assist eight choirs across Canada in the major centres, choirs which have achieved, not only a recognized standard of excellence, but also which sing more than just one or two concerts a year and more or less cover the area in which they are located. We have helped this year 10 major orchestras in different parts of Canada, with total grants of \$181,400.

Mr. WALKER: Could you pause there for a moment? I am interested in that grant. The Montreal orchestra, for instance, got a very substantial grant; the Toronto orchestra did not. Just as a matter of interest, how would you decide to allocate—

Mr. CLAXTON: Both of them got exactly the same grants, \$25,000.

The CHAIRMAN: The Toronto orchestra got \$25,000 this year?

Mr. CLAXTON: Yes.

Mr. WALKER: I have no complaints, then.

Mr. BROOME: In regard to UNESCO—

The CHAIRMAN: I am sorry, Mr. Broome; may I interrupt? Mr. Fisher, Mr. Lambert, Mr. Drysdale and Mr. Walker have questions to ask.

Mr. WALKER: I am on the same subject of national opera, if you want to finish one subject before you go on to another—

The CHAIRMAN: Have you any objection, Mr. Fisher?

Mr. FISHER: No.

Mr. HELLYER: Is it not true that this proposed national opera which happens to be situated in the city of Toronto, is the outgrowth of a series of stages of more or less continuous growth over a period of a dozen years?

Mr. CLAXTON: That is right. By the way, I have found here in the memorandum that name I was looking for—it has changed its name to the Canadian Opera Company.

Mr. WALKER: It has been sort of the focal point of operatic activity, and to it has come operatic talent, not only from all over Canada but from many European countries as well.

Mr. BELL (*Carleton*): That is the fear I have—in being the focal point, it might become exclusively so.

Mr. WALKER: It is truly national, to start with, is it not?

Mr. CLAXTON: Yes, and it is the only opera company, I think, that has played extensively in all parts of Canada. We are sending it on a tour of the maritimes and the west. It has artists like Miss Ilona Kombrink, who won at the Metropolitan auditions last year, and Miss Teresa Stratas, who won it this year. Miss Stratas was the recipient of a Canada Council grant, incidentally, before she won this award. The opera has a group of professionals as directors, conductors, set designers and stars, which make it an opera company of genuinely national proportions.

Mr. WALKER: Is it not also true that for a country with a population such as ours, it would only be reasonable for it to support one opera company of a national character?

Mr. CLAXTON: Exactly. I would say it is very doubtful indeed if we can even do that; very doubtful indeed. In England, the Arts Council of Britain gives about half a million dollars a year—or the equivalent—to Covent Garden opera alone. That, of course, follows the practice of picking out the best and only giving to it. It supports the Royal Ballet, Wells, Covent Garden, the Old Vic, the Carl Rosa opera company, and five symphony orchestras.

Mr. WALKER: Would you agree with me that this organization and its ultimate goal is worthy of continued and increasing support, and it would be nice if it could get its own national opera home?

Mr. CLAXTON: I think Mr. Taylor, through the construction of the O'Keefe Breweries, is providing a very suitable opera home in Toronto. Of course, construction is going on; it would not be a good thing to duplicate it.

Mr. FISHER: Mr. Chairman—

The CHAIRMAN: Mr. Smith was on the same subject, I think.

Mr. SMITH (*Calgary South*): Mr. Chairman, may I ask a supplementary question? Mr. Walker was apparently satisfied because Toronto did get \$50,000.

Some hon. MEMBERS: \$25,000.

Mr. SMITH (*Calgary South*): All right, \$25,000. But I think his question should still be asked; and that is, the basis of determining the grants. I am rather suspicious that it is the policy of the rich getting richer and the poor getting poorer. These symphonies are playing to far greater audiences, and, therefore, having far larger revenues and obtaining much more money than those who cannot draw the same audience and, therefore, have not the same income.

Mr. CLAXTON: I would answer you this: that the Toronto symphony orchestra is an orchestra of professional players who are virtually full time. It is an orchestra which ranks among, not the best in the world, but among the great orchestras. It is a very good orchestra indeed.

Mr. WALKER: It is the best in Canada.

Mr. CLAXTON: It has an annual budget, too.

Mr. SMITH (*Calgary South*): Perhaps I could just ask you this question. What is the basis of determining the grant?

Mr. CLAXTON: The basis is: the need of the orchestra as demonstrated by the amount of money it raises and spends itself. You see here, the Canada Council in 1958-59 gave \$174,700 to ten major symphony orchestras. They, themselves, raised from their box office receipts \$545,434. From other grants they received \$718,416, so they had total receipts of \$1,263,850. The Canada Council gave \$174,700. There are other orchestras, such as—well, I had better not mention names; but we have had applications from another dozen orchestras. What we are doing is this. We are having Mr. Kenneth LeM. Carter, C.A. a senior partner in the firm of McDonald, Currie & Co. in Toronto make an economic survey of the orchestra situation in Canada to find out how much they cost, where they get their money from, how much they need and so on. We are also hoping to get a distinguished conductor from abroad to conduct these orchestras as guest conductor. He will make a report to the orchestra committees as to what he thinks of them and what they need. This will be for their own information. On the basis of this we may modify our program, but it can only be modified by either giving less to other orchestras or less to other organizations, because all the money available to The Canada Council is earmarked under the program as it is today.

Mr. SMITH (*Calgary South*): Let us mention names, if we may. We mentioned Toronto, which receives \$25,000. Supposing we have a city which is in the position where it has not been able yet to establish its symphony or one which is just about to establish a symphony. Based on your formula, they would receive a grant in relationship to what they had been able to raise partly—

Mr. CLAXTON: No.

Mr. SMITH (*Calgary South*): And partly what they are able to spend. The two are part of the equation.

Mr. CLAXTON: No. Under our present plan, we would only give to that orchestra, if it was one of the leading orchestras in the province, if it was playing to a number of audiences at its own base and giving concerts to outside communities, and also giving concerts to children. In other words, it could not satisfy our requirements unless it had a considerable number of full-time professional musicians.

Mr. SMITH (*Calgary South*): Therefore, that really supports my argument; it is almost impossible to get into this league and if you want to form a symphony, you have to meet all these things before you can get a grant. It is a case of the rich getting richer and the poor getting poorer.

Mr. PICKERSGILL: I have a supplementary question to Mr. Smith's. Do you know whether there is one orchestra in Calgary or are there still two?

Mr. CLAXTON: One.

Mr. SMITH (*Calgary South*): Another irrelevant question.

Mr. DRYSDALE: How many are there in Newfoundland?

Mr. CLAXTON: I could read off the orchestras in receipt of grants today. They are Calgary, Halifax, Montreal, Quebec, Ottawa, Toronto, Vancouver, Victoria, Winnipeg, Edmonton—there is one in every province except Saskatchewan.

Mr. WALKER: My friend is under a misapprehension when he says the rich get poor and the—

Mr. SMITH (*Calgary South*): Please get my statement correct.

Mr. WALKER: Is it not a fact that every orchestra has a deficit every year which has to be made up by private subscriptions?

Mr. CLAXTON: Yes.

Mr. SMITH (*Calgary South*): Of course, that is expected.

Mr. FISHER: I have four different questions. The first one is a follow-up on Mr. Bell's question, that is, by statute you are fixed in your university grants in so far as so much to the provinces is concerned, but you have gone further and divided it within the province upon the basis of the number of undergraduates and graduate students proceeding to degrees. The latter is not statutory.

Mr. CLAXTON: No.

Mr. FISHER: Is it not possible this is going to militate against the smaller colleges where the need is greater?

Mr. CLAXTON: If that is so, we will change the policy.

Mr. FISHER: Well, that is so, because there are a number of new colleges which would like to benefit. Since the Canada Council deals so much with the universities through the national organization of the universities, what will keep the whole relationship from becoming a stereotyped procedure according to some prefabricated arrangement of the university heads?

Mr. CLAXTON: The Canada Council has 21 members and you will see they are not only representatives, but people with broad experience. They have strong personal views and I think they will ensure that cooperation with the universities works to the advantage of the Canada Council.

Mr. FISHER: There is a vulnerable point here and it is that almost all Canadian universities depend so much on provincial grants. That is the reason for the hesitation in Quebec. What arrangements are you working out with the provincial authorities who may balance what they are going to give by what you are going to give.

Mr. CLAXTON: Well, I think it would happen about the way you say. The provinces would know what we have earmarked for each of the institutions and the institutions, as a matter of fact, would use that as a selling point to the province in its approach for an additional grant. The fact the Canada Council is making a grant would more likely lead the province to make a larger grant than the reverse.

Mr. FISHER: Now, in connection with this residence matter—and I think I have the right to state that I was not influenced by Mr. Edinburgh on my views in this matter—is it not true there is a trend today in almost every Canadian university to draw from a regional and surrounding urban area rather than drawing from a distance?

Dr. TRUMAN: I do not know that there are any statistics that will support that.

Mr. FISHER: Certain universities have compiled them. If three-quarters of the students of the University of Toronto are residents of that area, the fact is you may by developing residences still encourage the arts and humanities, but it is still going to leave some of the students in the universities outside of that.

Mr. CLAXTON: The University of Toronto would be the one that would decide what it is going to apply for, and would not apply for a residence in the condition you describe.

Mr. FISHER: Looking at it the other way, is it not possible that these residence grants may act to impair the building of certain colleges that are trying to reach out beyond their sphere?

Mr. CLAXTON: No. The University of Toronto has announced a \$52 million building campaign involving a building for the arts and various of the humanities and social sciences, and residences. They have said they look to the Canada Council for some of that money. The money is earmarked for them and it will be available. I venture to say that if they limited their

application to buildings for the arts alone it would use up all the fund earmarked for them under the plan.

Mr. FISHER: I have a further question in connection with the residences. As I understand it, there is a fairly concerted effort on the part of the universities to get the federal government to provide Central Mortgage and Housing Corporation funds for the construction of residences; have you heard about that?

Mr. CLAXTON: Yes.

Mr. FISHER: Is not the very fact you may be contributing to residences going to be a factor in whatever decision is made in this particular field?

Mr. CLAXTON: I would not think so at all.

Mr. FISHER: Well, I will not go on and express an opinion in this particular regard.

Mr. HELLYER: Where do C.M.H.C. get the funds?

Mr. CLAXTON: I will answer Mr. Fisher by saying that every university among the 91 is going to do far more construction than double the amount of money we have earmarked for it and, in our view, no problem arises. All these universities are going to need more money for construction for the arts, humanities and social sciences than parliament has made available through the Canada Council.

Mr. FISHER: That is obvious and that is why we are wondering why you are pumping so much to them in the form of residences.

Mr. CLAXTON: We are not. When they make an application to us we act on it, if it comes within the policy declaration we have settled, after talking with them.

Mr. FISHER: What is your policy in so far as your scholarship and awards side is concerned in connection with grants to members of the regular clergy?

Mr. CLAXTON: If an application came in from a member of the regular clergy for work in the arts, humanities and social sciences, he is considered precisely the same way as any other applicant. The fact he is a clergyman is no disqualification; but it is the view of the council that religion as such does not come under the arts, humanities and social sciences. We have made a number of grants to members of the clergy and religious orders.

Mr. FISHER: You have had no indication on the scholarship and awards side that there have been any applications turned down from the province of Quebec on the basis of federal-provincial education—

Mr. CLAXTON: No, we have had a large number of applications from Quebec on which we have acted.

Mr. LAMBERT: Mr. Chairman, I wonder if Mr. Claxton could give us a brief rundown as to the method used for screening the applications say, on scholarships; what personnel are used for it and what criteria you look for in the decisions that are being made.

Mr. CLAXTON: Well, if I might take one of the categories and follow it through, I will do so. We will take the applications received from people working for a Ph.D.; it is category 2. We had 377 applications in 1959-60 and 110 awards were made. Applications were made following the distribution of the specifications which offered a fellowship of an average value of \$2,000, plus allowances for necessary travel for study and research leading to a doctor's degree. It is tenable in Canada or abroad for one year, with the possibility of renewal for a smaller amount in accordance with the nature of the program proposed. In this case applications must have reached the council by January 10, 1959. They all know about it. They get a set of application forms either from the Canada Council or their university. They

fill them out and send them in. They are to be received by the council before January 10, 1959. Recommendations by two people who know their qualifications and work should also be sent in. These applications are screened by the council staff. If they are in order and the work is to be done in the field of humanities, then the application is sent to Dr. John Robbins, the secretary of the Humanities Research Council. He has set up in advance a panel which usually consists of six professors from various parts of Canada. The applications are then sent to them for their consideration. The members of the panel send in their reports individually to Dr. Robbins and he collates them. Then a meeting of the members of the panel with Dr. Robbins and usually a member of the Canada Council staff, although it is not necessary, meets in Ottawa. They are all rated. It is extraordinary, but as a rule we find that two members of the panel know the applicant and it is also extraordinary to find out that their rating made in advance, the scoring points—ten, nine, eight, seven and so on—are virtually identical. Then those applications, with the attached recommendations from the panel, go to the director of the Canada Council and he examines them with his staff. If they are in order and it appears that these people did correctly interpret the act and so on, they are then put before the Canada Council at the next meeting and they are considered together with the report and the final say is made by the Canada Council. I think that is in accordance with the practice followed by all scholarship and awarding organizations.

Mr. LAMBERT: Although the formal approval is given by the directorate, do they make any assessment of the qualifications or is it left that they will, subject to certain conditions, accept the recommendations of their selection panel?

Mr. CLAXTON: Generally they accept the recommendations of the selection panel.

The CHAIRMAN: We will now have questions from Mr. Walker, Mr. Broome and Mr. Smith.

Mr. DRYSDALE: Mr. Chairman,—

Mr. FISHER: When are we going to adjourn, Mr. Chairman?

The CHAIRMAN: Not until we have finished.

Mr. WALKER: We have put our guest, our witness, to a great strain for 2½ hours. Surely, we can adjourn for ten minutes?

Mr. CLAXTON: I would rather go ahead.

Mr. WALKER: You would rather complete it today?

Mr. CLAXTON: Yes. I have one question I would like to deal with, one raised by Mr. Watson Sellar with regard to the fiscal year. May I deal with that now?

The CHAIRMAN: Yes.

Mr. CLAXTON: He raised the question—and its really a question just for your judgment and ours—as to whether or not we should use the calendar year as the financial year of the council rather than the fiscal year of the federal government.

Here the story is interesting. We started out by fixing in the by-laws the calendar year. When the time came towards the end of the calendar year—that would be in December, 1957—we looked over the work we had done, and we found out that the rhythm of activities of the council really fitted much better into the fiscal year ending, March 31. As I have indicated, three-quarters of the money is spent on giving assistance to higher education; and the effective academic year runs from October to April. We found that to make a report related to the year ended December 31 would give an adequate

picture. It would be very difficult for us to divide everything in the middle of what was our working year. And the same thing is true of the activities of all the organizations we help. Their season generally begins in October and ends in April. It seemed to us to be much more desirable to change over to the fiscal year of the federal government.

Also we had before us—I do not remember who drew this to my attention—but we had before us the Interpretation Act, Revised Statutes of Canada, chapter 158, section 35, subsection (6):

“Fiscal year” or “financial year” means, as respects moneys provided by parliament, or any moneys relating to the consolidated revenue fund of Canada, or to the accounts, taxes or finance of Canada, the twelve months ending the 31st day of March.

Reading that, we were rather impressed with the words “the moneys provided by parliament”. The Canada Council’s money was provided by parliament. We thought it might be held we should follow the fiscal year of the federal government. Whether or not that was so, we were not sure. Mr. Watson Sellar said it is not so; but still it was an element.

The main reason, however, was the rhythm of the Canada Council year really. From April to October is the quiet period. And from October to April is the busy period, and corresponds closely to the financial year of the federal government.

Mr. DRYSDALE: Two brief questions: the first is, what is the total amount of gifts and bequests the Canada Council has received to date?

Mr. CLAXTON: We have had one for \$1,000, and that was ear-marked.

Mr. DRYSDALE: Secondly, I am very interested in this discussion, where you state that, more or less, you tend—shall we say—to subsidize the professionals. I am from British Columbia, and I am worried about the sort of cultural centralization in Ontario and Quebec. Because it appears that culture parallels what you have in sport. Your two professional teams are the Toronto Maple Leafs and the Canadiens. You seem to be developing a similar trend.

I wonder if it would be possible for you to give a breakdown of the amount of money you allocate provincially or, if that is not possible, perhaps, regionally?

Mr. CLAXTON: We have in the last year given \$50,000 to the Vancouver festival; \$10,000 to the arts council of Vancouver; and \$20,000 to the symphony orchestra of Vancouver.

Mr. DRYSDALE: That is the \$80,000?

Mr. CLAXTON: Yes.

Mr. DRYSDALE: I do not want to take up the time of the committee now, but I thought it would be possible to give a breakdown as to what is being done regionally.

Mr. CLAXTON: I can assure you it is the positive policy of the council that it should assess things irrespective of their locality. But, on the other hand, it must not forget that Canada is a country of ten provinces, and I would doubt if a breakdown, either by regions, provinces, or locality, would be helpful.

However, I am prepared to ask the council if they would do that.

Mr. DRYSDALE: Ontario and Quebec are provinces with a head start under culture. If you are intending—

Mr. WALKER: We cannot help that.

Mr. DRYSDALE: If you are intending—

Mr. SMITH (*Calgary South*): You are quite right, Mr. Drysdale.

Mr. DRYSDALE: If you are intending to emphasize the professional aspects of the various cultural organizations in Ontario and Quebec, how in heaven's name are the rest of the provinces going to develop culturally, because money is what they need?

I think it should be done inversely, so that British Columbia, Alberta, Saskatchewan, Newfoundland, and the maritime provinces should get more, in proportion, in order to try to bring their cultural levels up, rather than the methods you have been using, of propagating it in the centres of Toronto and Montreal.

Mr. CLAXTON: We must take account of both points of view: that is, helping the best to become better; and helping to have a geographical distribution of assistance and development. We must combine both points of view.

I would point this out, that the arts council of Great Britain gives 95 per cent of its money to organizations in London, and not anywhere else.

Mr. DRYSDALE: But it is a small country. I cannot go to Toronto in a day from British Columbia.

Mr. CLAXTON: No, but the National Ballet and the Canadian Opera can go to Vancouver. This we regard as a very important move.

Mr. WALKER: I am sure British Columbia does not share my friend's inferiority complex, compared to cultured Ontario.

Mr. DRYSDALE: Ontario and Quebec seem to forget there are a few other provinces in the country, as far as culture is concerned.

Mr. SMITH (*Calgary South*): You have asked your questions.

The CHAIRMAN: There are two more to ask questions, and then I think we are through.

Mr. BROOME: Mr. Chairman, I have waited half an hour, and if Mr. Fisher will keep quiet for a minute, I want to refer back to the question of social workers, where Mr. Claxton referred to professional bodies. I notice that the architects are included as a profession.

I would like to ask Mr. Claxton whether his council could take under review the question as to whether social work is not properly a social science. I am not asking for anything else, except whether he will take that into consideration, so that it will be one of the categories that are eligible for scholarships; because I believe it is a field that has been neglected—it is an underpaid field, a field staffed by dedicated people, and I think it needs help.

Secondly, with regard to a national commission to UNESCO, does the Canada Council have financial responsibility?

Mr. CLAXTON: That is carried by the federal government.

Mr. DRYSDALE: That is under the Department of External Affairs.

Mr. BROOME: I was wondering if Mr. Claxton would answer that.

Mr. CLAXTON: I have already answered, and I could not add to it. If a social worker does a social study it comes under the category of "social sciences", that would qualify for help. But if it is social work, the technique of social work, then it is no more qualified, in our view, than is law or religion or architecture.

Mr. BROOME: Architecture does qualify.

Mr. CLAXTON: Education, I meant. Architecture does qualify.

Mr. BROOME: It does qualify. There is not much of a chance of having it listed in one of the categories that are available for scholarships?

Mr. CLAXTON: If social workers want to do a piece of study which falls under social science or humanities, they apply, and they are considered, like anybody else.

Mr. BROOME: They would be considered for a scholarship if they wanted to go on for their master's degree?

Mr. CLAXTON: Yes.

Mr. SMITH (*Calgary South*): I believe the council has seen fit to send critics of one sort or another to various seminars, or to a seminar in the United States. I wonder if he would comment on that? I believe you have paid the expenses, to send either music or literary critics to the United States to attend seminars; and I assume it was done to improve their qualities of criticism. That is really what I am interested in knowing.

Mr. CLAXTON: There is one, and I do not know how you heard of it. I am informed a grant of \$75 was given to Michael Oliver to attend a music critics workshop. This was a field in which he was well recommended.

Mr. SMITH (*Calgary South*): I hope that he becomes a better critic for \$75.

The CHAIRMAN: There is a motion for adjournment. Shall we be practical and try to finish? Will you be long, Mr. Fisher?

Mr. FISHER: I have about five questions.

The CHAIRMAN: Could we not try to finish? I am sure you would like to, Mr. Claxton?

Mr. CLAXTON: Yes.

Mr. FISHER: You award your scholarships on the basis of merit. Have you given any consideration in so far as pre-master and pre-doctor fellowships, of considering means in relation to that?

Mr. CLAXTON: No.

Mr. FISHER: Why not?

Mr. CLAXTON: Because that is not the practice in awarding scholarships; and we have to compete in the awards fields with other agencies awarding scholarships.

Mr. FISHER: You subsidize publishing; you are subsidizing a book on the arts in Canada?

Mr. CLAXTON: Not quite. We were asked to give a subsidy to it. We were asked after the work was under way, and we did not give a subsidy to it. But when the book was published we bought 300 copies for distribution to Canadian embassies and other agencies abroad.

Mr. FISHER: When you thus give your backing to certain books, how can you keep out of aggravating the relationship between certain publishers? I have had a complaint specifically from one publisher in so far as your supporting this particular volume is concerned. They thought you were getting into a field that should be left alone by you.

Mr. CLAXTON: Unless we are criticized, we are not doing our job. This book is unique, and was done by the Canadian Conference of the arts which initially had a great deal to do with bringing the Canada Council into existence, by stirring up public opinion. The book is very well edited and produced, and is unique in this field. We made a block purchase in order to assist the publication of the book.

Mr. FISHER: What is going to be the scope of your support for publishing?

Mr. CLAXTON: We have several categories. If the work is a learned paper, what you understand by that term—that is, a publication of a paper prepared by a professor or by a Ph.D. student—and application is made to us, we refer that to the humanities or social sciences research councils. They

will, in accordance with their practice, if it is considered worthy, make a grant to it, which is usually in the neighbourhood of \$1200, and covers about one-half to one-third the cost.

We then have another program which we have just announced, which is a very difficult one to decide upon and was only arrived at after great consideration, and that is to assist in the publication of works of fiction, particularly in French. A panel has been set up of publishers in the French language. They will pick out books they think are worthy of subsidization, and we are going to see how this works out. A book of fiction can rarely make a profit, the sale is so small. In regard to works in English, we are setting up a panel—we have not had any applications yet—we are prepared to spend a total of \$30,000 on subsidization of works of fiction.

Mr. FISHER: You have established a relationship with the publishers?

Mr. CLAXTON: Yes. The publishers of fiction in French are working together and with us. Dr. Trueman and I met all the publishers in English and we have also seen the representatives of the publishers association. They are cooperating so that every consideration is being given to this.

Mr. FISHER: You have given grants to certain projects—I am thinking of the one to the Canadian Library Association, for example—to produce an annual index, which has been a continuing thing. Are these going to become a sort of stabilized thing annually, or is it just a temporary life line?

Mr. CLAXTON: Yes, I think this will probably go on for two or three years, and then we will have to bring it to an end. If the council pays from year to year the administrative expenses of any organization, then we are just using money that should be used elsewhere. We want to keep on investing in new things for which money cannot be found, so our money is used progressively and productively.

Mr. FISHER: So in this particular place—say, an annual grant to the social science research council, these are just temporary too?

Mr. CLAXTON: Yes.

Mr. FISHER: And these organizations will have to find some other continuing basis of funds for that kind of project?

Mr. CLAXTON: That is right.

Mr. FISHER: I have one last question. You mentioned criticism—and have certainly seen a considerable amount of it. How are you planning to meet that particular challenge? Are you going to be aggressive, in a public relations sense, in answering criticism, or are you just going to let your deeds speak for themselves?

Mr. CLAXTON: There is no magic key in dealing with public relations. You have to deal with questions as they arise. But, by and large, the kind of criticism—and we clip from all the newspapers, and so on, correspondence, of course—the correspondence we have received has not been very great in either volume or variety. That is rather surprising, perhaps. Perhaps because of this meeting this morning we will have a lot more.

Mr. SMITH (*Calgary South*): You are not encouraging it?

Mr. CLAXTON: We meet it wherever we can. If we have a letter of complaint or criticism, we answer it as quickly as we can and as fully as we can. If an editorial appears in the newspaper, you know the best way to deal with that; that is, you meet the editor next time you see him and speak to him.

Mr. WALKER: Take him to the Rideau Club?

Mr. CLAXTON: Yes; but there is not much point answering that type of editorial in the newspaper, although we have done it. The council has just

been set up. It has had two years' experience. It has accomplished something—whether you think it is bad, or good, I do not know; but it has done a lot, and there is the record: and I think facts speak better than words. I am afraid the record will only be added up when we see how good has been our selection of scholars, artists, musicians and so on.

Mr. FISHER: I think you have done a terrific job.

Mr. MCGREGOR: I move we adjourn.

Mr. BELL (*Carleton*): Mr. Chairman, before we adjourn: Mr. McGregor drew to my attention this morning the provisions of exhibit P-6 which was filed with the committee at our meeting of May 27, being a letter from the Deputy Minister of Transport, enclosing amounts paid to shipyards and to naval architects with respect to the *Lord Selkirk*. I think, in order to make the record complete in relation to that, this Exhibit P-6 ought to be printed and I would so move.

The CHAIRMAN: Is that agreed?

Agreed.

The CHAIRMAN: On your behalf, gentlemen, I want to extend your thanks to Mr. Claxton and his associates for coming here this morning.

Some hon. MEMBERS: Hear, hear.

Mr. DRYSDALE: When is the next meeting, Mr. Chairman?

The CHAIRMAN: This concludes our work, unless Mr. Watson Sellar has anything further to bring up.

Mr. BROOME: What about the report from the Justice Department on the air transport board?

The CHAIRMAN: Mr. Walker had that under consideration. Mr. Walker, have you the report from the Justice Department on air transport?

Mr. BELL (*Carleton*): It is printed as an appendix.

Mr. WALKER: Yes, it is printed as an appendix.

The CHAIRMAN: It was ordered printed.

(*See appendix Y—Issue No. 11*)

Mr. BROOME: It does not have to be considered by this committee? What was the report?

Mr. DRYSDALE: I would like to know that too.

Mr. WALKER: The report, in substance, was that unless the helicopter company, apparently, volunteered to repay the money and was willing to do so, nothing could be done.

Mr. MCGEE: No—

Mr. WALKER: Do you mind? I am summarizing a legal report. If you would care to summarize it, Mr. McGee, you go ahead. I have been asked a question, and I am trying to give an answer.

On the other hand, if the helicopter company is willing to reimburse the government \$93,000, then the Deputy Minister of Justice has indicated that that can be done under regulation 14 subsection 3. But my understanding is, Mr. Chairman, that the helicopter company now refuses to make any voluntary payment, and unless there is some decision to the contrary, or unless there is some willingness on their part indicated, it is futile to bring the matter up again, in my opinion.

My understanding is, from Mr. Davoud and from his assistant, Mr. McDonald, that the company will not repay any money now unless they are compelled to do so legally and, with great respect, according to the learned

opinion of the Deputy Minister of Justice, there is no contractual or other obligation to necessitate their making a refund of that amount.

Mr. SMITH (*Calgary South*): May I ask Mr. Walker for an opinion, or yourself, Mr. Chairman? I suggested earlier in this discussion that perhaps it might serve some purpose to have the company in question appear before the committee, to absolutely determine this fact. To date, is it not largely hearsay? We have had a pretty good indication that they might be prepared to consider this. If we had the company here, we could find out absolutely.

Mr. WALKER: I have nothing but the statements of Mr. Davoud, the chairman of the air transport board, and the solicitor of the board, Mr. McDonald. But I agree, that if there is any question whatever about this, and if there is any possibility of these people making a gratuitous repayment, a voluntary repayment of \$93,000, if you think there is any possibility of that, let us explore the matter further. I do not know that that necessitates bringing the president of the company here.

Mr. BROOME: Mr. Chairman, I move that it be referred to the steering committee, and it is on record for this meeting that we think there should be a further meeting to discuss that. We could leave it to the steering committee to arrange what witnesses they think should be called.

Mr. MCGEE: Having had my knuckles rapped by Mr. Walker, I will say that I do not belong to that astute and wonderful association in law to which he belongs. My impression, on reading that legal opinion, subject to the errors of a layman; and this was the point I was going to raise—is, is it not the fact that should it develop that the company is willing to refund this money, then it could be accepted, on the basis of a decision by the air transport board?

Mr. WALKER: That is correct; and the air transport board has so far been unwilling to make that decision. But I would suggest that, if they are willing to refund the money, we should force them to make a decision and to act.

Mr. SMITH (*Calgary South*): The motion is, to refer it to the steering committee.

Motion agreed to.

Mr. DRYSDALE: We are going to have another opportunity, are we? Are we coming back at another meeting to discuss it, because I was not entirely satisfied with everything Mr. Walker said?

The CHAIRMAN: The steering committee will get in touch with you and if you are not satisfied, you can ask for another meeting.

Mr. DRYSDALE: I would ask for another meeting now.

Mr. BROOME: The motion is, the steering committee shall determine the witnesses who shall appear at the next meeting. But I think we should have another meeting to finalize this point.

Mr. WALKER: We have to have another meeting, anyway, do we not?

The CHAIRMAN: Yes, there will be other meetings, but in camera, for the drafting of our report. Is there a motion to adjourn?

Mr. MCGREGOR: In view of the fact that this statement has been put on the record, does that mean we cannot speak to that again at the next meeting?

The CHAIRMAN: Which statement is this?

Mr. MCGREGOR: This statement that Mr. Bell referred to.

Mr. BELL (*Carleton*): My whole purpose in having the Exhibit printed was so we would all have it available to us, and so Mr. McGregor would have an opportunity to examine upon it at another meeting.

Mr. MCGREGOR: That is all right.

NOTE: Appendices Z, Z-1, A-1 and Exhibit P-6 appear after *Minutes of Proceedings*.

APPENDIX A-2

THE CANADA COUNCIL

June 8, 1959.

Mr. Alan Macnaughton, Q.C., M.P.,
Chairman
Standing Committee on Public Accounts
House of Commons.
Dear Mr. Macnaughton:

The Clerk of the Committee has suggested that I mention to you some changes I would like to see made in the report of the evidence I gave to your Committee last Wednesday. Some of the changes result from the way in which I referred to the charts or to differences in the figures for the two years. Looking back on it now I realize it would have been preferable if I had asked permission to file the charts and these were printed as annexes.

The principal changes suggested are as follows, referring to the page in the transcript of evidence:

- C-3 The total grants amount to \$12,816,000, not \$12,812,000
- C-5 \$3,996,219 was earmarked for the University of British Columbia and not \$4,009,300.
- C-7 The realized profit I mentioned was \$1 million and not \$2 million, and the income \$4,500,000, not \$2,700,000
- C-10 The award for senior non-residents, Category 8A is \$5,000 plus, etc. etc. and not \$4,500.
- E-8 The allowance for sending the exhibition to the University of Manitoba is \$15,000, not \$16,000.
- E-9 The total expenditure again is \$12,816,000, not \$12,812,000.
- J-14 The grants to orchestras were \$174,700, not \$174,000.
- L-5 I was mistaken in giving the grant to the Vancouver orchestra as \$15,000. I found this was \$20,000.
Mr. Drysdale's consequential addition should be amended from \$75,000 to \$80,000.
- M-1 The allowance for subsidization of publications had better be put at \$30,000 for French and English rather than \$15,000 for each.

I hope that these changes will be acceptable.

May I thank Mr. Plouffe for his courtesy as always.

Yours sincerely,

Brooke Claxton,
Chairman.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959



STANDING COMMITTEE
ON

PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Public Accounts (1958) Volumes I and II and
Auditor General's Report Thereon

INCLUDING

1. Second and Third Reports to the House;
2. Minutes of Proceedings of June 9, 17 and 22;
3. Evidence of June 9;
4. List of Exhibits;
5. List of Appendices;
6. Index to Witnesses.

TUESDAY, JUNE 9, 1959
WEDNESDAY, JUNE 17, 1959
MONDAY, JUNE 22, 1959

WITNESSES:

Mr. W. R. Jackett, Deputy Attorney General, Department of Justice.
Mr. J. R. Baldwin, Deputy Minister, Department of Transport.
Mr. D. A. Golden, Deputy Minister, Department of Defence Production.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Richard A. Bell (Carleton),

and Messrs.

Benidickson	Godin	Morris
Bissonnette	Grenier	Morton
Bourbonnais	Hales	Pickersgill
Broome	Hanbidge	Pigeon
Bourget	Hellyer	Pratt
Bruchesi	Keays	Robichaud
Campbell	Lahaye	Smith (<i>Calgary South</i>)
(<i>Lambton-Kent</i>)	Lambert	Smith (<i>Simcoe North</i>)
Campeau	Latour	Smith (<i>Winnipeg North</i>)
Charlton	Macdonald (<i>Kings</i>)	Spencer
Chown	Martin (<i>Essex East</i>)	Stefanson
Crestohl	McGee	Stewart
Denis	McGrath	Villeneuve
Drysdale	McGregor	Walker
Fisher	McMillan	Winch
Fraser	Martineau	Wratten
	Morissette	

Antonio Plouffe,
Clerk of the Committee.

REPORTS TO THE HOUSE

WEDNESDAY, June 24, 1959.

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

On Tuesday, March 10, 1959, the House of Commons passed the following resolution:

Ordered: That the Public Accounts Volumes I and II and the Report of the Auditor General for the fiscal year ended March 31, 1958, and the financial statements of the Canada Council and the report of the Auditor General thereon for the fiscal year ended March 31, 1958, be referred to the Standing Committee on Public Accounts.

Your Committee held its Organization Meeting on Tuesday, March 3, and unanimously elected as Chairman for the second year a member of Her Majesty's Loyal Opposition. The following members were designated by the Chairman to act with him as a Sub-committee on Agenda and Procedure: Messrs. R. A. Bell (*Carleton*), Vice-Chairman, David J. Walker, E. Morris, Emilien Morissette, Hon. J. W. Pickersgill, Harold Winch. Pickersgill, Harold Winch.

At its first regular meeting on Wednesday, March 11, 1959, the Committee began its study of the Auditor General's Report.

Your Committee held 16 meetings in the course of which it heard:

Mr. Watson Sellar, C.M.G., Auditor General of Canada;

Dr. W. S. Stanbury, National Commissioner, The Canadian Red Cross, Toronto;

Mr. H. F. Clark, Chief, Finance Division, and G. F. Bruce, Economic Division, Department of External Affairs;

Mr. E. A. Driedger, Q.C., Assistant Deputy Minister, Department of Justice;

Dr. G. F. Davidson, MA, PhD, Deputy Minister (Welfare), Department of National Health and Welfare;

Mr. D. A. Golden, L.L.B, Deputy Minister, Department of Defence Production;

Mr J. R. Baldwin, M.A., B.Litt., Deputy Minister, Department of Transport;

Mr. Louis C. Audette, Q.C., Chairman, Canadian Maritime Commission.

Mr. P. Davoud, Chairman, Mr. A. S. McDonald, Q.C., Executive Director, Air Transport Board;

Mr. H. R. Balls, Comptroller of the Treasury, Department of Finance;

Mr E. B. Armstrong, Assistant Deputy Minister (Finance), Department of National Defence;

Mr. W. R. Jackett, Q.C., Deputy Minister of Justice.

The Form of the Public Accounts

The 1958 Public Accounts Committee recommended that the Minister of Finance give further consideration to the form of the blue book known as the Public Accounts. This Committee repeats that recommendation, among other reasons because

- (a) the English version of the 1957-58 accounts cost approximately \$56,000 to print 1,000 copies and the Comptroller of the Treasury

informed the Committee that the cost of the preparation, editing, etc., of the portion of the book for which he is responsible (the major part) was about four times the cost of the printing;

- (b) no French version was available to members of this Committee during the 1959 sittings; and
- (c) public expenditure totals having multiplied ten times in the past twenty-five years, particulars have not invariably the same significance in the work of this Committee as they once had.

Publicity is no doubt a safeguard against extravagance but a book almost three inches thick is ill-suited for detailed review in the time available. Therefore, the Committee necessarily resorts to other sources to establish the state of financial efficiency in the Public Service and whether appropriations have been applied in the manner contemplated by Parliament. This is not noted by way of derogation of the book but to indicate that continuation of the present style is not imperatively necessary for the needs of the Public Accounts Committee.

The Financial Administration Act provides that the Public Accounts shall be in such form as the Minister of Finance may direct but, as the book is for parliamentary use, no material change in form or style has ever been made until it could reasonably be regarded as acceptable to parliamentarians. Your Committee, being of the view that the cost of production is now out of proportion to the book's utility, suggest that notice be taken of the workload of the Treasury, the Bureau for Translations and the Queen's Printer in producing a 1,300 page volume for tabling early in January. This task might be distributed over a longer period by printing in a separate volume the certified financial statements, the financial review of the Deputy Minister of Finance, etc. This material (approximately 150 pages) is the basis of the White Paper tabled for Budget Debate purposes—amounts then being estimated. If the official figures were made available in a publication distributed as soon as practicable after the closing of the year's accounts, that would be useful to parliamentarians, the public and the Press. It would also permit the Civil Service to concentrate on the production of Part II.

Part II of the Public Accounts contains particulars of revenues and expenditures. The utility of some listings is debatable. For example, names of civil servants are given when they receive over \$5,000 in salary. Were listings to commence at \$8,000.00, the Comptroller of the Treasury estimates that the book would be substantially reduced and his work of preparation expedited and money saved.

National Defence Expenditures on Education

Indian children are provided with educational facilities by the Government of Canada. The Public Accounts record \$17,456,000 expended for this purpose in 1957-58, with particulars given on pages CC-12 to 20. However, only where capital expenditures were incurred in constructing schools—the total in the year approximately \$5,400,000—is any disclosure made in the Public Accounts of expenditures by the Department of National Defence in providing educational facilities for children of members of the Service Forces. On inquiry, your Committee was informed that, including the \$5,400,000 noted above, approximately \$11,500,000 was spent by the Department in the year, and that these expenditures are distributed in the National Defence section of the Public Accounts to 7 standard objects of expenditure: headings for each of the Service Forces, such as, Professional and Special Services—travel and removal expenses, municipal or public utility services.

Your Committee is of the opinion that it would be more informative were these Departments of National Defence costs consolidated and suitably disclosed. Whether this may be more efficiently done by use of a special vote or otherwise is regarded as a matter for the Treasury Board to consider.

Non-Productive Payments

The attention of your Committee was drawn to a number of charges where payments were legally made but without any public benefit resulting. Among the cases were rents paid for space unoccupied over extended periods. Your Committee appreciates that payments of this type can never be wholly avoided but is of the opinion that some publicity would be a useful safeguard. It is, therefore, recommended that the Minister of Finance consider directing that, when the accounts of a year include charges of the type now referred to, they be suitably detailed in the Public Accounts.

Selection of Vote to Charge

Your Committee considered a \$33,253 charge to the construction vote for Indian Agencies, the Auditor General having drawn attention to the fact that there was also a general vote for the Department of Public Works which might have been charged. The expenditure was incurred to repair erosion in the banks of an Indian Reserve along the navigation channel into Lake Huron. In reply to a question, the Auditor General said he was less concerned with the present accounting action than future practice where a charge might legally be made to either of two votes.

Your Committee believes firmly that it is in the interest of parliamentarians that, where the cost of a service could be provided for in more than one Estimate item, the test should be the appropriate answer to this question: Under which heading would a member of the Committee of Supply or a reader of the Public Accounts expect the cost to be included? Consistency in practice is desirable so that, should a need ever arise to bring together similar expenditures, the risk is reduced of overlooking expenditures incurred in a particular year. In this instance, a small amount was spent in 1951-52 for similar work as a charge to the Public Works vote and, a balance remaining in that department's vote at the end of 1957-58, it would have been desirable had the \$33,253 charge been to it for the reason given above.

Governor General Warrants

Since Confederation, legislation has provided that should an urgent need for money arise, Parliament is not in session and no appropriation is available, a special warrant signed by the Governor General may authorize a draft on Consolidated Revenue Fund. Your Committee was informed that resort to this power has progressively diminished during the present century and that it is now exceptional to use it save when the House of Commons is dissolved before grant of supply, as was the case in 1926, 1940 and again in 1958. The constitutional responsibilities of the House of Commons with respect to Consolidated Revenue Fund being what they are, the Public Accounts Committee subjects special warrants to close scrutiny.

During the review of warrants issued in 1957-58, notice was taken of Chapter 31, Statutes 1958, which, among other things, amended the section in the Financial Administration Act treating with the issue of special warrants. The opening words of the new text are: "Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made..." The material change is to substitute 'payment' for 'expenditure'.

Your Committee considers that the change of words contemplates that special warrants issue only to make actual payments of money out of Consolidated Revenue Fund to some person or persons and, in consequence, the amount of any special warrant should be computed with great care to ensure that the amount bears relationship to what will necessarily be paid out of Consolidated Revenue Fund in the fiscal year or until Parliament is again in session whichever may occur first.

The National Gallery of Canada

The National Gallery Act provides that administration of the Gallery be by a corporate board of trustees. The statute permits the Board to accept and apply all moneys received by way of donation, bequest, revenue or otherwise but the National Gallery is mainly dependent on annual appropriations by Parliament. Practice is to provide for administrative costs by one vote and by another money for the purpose of acquiring works of art. With respect to the latter, section 8 of the Act established a National Gallery Purchase Account "to which shall be credited any money appropriated by Parliament in any fiscal year for the purpose of acquiring works of art". Moneys credited to this account remain available until spent without regard to the fiscal year in which voted. The appropriation for 1957-58 was \$108,334 and at the year end the balance at credit of this special account was \$4,003. Thus, \$104,331 was spent for works of art as a charge to the Purchase Account.

In addition to these expenditures, the Board of Trustees undertook to purchase a painting for \$50,000 with one-half of the purchase price to be paid in 1957-58. When entering into this arrangement, the Board presumably anticipated that all of Estimates Item 84 for \$130,000 would be granted; however, when the House of Commons was dissolved on 1st February, 1958, only \$108,334 had been granted by means of interim Appropriation Acts. Subsequently, \$25,000 was made available by Treasury Board out of the vote for miscellaneous, minor or unforeseen expenses and applied towards the cost of the painting.

It is long established practice to permit balances at credit of the Miscellaneous Expenses vote to be transferred to other votes, and in 1957-58 transfers totalling \$669,114 were made to 14 departments. Therefore, the matter before the Committee was the regularity of the \$25,000 transfer when, by other legislation, Parliament has indicated an intent to control in a special way expenditures for the purpose of acquiring works of art.

Normally, departments and agencies of government may assume that the full amount of Estimates items will be granted, and in this instance the Board of Trustees would have been in a position to make the payment out of the vote for acquiring works of art had the full amount been appropriated. Circumstances being exceptional in 1958, your Committee looks forward rather than glancing over its shoulder in this instance. Your Committee's recommendation is that the action taken be not regarded as establishing a precedent.

Suggestion Award Board Expenditures

The miscellaneous minor or unforeseen expenses vote is to provide funds to meet needs when no other appropriation is available. The amount granted in 1957-58 was \$1,500,000. The practice of inserting this vote in the annual Supply Act is one of many years' standing, so your Committee did not trace for its original purpose but assumes the intent has always been that it be utilized only in situations of urgency and for non-controversial purpose.

The Auditor General noted that in recent years it has been annual practice to charge this vote with expenditures incurred by an interdepartmental service known as the Suggestion Award Board. The amount involved is not large, being \$21,859 in the year under review as compared with \$16,992 in

the previous year. However, your Committee is convinced that, in principle, it impairs Parliament's control of Consolidated Revenue Fund when recurring administrative costs are financed by this vote and recommends that, in future, costs of the Board be charged to some other vote.

International Relief Payments

In 1953, a public appeal was made for European floods disaster relief. Over \$3 million was raised, this including \$1 million appropriated by Parliament. After needs had been met, the Government of Canada was consulted by the Red Cross Society with respect to the disposal of the residue. On the advice of the Department of Justice an item reading

To authorize the expenditure for international relief purposes, or other relief purposes authorized by the Governor in Council, of the unexpended portion of the grant made by the Government of Canada to the Canadian National European Flood Relief Fund by Vote 572 of the Appropriation Act No. 2, 1953. . . . \$1

was included in Appropriation Act No. 2 of 22nd March, 1956. This text treats with the unexpended portion of the grant made by the Government but no special segregation of the Government's share was made in the special International Relief Account maintained by the Red Cross Society. Up to 31st December 1958 the Account had been credited with \$676,164, while international relief contributions to a total of \$270,513 had been charged to it. Although the effect of the Justice opinion and the special vote was to declare the Government's share to be public money, no control account has been maintained by any department.

It was arranged that before making a grant towards an international relief need, the Society would consult and obtain the consent of the Department of External Affairs. The Auditor General reported that a review of departmental files indicated that a \$50,000 contribution to the American Red Cross Society was announced before consent of the Government was given. The official answer referred to a date which was given in error and your Committee reports that in fact consent, by telephone, was given by a departmental officer prior to the announcement.

An ancillary question is whether the \$50,000 payment qualified within the phrase "international relief purposes". When the Estimates item was before the Committee of Supply, the Minister in charge described it as a "legalistic item". The text originated in the Department of Justice and its view is that the phrase means relief which comes from a source in one country and goes to some place in another country.

The definition is not binding on your Committee but alternatives need not be explored because it is uncertain whether the vote item now has significance as it regulates only the distribution of the residue of the original Canadian National European Flood Relief Fund or, in dollars, approximately \$225,500. It is of record that the Department of External Affairs has participated in decisions involving \$270,513. To establish the present state of affairs, your Committee recommends that the Department of Finance decide whether the Government has any financial responsibility with respect to the undistributed balance held by the Red Cross Society.

Interest Payments to Contractors

The Auditor General drew attention to a group of small payments totalling \$5,530 made to twelve contractors engaged in the construction of Ottawa public buildings during the fiscal year 1957-58. The House of Commons had been dissolved in April 1957 before a main Appropriation Act granted supply

for the year. As a result, a Treasury Board Minute of 1 October 1957 authorized the Minister of Public Works to pay these contractors interest at the rate of 5% on amounts due but unpaid because interim grants of supply were exhausted.

To safeguard the constitutional rights of Parliament, the Financial Administration Act stipulates that it is a term of every works contract that payments thereunder are subject to there being an appropriation for the particular services. However, an exceptional situation existed in that the Parliament Buildings, including the House of Commons chambers, had been placed at the convenience of the International Postal Union for a congress, a consequence being to delay the calling of a session of Parliament after the general election on 10 June 1957.

Your Committee therefore considered the cases from the viewpoint of what is reasonable and fair, taking notice of the problems of contractors as well as the constitutional rights of the House of Commons. Your Committee is of the opinion that, generally, the public interest will always be best served by requiring strict observance of the terms and conditions of contracts if for no other reason than that, when tendering for work, contractors presumably take into calculation the possibility of delays in payment. Your Committee is also of the opinion that, where a contractor demonstrates that a fair and reasonable profit was not made because of delay by the Crown in paying claims promptly as they mature, the Governor in Council might reasonably consider making an *ex gratia* payment after the contract is satisfactorily performed.

Cost-Plus Contract Awards

Early in 1953, the Government considered the proposal of the operator of a subsidized ferry service that the company construct a new ferry at an estimated cost of around \$1,100,000. The decision was to construct a larger ship at public cost (first estimated at \$1,500,000) and then charter-hire to the operator. The vessel was delivered in May 1958 and the contractor has been paid approximately \$3,200,000. Various reasons were given including changes in design, dimensions, mode of propulsion, etc., but your Committee now treats only with the type of contract used.

Section 36 of the Public Works Act is applicable to all departments of government save the Department of Defence Production. The section requires that tenders be invited for all major construction contracts unless there exists a "pressing emergency in which the delay would be injurious to the public interest". In this instance no tenders were invited, instead a shipyard was selected and awarded a contract on the basis of cost, plus a fixed fee of \$85,000—after completion, this was increased to \$130,000. This contract award was made without inviting tenders by treating the boat as a defence project within the ambit of section 9 (1) of the Defence Production Act.

Your Committee was informed that departmental technical opinion now is that cost might have been \$600,000 less had tenders been invited and a firm-price contract entered into. This estimate is, of course, conjectural but does aggravate doubt with respect to the efficiency of contracting on cost-plus basis. It is recognized however that use of this form of contract may sometimes be unavoidable in situations of urgency or of novelty, remoteness of location, etc., but your Committee is of the opinion that it would be in the public interest were (a) legislation to regulate more stringently and comprehensively cost-plus awards (b) the contracting provisions of the Defence Production Act reserved to indisputable defence projects of such a nature that it is not possible to let by tender, and (c) that substantial contracts should not be let until plans and specifications are complete.

Air Transport Charges

The Mid-Canada Early Warning Line spanning wilderness areas, helicopter service was required during its construction. The plan was that the R.C.A.F. would provide the service but at the outset the Air Force was not ready. It was therefore arranged that two commercial companies provide the required helicopters during April and May of 1956. Contracts were negotiated by the Department of Defence Production with prices founded on tariffs filed by the companies with the Air Transport Board in accordance with the provisions of the Aeronautics Act.

At the end of May the R.C.A.F. was still not ready to take over, so the commercial companies continued to provide the required service and, as a matter of fact, did service the project throughout 1956. The original contracts covering two months only the Department, in accordance with its long established practice, negotiated amendments-to-contract to cover the longer period. By this means the Crown would have secured the benefit from April 1st of a sliding scale of term tolls included in the filed tariffs. For example, for one type of 'copter the initial monthly rental rate of \$18,000 would progressively decrease to \$14,000 if used over a period of eight months. However, when these amendments were brought to the notice of the Air Transport Board exception was taken on the ground that the April-May contracts had expired and did not contain a renewal clause. Thus, the cost to the Crown has been estimated to approximate \$93,000 more than would have been the liability had effect been given to the basis the Department had negotiated.

The services were performed for the Crown in connection with a specialized construction project for the defence of Canada, with an urgent need existing to complete as quickly as was practicable. Moreover, so far as your Committee is aware there was no break in the services rendered. Your Committee is of the opinion that it would be in the public interest were appropriate consideration given to the pertinent provisions of the Aeronautics Act, and also those in the Defence Production Act which treat with the powers of the Minister of Defence Production where he is satisfied that a party to one or more defence contracts had been paid an amount in excess of the fair and reasonable cost of performing the contracts together with a fair and reasonable profit.

Special Pension Plans

In March 1957 the then Minister of Finance negotiated a group annuity contract with an insurance company for the benefit of locally engaged employees in the United States. The arrangement requires the employees to contribute 5% of salary and the Government the balance. Your Committee was informed that as at 31st March 1958 there were 114 contributors. In October 1957 the Treasury Board authorized the High Commissioner in the United Kingdom to apply to an insurance company for a group policy covering locally engaged employees in the United Kingdom and Ireland. It is understood that 320 persons were thus insured as at 31 March 1958.

It was drawn to the notice of this Committee that the Public Service Superannuation Act excludes from its benefits "an employee engaged locally outside Canada" and that the sole authority for entering into the arrangements was a vote having this text: "Government contributions to pension plans for employees engaged locally outside Canada". Therefore, the matter before the Committee was whether the text of this vote was sufficiently explicit to vary a statement of policy enunciated in the Public Service Superannuation Act.

It is a commonplace to say that, save when the prerogative is applicable, public administration derives its authority from some provision in a statute

and that, while the text of a vote may be such as to result in an enactment, such an intent should be clearly stated. The reason is that the object of supply and appropriation being simply to furnish the Crown with authority and opportunity to draw on Consolidated Revenue Fund, the Committee of Supply should never be presumed to be simultaneously determining the law applicable, save and except when the text of the item necessitates.

In the present cases, contracts have been negotiated and a substantial number of persons have been contributing for over a year. In the circumstances, your Committee accepts the status quo but records that it is of the opinion that legislation is desirable before any like arrangement is entered into with respect to locally engaged persons in any other country.

Family Allowances Act

Your Committee draws attention to a situation existing in the application of the Family Allowances Act and suggests that further consideration be given to this legislation aimed to assist in the maintenance, care, training, education and advancement of children from birth to age sixteen. Payments are ordinarily made to a "parent" as defined by the Act. This definition excludes institutions but section 4 permits payments to be made to another person recognized by regulations of the Governor in Council. By use of this section, some child welfare organizations receive allowances in trust subject to such directions as the Department of National Health and Welfare may give. Your Committee was informed that institutions have been instructed that allowances paid to them may not be used to finance ordinary maintenance, education and care; instead, the money is to be set aside in trusts savings accounts and applied to purposes special to the foregoing.

Your Committee was concerned to learn that one institution is currently receiving over \$20,000 monthly as the "parent" of 3,432 children and that at the end of 1958 it held \$368,000 of unspent family allowances in a pooled account. Your Committee was also informed that no detailed scrutiny of the application given by the various recipient institutions is customary and that the legal rights of the Department, other than to discontinue payments, have never been tested.

It is indisputable that family allowances can be especially beneficial to the category of children now referred to because only in exceptional cases is a welfare institution in position to provide a child with the little extras which are commonplace to the ordinary parent. On the other hand, welfare institutions are rarely self-supporting and, generally, are dependent financially on provincial and municipal grants and donations of private benefactors. There fore, a grant, in fact if not in name, by the Government of Canada of approximately \$250,000 annually, as in the case now used to illustrate, may have unanticipated consequences unless regulated in appropriate manner.

Agricultural Institute of Canada Publications

Since 1934, the Department of Agriculture has been absorbing the printing costs of certain publications of the Agricultural Institute of Canada. The arrangement was then entered into because of the financial problems of the society. In 1957-58, costs absorbed by the Department exceeded \$18,600. with the amount distributed over six votes of the Department.

It is long established practice to disclose in the Estimates any grant to a non-governmental body, but that has never been done in this case. Moreover, it is generally regarded as being contrary to the public interest indirectly to subsidize what is represented to the public as a non-public publication. Your Committee is therefore of the opinion that the existing situations should be reviewed and corrected.

Service Forces Expenditures

Your Committee considered some cases of extremely high transportation and removal expenses incurred by the Service Forces which were decidedly unrealistic. The Department agreed but stressed that they were exceptions. Your Committee welcomed a statement by the Department of National Defence to the effect that a general survey of local removal costs is being made and that regulations to control other types of removal expenses have already been clarified and tightened up. However, a matter of concern is that the items specifically before the Committee had been passed for payment without exceptions being taken by examining personnel. It is recognized that those subject to military discipline necessarily enjoy limited discretionary powers in raising queries with respect to decisions of superiors but, financial consequences falling on taxpayers generally, it is recommended that, simultaneously with the review of regulations and practices, consideration be given to extending the financial role of the civilians in the Department to prevent the recurrence of similar extravagances in the future.

Dual Positions in the Civil Service

Your Committee took notice of two cases involving the application of the Civil Service and the Public Service Superannuation statutes. Section 16 of the Civil Service Act prohibits any payment to a civil servant in addition to salary authorized by law but includes an exception by providing that, where the salary is not sufficient to compensate for full time, another department may simultaneously employ. The cases before the Committee are comparable and involved postmasters. One was receiving \$4,620 as postmaster and \$2,160 as caretaker of the public building under the control of the Public Works Department, at the time of retirement. Neither was subject to the Civil Service Act when first appointed caretaker but both were later on.

The services involved are hardly compatible, so the risk is present that the subordinate duties may be farmed out, the recipient of the pay for the position, however, benefitting when calculations are made for superannuation purposes. Your Committee did not inquire whether or not the caretaker duties were performed by the two postmasters but recommends that, if and when the Civil Service Act is the subject of new legislation, the text of present section 16 be closely examined.

Post Office Savings Bank

Shortly after Confederation, Parliament authorized a Post Office savings bank system for the convenience of persons with small savings. An associated attraction was that repayment was guaranteed by the Government of Canada. A glance at statistical records indicates that the total of deposits reached a peak of \$62 million in 1905. The comparable total of like deposits in the chartered banks being \$327 million, the Post Office banking service was then being used by a substantial segment of the population. As at 31 March 1958 the total on deposit was \$35 million as compared with \$6,381 million in like accounts of the chartered banks. The relative popularity of the Government service has diminished and it may be that the time has come when public costs could be reduced without incurring public inconvenience.

Your Committee regarded the matter as involving policy, so it made no detailed inquiry. Notice, however, was taken of an Audit Report observation five years ago where it was noted that, while there were approximately 278,000 Post Office Savings Bank accounts, over 150,000 of these accounts were inactive and many had been in that status for years. The Auditor General used to illustrate an account opened in 1878 by a \$700 deposit. That was the only

contact the Post Office ever had with the depositor, but regular interest credits over a period of 75 years had increased the balance at credit to \$5,448. A surmise therefore, is that the \$35 million total does not factually describe the real position as to public use.

On the other hand, a check indicates that there are still about 450 communities wholly dependent on the Post Office for savings banking service and, while total money involved at any one of these places may not be large—your Committee did not inquire—it would be unfortunate were these communities not given reasonable service.

Your Committee also takes notice of the fact that since the end of the war the Government of Canada has annually offered Canada savings bonds which may be purchased by installment payments and are redeemable on demand. Thus there is now a new savings service incorporating aims of the Post Office Savings Bank policy. Obviously a conversion of banking balances into savings bonds would promote economy in administration.

For reasons such as above enumerated, your Committee suggests that consideration be given to the present day role of the Post Office Savings Bank.

A copy of the Minutes of Proceedings and Evidence relating to the above matters is appended.

Respectfully submitted,

(ALAN MACNAUGHTON,)
Chairman.

WEDNESDAY, June 24, 1959.

The Standing Committee on Public Accounts has the honour to present its

THIRD REPORT

On Tuesday, March 10, 1959, the House passed the following resolutions:

Ordered,—That the report of the Canada Council for the year ended March 31, 1958, laid before the House on July 10, 1958, be referred to the Standing Committee on Public Accounts in order to provide a review thereof pursuant to Section 23 of The Canada Council Act.

Ordered,—That the Public Accounts Volumes I and II and the Report of the Auditor General for the fiscal year ended March 31, 1958, and the financial statements of the Canada Council and the Report of the Auditor General thereon for the fiscal year ended March 31, 1958, be referred to the Standing Committee on Public Accounts.

Your committee, on June 3, 1959, proceeded to hear the Chairman of The Canada Council, the Honourable Brooke Claxton, P.C., D.C.M., Q.C., LL.D., and Dr. A. W. Trueman, M.A., D.Litt., LL.D., Director of the Council, and Mr. Watson Sellar, C.M.G., Auditor General for Canada.

The Canada Council

1. Pursuant to its Orders of Reference of Tuesday, March 10, 1959, your Committee has considered the report of the Canada Council for the year ended March 31, 1958, as well as that of the Auditor General on the accounts and financial transactions of the Council for that year.

2. In accordance with the provisions of the Act, the initial 21 appointments to the Council were made by the Governor in Council on April 15, 1957, for terms of 2, 3 and 4 years, respectively, with the appointments of Chairman and Vice-Chairman being for five years. The Council met for organizing purposes on April 30, 1957, and the report of the Council as well as the audit report was for the period ended March 31, 1958. The Council administers two funds of \$50 million each which were appropriated by The Canada Council Act assented to on March 28, 1957.

3. Your Committee noted that all administrative expenses are a charge to income from the Endowment Fund with the balance applied to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences. The Act defines "the arts" as including architecture, the arts of the theatre, literature, music, painting, sculpture, the graphic arts, and other similar creative and interpretative activities. No definition is given for humanities and social sciences. In reply to a question, the Auditor General stated that, in the absence of a statutory definition, he was relying on those given to the House of Commons during consideration of the Bill:

The other expression, the humanities and social sciences, have a recognized and accepted meaning in the academic world. I notice that in the academic world the term "humanities" includes such studies as history, literature, foreign languages, philosophy and related subjects; that is the generally accepted meaning that is given to this term in the universities. I think the term "social sciences" is generally taken to mean the study of anthropology, economic, geography, law—not municipal law, but law in its general, broad application—political sciences, psychology, sociology and the related subject.

4. The principal of the Endowment Fund is to be held intact. The income for this Fund was \$2,369,000 in 1957-58. Administrative expenses approximated \$180,000 and grants and awards totalled \$1,417,000. Accordingly, the

Council started the next year with about \$775,000 on hand for activities related to the statutory purposes of this Fund.

5. Your Committee observed that, unlike the Endowment Fund, the \$50 million principal of the University Capital Grants Fund is to be distributed by way of grants in aid of construction projects undertaken by Canadian universities. Grants are to be in furtherance of the statutory objects of the Council but conditional on: (a) no grant exceeding one-half of the total expenditures made in respect of the assisted project, and (b) the \$50 million being allocated to each province in the same proportion as the population of the province, according to the latest census, is to the aggregate population.

Your Committee was informed that allocations by province are based on the 1956 census and are:

Ontario	\$16,838,000
Quebec	14,419,000
British Columbia	4,357,000
Alberta	3,499,000
Saskatchewan	2,744,000
Manitoba	2,649,000
Nova Scotia	2,165,000
New Brunswick	1,727,000
Newfoundland	1,293,000
Prince Edward Island	309,000

6. Your Committee was also informed that construction grants to a total of \$4,084,000 were authorized in the first year and that, by March 31, 1959, this amount had increased to \$12,812,000 representing assistance to 31 institutions. It was also learned that 47% of the total represents assistance towards the construction of students' residences.

7. It was observed at the meeting of June 3 that, as between provinces, a degree of unevenness exists in drawing on the Fund; in particular, the allocation to Quebec universities is still intact. Your Committee therefore notes that as special accounts are not maintained by provinces, interest and other earnings of the Fund (\$2,335,000 in 1957-58) are currently being pooled with the basis of ultimate allocation still to be settled.

8. Although the reports before the Committee were with respect to the year ended March 31, 1958, the Chairman of the Council illustrated activities of the Council by using charts giving financial and other statistics for that year as well as for the year that ended on March 31, 1959, and, on occasion, made reference to estimated costs in 1959-60. This added to the value of his presentation; it also suggests that consideration might usefully be given to procedures which would result in reports before the Committee being current rather than, as in this instance, related to a period which ended upwards of fifteen months ago.

9. The Auditor General is required to report to a Minister as well as to the Council on "the accounts and financial transactions of the Council". He indicated that it would be helpful were he to have some indication of the style of audit report desired; and that, in preparing the report now before the Committee, he had been influenced by an observation to the House of Commons on February 5, 1957, by the then Prime Minister, who was in charge of the legislation:

... the fact that they will be operating in public and that their operations will be reported upon annually by the Auditor General in a report that will be tabled in Parliament will ensure that the Council is very conscious that the Canadian public will feel that it is their money that is being administered by this Council; and they will want,

I think, to use it in a manner that will commend itself to the majority of the Canadian people.

Your Committee takes no exception to this statement.

10. Section 23 of the Canada Council Act requires that reports be submitted to a designated Minister within three months after the termination of each fiscal year of the Council; that the Minister cause the reports to be laid before Parliament within fifteen days, and that "provision be made for a review thereof by Parliament". Because the Act declares that the Council "is not an agent of Her Majesty", it is recommended that further consideration be given to the text of section 23 or to any subsequent Order of Reference to this Committee, or both, in order to determine more precisely the role of the Committee in reviewing these reports.

A copy of the Minutes of Proceedings and Evidence in respect of The Canada Council is appended.

Respectfully submitted,

(ALAN MACNAUGHTON,
Chairman.)

MINUTES OF PROCEEDINGS

TUESDAY, June 9, 1959.

(15)

The Standing Committee on Public Accounts met this day at 2 o'clock. The Chairman, Mr. Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Charlton, Crestohl, Drysdale, Grenier, Hanbidge, Keays, Latour, Macdonald (*Kings*), Macnaughton, Martineau, McGee, McGrath, McGregor, Pickersgill, Pigeon, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Winnipeg North*), Stefanson, and Villeneuve. (22)

In attendance: Mr. W. R. Jackett, Deputy Attorney General, Department of Justice; Mr. J. R. Baldwin, Deputy Minister, Department of Transport; Mr. D. A. Golden, Deputy Minister and Mr. J. C. Ruthledge, Director, Shipbuilding Branch, Department of Defence Production; Mr. Louis C. Audette, Chairman, Canadian Maritime Commission; and Mr. Watson Sellar, Auditor General for Canada.

Also in attendance: Mr. Maurice Ollivier, Parliamentary Counsel.

The Chairman referred to the evidence given by Honourable Brooke Claxton on the Canada Council on Wednesday, June 3rd, and read a statement thereon. He also referred to a letter, which he read, from Mr. Claxton under date of June 8th in which are listed changes Mr. Claxton would like to make.

The Clerk of the Committee was authorized to make those changes and Mr. Claxton's letter was ordered printed as an appendix. (*See Appendix "A-2" in printed issue No. 12*)

The Chairman tabled a letter from Mr. D. A. Golden, dated June 3, 1959, forwarding a telegram from Mr. G. C. McPherson to Mr. E. B. Mundy, Director, Electronics Branch, Department of Defence Production, which was read by the Clerk.

Ordered,—That the above letter and the telegram be printed. (*See Appendix "A-3" to this day's evidence*)

Reverting to Paragraphs 71 and 72 of the Auditor General's Report, and in accordance with the agenda, Mr. Jackett was called and questioned at some length by Mr. Drysdale who suggested three possible alternatives to recover the amount of money in question from Okanagan Helicopters.

Mr. Jackett was retired.

On Paragraphs 73 to 77—Cost of motor vessel—, the Chairman referred to a letter dated June 3, 1959 addressed to Mr. R. H. McGregor, M.P. by Mr. Watson Sellar, which was ordered printed as an appendix. (*See Appendix "A-4" to this day's evidence*)

Messrs. Baldwin, Golden and Audette were called.

Also in accordance with the agenda, Mr. McGregor resumed his examination of the witnesses on EXHIBIT P-6, being payments to shipyard and naval architects. (*Printed in Issue No. 12*)

The Committee concluded its examination of Public Accounts Volumes I and II, the Auditor General's Report thereon and The Canada Council.

The witnesses were retired.

At 2.35 o'clock on motion of Mr. McGee, the Committee adjourned to the call of the Chair.

WEDNESDAY, June 17, 1959.

(16)

The Standing Committee on Public Accounts met this day *in camera* at 1.30 o'clock, pursuant to notice. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Campbell (*Lambton-Kent*), Charlton, Drysdale, Fraser, Macnaughton, Martineau, McGee, McGregor, Morissette, Morris, Morton, Pigeon, Smith (*Simcoe North*), Spencer, Stefanson, Winch and Wratten. (19)

The Chairman tabled a letter dated June 10th from the Deputy Minister of Transport addressed to himself in relation to the cost of the Motor Vessel "Lord Selkirk".

Ordered, that this letter be printed. (*See Appendix A-5 to this day's Minutes of Proceedings*)

The Chairman also tabled a paper showing details of expenditures for education in the Department of National Defence. This document was also ordered printed. (*See Appendix A-6 to this day's Minutes of Proceedings*)

The Chairman informed the Committee that a reprint of Issue Number 12 for June 3rd was ordered due to an error in the printed pagination.

The Chairman placed before the meeting mimeographed copies of two draft reports which were considered by the Subcommittee on Agenda and Procedure, namely, the second and third reports.

After discussion, the Committee proceeded to consider, paragraph by paragraph, the draft of the Third Report which was tentatively agreed to.

Consideration of the second draft report dealing with matters other than The Canada Council and its Annual Report, was deferred and suggestions from members invited on both the second and third draft reports.

At 2.15 o'clock, the Committee adjourned until Monday, June 22 at 10.00 o'clock for further consideration of the said drafts.

APPENDIX A-3

June 3, 1959.

Dear Mr. Macnaughton:

Further to our telephone conversation, I have now confirmed with Mr. McPherson, President, Okanagan Helicopter Group, that I may file with you the telegram which he sent to Mr. D. B. Mundy, Director, Electronics Branch, on June 2nd.

Yours sincerely,
D. A. Golden,
Deputy Minister.

Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Ontario.

CANADIAN NATIONAL TELEGRAPHS

Vancouver, B.C.
June 2, 1959, 8:21 A.M.
From: G. W. McPherson, President.

D. Mundy,
Department of Defense Production,
2 Building, Wellington St., Ottawa, Ont.

Referring to your telephone conversation with our Mr. Charleson today regarding reduction in our tariff charges for helicopter service on the construction of the Mid Canada this matter has been given very careful consideration and the charges made were in accordance with our charter tariff on file with the Air Transport Board and we can see no way to agree to your suggestion that we make a voluntary refund to your department without creating a serious problem for all operators who have discounts for long term contracts and in our particular case without similar donations being made to other federal and provincial government departments and also Canadian corporations for whom we have worked for over the years. We cannot meet your request without creating chaos in the industry and without destroying the purpose of filing rates with the Air Transport Board as required by the Aeronautics Act. I doubt if any long established operator including ourselves could stand the financial burden of making such payments which in all fairness would have to be made to all customers. Mr. Charleson will return to Ottawa this week and while he is fully informed if you consider it desirable and necessary I would be pleased to attend a meeting with the interested parties to explain our position in detail.

APPENDIX A-4

OTTAWA, June 3, 1959.

Dear Mr. McGregor,

As promised at noon today, I have made some inquiries of the Treasury Office with respect to the items Miscellaneous General Expense \$147,000 and Materials ex Stores \$214,000, in the statement you had.

In passing, the statement is not the final one and I understand certain adjustments have been made, with the allowed cost being now about \$15,000 less than the \$3,205,000.

With respect to the miscellaneous general expense item, you wondered what were the principal items in it. As far as I can ascertain, they are:

Overtime premium	\$53,465
Milne, Gilmore and German	13,470
Watchmen	10,861
National Research Council	8,648

With respect to the Milne, Gilmore and German item, this is for services rendered directly to the contractor in connection with equipment, negotiating prices, etc.

The National Research Council item is for testing hull design models.

Materials ex stores consists of a mass of little things. My understanding is that about \$1 million worth of material such as steel plates, etc., went into the ship as a direct charge, but a lot of small stuff such as nuts, bolts, valves, paints and that wide range of things that go into construction passed through the stores of the contractor, and the total of the charge-outs is reflected in the \$214,000. These small issues are detailed in the analysis of the progress claims. I am told that there was nothing abnormal in this \$214,000.

Yours sincerely,
Watson Sellar.

R. H. McGregor, Esq., M.P.,
House of Commons, Ottawa.

MONDAY, June 22, 1959.

Pursuant to notice postponing to 11.00 o'clock the meeting called for 10.00 o'clock, the Standing Committee on Public Accounts met *in camera* at 11.00 o'clock this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Drysdale, Hanbidge, Lambert, Macnaughton, McGrath, McGregor, Morris, Morton, Robichaud, Smith (*Calgary South*), Smith (*Simcoe North*), Stefanson and Walker. (14)

The Committee resumed consideration of the draft of its Third Report.

After discussion the said draft report was adopted as amended.

Ordered,—That the Chairman present said draft report as amended as the Committee's Third Report to the House.

The Committee then proceeded to the consideration of the draft of its Second Report, page by page.

After such consideration the said draft report was adopted as amended.

Ordered,—That the Chairman present to the House the said draft report as amended as the Committee's Second Report to the House.

At 12.35 o'clock, the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

NOTE: See this issue for Second and Third Reports.

EVIDENCE

TUESDAY, June 9, 1959.
2.00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum; and we have a great deal to do in a short time. At our meeting on June 3 you will recall that the chief witness was the Hon. Brooke Claxton, the chairman of The Canada Council. He spoke for a considerable length of time without notes, and referred to various charts.

Mr. Claxton, according to practice, was given the opportunity of checking his testimony, and he did so.

The Clerk of the committee subsequently called my attention to several changes concerned chiefly with the accuracy of the figures involved.

I have this day received a letter from Mr. Claxton listing these changes, and asking for the consent of the committee to have them corrected. May I suggest that the Clerk of the committee be authorized to make those changes in the official transcript of evidence, and that Mr. Claxton's letter be appended as appendix A-2 and that the transcript be sent to the printer.

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Then, the letter is added as an appendix.

Mr. MCGEE: Are you making this decision yourself, Mr. Chairman?

The CHAIRMAN: I heard several members say, "Agreed."

Mr. MCGEE: Oh.

The CHAIRMAN: Is it agreed, gentlemen?

Some Hon. MEMBERS: Agreed.

(For letter see Issue No. 12)

The CHAIRMAN: The second item of business is in respect of air transport tariff rates. You will recall that we had some unfinished business, of which this is the first part. We have today with us Mr. J. R. Baldwin, Deputy Minister of Transport; Mr. D. A. Golden, Deputy Minister, Department of Defence Production, and Mr. L. C. Audette, Chairman of the Canadian Maritime Commission, as well as Mr. W. R. Jackett, Deputy Attorney General, Department of Justice.

In this connection may I also produce, and ask that it be printed as appendix A-3, a letter from Mr Golden, Deputy Minister of the Department of Defence Production. I might say that the letter is dated June 3, 1959, and is as follows:

Defence Production

Dear Mr. Macnaughton:

Further to our telephone conversation, I have now confirmed with Mr. McPherson, President, Okanagan Helicopter Group, that I may file with you the telegram which he sent to Mr. D. B. Mundy, Director, Electronics Branch, on June 2nd.

Yours sincerely,

(Sgd.) D. A. Golden,
Deputy Minister.

Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Ontario.

The telegram is here. I really think it is material and that it should be read at this time. I would ask the clerk of the committee to read it.

The CLERK OF THE COMMITTEE: This telegram is dated Vancouver, British Columbia, June 2, 1959, from G. W. McPherson, president, and it is addressed to D. Mundy, Department of Defence Production, No. 2 Building, Wellington Street, Ottawa, and it reads as follows:

Referring to your telephone conversation with our Mr. Charleson today regarding reduction in our tariff charges for helicopter service on the construction of the Mid Canada this matter has been given very careful consideration and the charges made were in accordance with our charter tariff on file with the Air Transport Board and we can see no way to agree to your suggestion that we make a voluntary refund to your department without creating a serious problem for all operators who have discounts for long-term contracts and in our particular case without similar donations being made to other federal and provincial government departments and also Canadian corporations for whom we have worked for over the years we cannot meet your request without creating chaos in the industry and without destroying the purpose of filing rates with the Air Transport Board as required by the Aeronautics Act I doubt if any long established operator including ourselves could stand the financial burden of making such payments which in all fairness would have to be made to all customers Mr. Charleson will return to Ottawa this week and while he is fully informed if you consider it desirable and necessary I would be pleased to attend a meeting with the interested parties to explain our position in detail.

The CHAIRMAN: That is the telegram, gentlemen. I believe Mr. Drysdale was particularly interested in these two paragraphs. I suggest, therefore, that we start with him.

Mr. DRYSDALE: I wonder if we could first call Mr. Jackett, because I would be interested in a further explanation of his opinion.

In connection with the telegram that has just been read, I think we must commend Mr. McPherson for his viewpoint because, as I understand it, he is prepared to give the money back to the federal government, provided the Department of Justice can find a way of returning it, without affecting any of the other air carriers or any other contracts they had.

The CHAIRMAN: Well, Mr. Drysdale, that is your interpretation of the letter.

Mr. DRYSDALE: Since this is a unique situation, I would like to canvass with Mr. Jackett the possibility of returning the \$93,000.

The CHAIRMAN: I must say that I do not take the same meaning from the reading of the letter. However, you certainly have a tenable viewpoint.

Mr. MCGEE: He says that he will not pay it back.

The CHAIRMAN: We will hear from Mr. Jackett, the Deputy Attorney General.

Mr. DRYSDALE: Mr. Jackett, the main thing we are interested in is the recovery of the \$93,000, and I would like to canvass with you what I consider perhaps two alternatives.

Accepting my interpretation of this telegram, which might be arguable, do you feel that now an application could be made to the Air Transport Board, under section 14 of the act or under section 14(3) of the regulations, in order to see whether that body would agree to refunding the \$93,000?

Mr. W. R. JACKETT (*Deputy Attorney General*): I would only reiterate what I think I said in the letter I wrote about this matter, namely that if this company wishes to make any refund, then, as I read the regulations, they could make application to the board for approval.

Mr. DRYSDALE: Then, as to my first suggestion, there is nothing to stop the Department of Defence Production at this time from making application before the Air Transport Board to see if they can get this money back under this procedure?

Mr. JACKETT: I am not quite sure that I understand what application you have in mind.

Mr. DRYSDALE: They would have to appear before the Air Transport Board to get confirmation of the refund, and if the Air Transport Board agrees that the Department of Defence Production is entitled to a refund, then there is no technical objection, is there, to making an application now?

Mr. JACKETT: As I understand it, the regulation prohibits the company from making a refund—which I take to be a gratuitous payment by the company—unless it gets approval of the Air Transport Board.

Mr. DRYSDALE: But, adopting my line of thinking, regardless of what the outcome is, there is nothing to prevent the Department of Defence Production now making such application to the board.

Mr. JACKETT: But I do not understand where the Department of Defence Production comes in—unless approval is given to the company making the payment; because they would be merely the recipient of a gratuitous payment.

Mr. DRYSDALE: It is your contention that application would have to be made by Okanagan Helicopters to refund the money. In other words, how is the matter raised before the Air Transport Board?

Mr. JACKETT: As I conceive it, the possibility is that the company, under the act and regulations, for some reason or other decides it wants to remit part or all of the fees which it has acquired, before doing so it has to go to the Air Transport Board and get approval.

Mr. DRYSDALE: I wonder if I am making myself clear. I am not making much headway with this point.

Mr. JACKETT: Well, I am sorry if I am not helping you.

Mr. DRYSDALE: I was trying to canvass what the possibility would be now of making application. Alternatively, since the board gave a ruling in this particular matter—that is, the Air Transport Board—perhaps I should back up that statement in the matter of the ruling by referring to the evidence at page 253, where Mr. Davoud said:

The Board ruled the original contract had expired after two months and, in the carrier's filed tariff there was no provision for making a retroactive settlement.

Then again at page 257 there was an exchange of viewpoints between Mr. McDonald, myself and Mr. Davoud. I was asking whether or not a decision had been made by the Air Transport Board, and Mr. McDonald said, at that page:

I appreciate that. It is a matter of words here. When you use the word "decision", a decision was taken, but not a formal, written decision in the sense that the board uses the word "decision" with respect to applications. There was a ruling made by the board with respect to it.

And then Mr. Davoud said:

The board ruled the original contract had expired, and therefore the toll for the three months, and not the original period—

In other words, I raised this point about a ruling, because there seems to be some variance in your opinion as to whether or not a ruling was made. But these are two people who were directly connected with the Air Transport

Board. I want to find out whether the Department of Defence Production can appeal to the Supreme Court of Canada under section 19(1) of the Aeronautics Act, which states:

An appeal lies from the board to the Supreme Court of Canada upon a question of jurisdiction or a question of law—

Perhaps I should read it all.

—or both, upon leave therefor being obtained from a judge of the Supreme Court upon application made within one month after the making of the order, decision, rule or regulation sought to be appealed from or within such further time as the judge under special circumstances may allow, and upon notice to the parties and the board, and the costs of such application are in the discretion of the judge.

Following from that, I think there is a basis, under the act, for making an appeal to the Supreme Court of Canada.

My contention is that, as indicated in the letter of July 3 to the Air Transport Board, there was agreement, in effect, between Okanagan Helicopters and the Department of Defence Production as to certain reduced rates being in effect. I think the letter is an indication of agreement.

Mr. JACKETT: July 3, do you say?

Mr. DRYSDALE: Yes, July 3, 1956. The reply to that, in a letter of July 4, said, no, that you could not enter into a particular contract. And as a result of that decision the parties entered into another six-month contract, which was again later amended to one month.

The point I would like to have cleared up, or would suggest should be followed up, is on the basis of a common mistake. You allege in your opinion that there was no jurisdiction in the Air Transport Board to examine this particular contract. You contend, therefore, that since the parties had intended to make the original agreement, which they were capable of doing, that the subsequent agreement relating to the six months, plus a month's extension, should be rescinded and the original agreement brought into effect.

To support this proposition I would like to refer to Pollock on Contracts, 12th Edition, at page 360. This is a reference to the case of Norwich Union Fire Insurance Society v. William H. Price Limited (1934) Appeal Cases, 455, 463. It states:

It is true that in general the test of intention in the formation of contracts and the transfer of property is objective; that is, intention is to be ascertained from what the parties said or did. But proof of mistake affirmatively excludes intention. It is, however, essential that the mistake relied on should be of such a nature that it can be properly described as a mistake in respect of the underlying assumption of the contract or transaction or as being fundamental or basic. Whether the mistake does satisfy this description may often be a matter of great difficulty.

That, I think, is the best ground upon which an appeal could be made to the Supreme Court of Canada, to find out whether or not we will get the \$93,000 back.

Then, turning particularly to your opinion, I must say I find a little difficulty with some of the facts. I was wondering if you could advise me, for example,—there was a two-month contract which was dated March 29, 1956; that was the first contract—when was that particular contract executed?

Mr. JACKETT: I have no knowledge of that.

Mr. DRYSDALE: Similarly, do you have any information as to when the contract was dated—that is, the first one, the six-month contract—when it was dated, or when it was executed; because apparently discussions were still

going on with respect to the contract as late as August 7, 1956, referring to a contract which was running from June 1?

Mr. JACKETT: I am afraid I have no knowledge of any of the facts in connection with this matter, or any of the details—except what I have set out in the letter.

I endeavoured, as best I could, to get what appeared to be the relevant facts of a particular transaction which was illustrative of the problem which had been raised. I based my conclusion upon those facts.

Mr. DRYSDALE: The point that interests me is the allegation that, first of all there was no jurisdiction in the Air Transport Board to review a particular contract. In the evidence that has been presented to us, one of the contracts, the one for six months, was executed or dated some time after the contract had been going on for some two or three months. The point that bothers me is that, in effect, should some body such as the Department of Defence Production, negotiating a contract with Okanagan, wait until the termination of the contract and ascertain exactly the number of months, in effect, and then by dating it back to March 31, or any particular date they want to, have the tolls and tariffs come into effect under that specific contract, and without any violation of the Air Transport Board regulations or rules?

The CHAIRMAN: Mr. Drysdale, I do not wish to interrupt you, but surely the problem is this: can we get the money back or can we not?

Mr. DRYSDALE: Yes.

The CHAIRMAN: Are we here to dispute the position of the Air Transport Board? We have a legal opinion upon that. The opinion may be either right or wrong, but it does not concern us to re-interpret it. Our problem is this: can we get the money back? Have you any suggestion as to how we can get it back? You have heard a telegram from the company saying, as I have read it, that they are not prepared now to repay.

Mr. DRYSDALE: Yes, but the telegram is extremely vague. It is hedged—“We do not want to repay, because if we had to repay that would affect all these various other contracts we have entered into, and affect the rules of the Air Transport Board.”

My contention is that the situation is unique, since all subsequent contracts have had another provision. Therefore, if it is a unique situation, and if my contention is correct, then there is no possibility of its recurring again. If their only objection is that which is stated within this telegram, then I would say that if we remove this objection they should be very glad to return the \$93,000.

The CHAIRMAN: I have a suggestion to make to the committee—and I do not know whether it is sound or not, but I hope it is. Mr. Jackett, have you taken notice of sections 21 and 22 of the Department of Defence Production Act?

Mr. JACKETT: I have not.

The CHAIRMAN: Perhaps that is a rather unfair question. The minister has power, I believe, if he thinks there has been an overpayment, or an unreasonable payment, to investigate the matter and to request repayment, and I think the act is still in force.

There was a decision rendered in the matter in the case of *Mulholland v. The King*, (1952) Exchequer Court Reports, 233.

Mr. JACKETT: I am conversant with that case.

The CHAIRMAN: In which case this committee should simply take note of the problem and, I suggest, call attention to it in our report. We should call the attention of the Department of Defence Production to it, and indicate that they could take any action they might wish.

Mr. JACKETT: That is reasonable.

The CHAIRMAN: It seems to me that that might be another way out of it.

Mr. JACKETT: I should have thought you would be faced with the fact that here you have regulated rates, and the minister might be faced with the difficulty of saying that the regulated rates, regulated in accordance with the law, were unreasonable.

The CHAIRMAN: It takes it out from under the Aeronautics Act and puts it under the minister's own act, which is a matter for him to interpret.

Mr. JACKETT: That is right.

Mr. DRYSDALE: The problem which bothers me is that, since our committee is going to explore this matter of accountings, how can we ensure that any effort will be made to recover or try to recover this \$93,000?

The CHAIRMAN: Put it in our report, by making a suggestion to that effect.

Mr. PICKERSGILL: Surely that is all we can do—make a suggestion—and let the government do what, in its wisdom, it thinks it should do.

The CHAIRMAN: That is the way I see it.

Mr. DRYSDALE: I suggest that Mr. Jackett has given an opinion which implies "I do not think, in effect, that it is worth while proceeding"—without investigating any suggested further alternatives. I realize that he is being pressurized from different departments to give opinions, but I suggest in this particular situation a more exhaustive—

Mr. BELL (*Carleton*): The inference should not be left that Mr. Jackett operates under pressure from anyone. Having had experience with him, I know that he does not.

Mr. DRYSDALE: I am sorry that you mistook what I said. I did not mean coercion; I meant actual, physical pressure of work. The point was that I thought Mr. Jackett did not have an opportunity to go out and give complete consideration such as might be necessary.

Mr. BELL (*Carleton*): I know that when Mr. Jackett gives an opinion, he gives it full consideration. The inference is being left with this committee that the Deputy Attorney General gives idle opinions. Every officer of the government knows that that is not true.

Mr. DRYSDALE: Again, I have not made any inference with respect to Mr. Jackett. All I am trying to say is that I think certain things have been omitted from Mr. Jackett's consideration, and I am trying to bring them to his attention and suggesting that there should be an investigation. I have mentioned certain points—for example, when the agreements were actually executed, which is an extremely important matter.

The CHAIRMAN: Mr. Golden is here. I do not wish to cut you short at all, Mr. Drysdale; we can hold other meetings; but I do not think there is very much use in pursuing that matter further.

Mr. DRYSDALE: Well—

The CHAIRMAN: Do you not think my suggestion was a reasonable and practical one?

Mr. DRYSDALE: There are three alternatives presently open to the Department of Defence Production and the Minister of Justice. All I wish to be assured of is that these alternatives will be explored, and if there is a faulty decision, that it will be pursued. That is all I am interested in.

The CHAIRMAN: That is the purpose of our committee. If there is nothing further—

Mr. BELL (*Carleton*): Before you go on, I should like to express my misgiving as to the Deputy Attorney General being put under cross-examination

before a parliamentary committee. I do not wish to argue the matter, but I would like to say that, so far as I am concerned, I would not like this to be treated as a precedent—that when an opinion is given by a senior law officer of the crown, a senior permanent law officer of the crown, he should be called before anyone to be cross-examined in relation to it. I will not pursue the matter further.

Mr. DRYSDALE: I take issue. I suggest that we are entitled to call people before this committee. It is not a matter of cross-examining; it is a matter of explanation.

Mr. PICKERSGILL: This may or may not be a point of order, Mr. Chairman, but there is other business before the committee.

Mr. CRESTOHL: Has this committee reached a conclusion as to whether we will make any recommendation?

The CHAIRMAN: Not today; that would come in the draft report, if we wish to.

Mr. CRESTOHL: Have we reached a decision as to whether it should be included in our draft report?

The CHAIRMAN: We will do that in a sitting in camera.

Now we will turn to the next order of business. The next order is in respect of paragraphs 73 to 77, of the Auditor General's Report, a matter in which Mr. McGregor was particularly interested.

I have in my hand a copy of a letter sent to Mr. McGregor by the Auditor General, Mr. Watson Sellar, dated June 3, which, I hope, answers most of the questions he raised. Might I suggest that it be printed as an appendix—it will be appendix A-4.

Mr. MCGREGOR: I do not see how we are going to go through this in five minutes.

The CHAIRMAN: Is there anything else you wish to add?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Did you not get sufficient information?

Mr. BELL (*Carleton*): Let us get started on it; let us have the witnesses, and see if we can finish.

Mr. MCGREGOR: In four minutes? How can we finish it in four minutes?

The CHAIRMAN: Whom did you wish to cross-examine or question?

Mr. MCGREGOR: There was Mr. Baldwin and Mr. Golden.

The CHAIRMAN: Mr. Baldwin and Mr. Golden are here today.

Mr. BELL (*Carleton*): We could come back for another meeting.

Mr. MCGREGOR: If you want to adjourn, it is all right with me. You have three minutes to settle the question.

The CHAIRMAN: There are three deputies here.

Mr. MCGREGOR (*quoting from the Evidence*): I asked the question as to what fee this man got for building this boat. They said that \$130,000 was a fixed fee. Then Mr. Fraser said:

That is not the question. It is the extras he got for such things as rental, and things like that, of his equipment, which a lot of these contractors will have. Under these different forms, for what is he allowed to charge extra?

Then I said this:

I think this is a highly important thing we want to get cleared up. We are told this man got \$130,000. Does he get any extra for rental of equipment, and that sort of thing, over and above that, or not?

Mr. Baldwin then said, "No." I said, "Does he get rental for his yard?" And Mr. Golden said, "Of course, he gets depreciation on his equipment."

Now, I want Mr. Golden to show me where he gets depreciation on his equipment.

Mr. D. A. GOLDEN (*Deputy Minister, Department of Defence Production*): Yes; the tentative overhead rate that was fixed, subject to audit subsequently, was 55 per cent. The overhead actually paid was \$525,654.88. This would cover the usual indirect expenses, which are always paid for any overhead, such as supervision, inspection and maintenance, and fixed charges—whatever the standard overhead costs were.

Mr. MCGREGOR: We were led to understand that the only thing he got was \$130,000.

Mr. GOLDEN: I never said any such thing. I said that his fee was \$130,000.

Mr. MCGREGOR: But when you were asked the question about it—about these other things—there was nothing like that in the charge.

Mr. GOLDEN: These are payments.

Mr. MCGREGOR: We know they are payments. You show me on this sheet (Exhibit P-6) where he gets anything for equipment—for his equipment. This \$525,000 is for wage rates, as I understand it.

Mr. GOLDEN: No, the \$525,000 would also include the depreciation of his yard.

Mr. MCGREGOR: The depreciation of his yard?

Mr. GOLDEN: Yes, certainly.

Mr. MCGREGOR: I did not understand you to say before that he got depreciation on his yard.

Mr. GOLDEN: Yes.

Mr. MCGREGOR: You left the impression that all he got was \$130,000.

Mr. GOLDEN: His fee was \$130,000.

Mr. PICKERSGILL: The three minutes are up.

Mr. MCGREGOR: Now you come along with the statement that he gets \$525,654.88. That may, according to your idea, be all right; but it does not work out to the statment that was given.

Mr. GOLDEN: I am not giving any opinion as to whether it is all right or not.

Mr. MCGREGOR: Definitely you passed it.

Mr. GOLDEN: No, I passed no claims whatsoever, in connection with this contract.

Mr. MCGREGOR: Who passed the claims, then?

Mr. GOLDEN: The Department of Transport and the cost inspection and audit division of the Department of Finance. I am having trouble with the relationship that you are putting on rentals, and this particular figure of \$525,000.

Mr. MCGREGOR: Why was that not put on this sheet, that he got it on rental?

Mr. GOLDEN: But he did not get in on rental.

Mr. MCGREGOR: What did he get it on?

Mr. GOLDEN: There is a term that we use for the rental of equipment, which does not apply to this type of contract. It applies to construction contracts. That is the term I always put on the word "rental," when anybody

asks me about contractors' equipment being rented. There is no such provision in this contract.

But this claim, in my experience, is always the case—depreciation of the assets used in the performance of the contract.

Mr. MCGREGOR: Well, then, on another item you have \$147,413.74 for miscellaneous direct expenses. What is the breakdown of that?

Mr. GOLDEN: That includes the testing of the hull design, the service of the tug, overtime labour that was authorized to be treated as direct expense, payments for firemen, and many charges of that kind.

Mr. MCGREGOR: I guess that is as far as I can go, but certainly this statement is misleading, to my way of thinking.

Mr. MCGEE: I move we adjourn.

Mr. BELL (*Carleton*): Just a moment.

Mr. GOLDEN: I did not mean to mislead the committee. I cannot relate your question to rental, and this figure of overhead; but I will be glad to clarify it.

Mr. MCGREGOR: If this was for rental, why was it not put in that statement, instead of being put in as 55 per cent for overhead?

Mr. GOLDEN: I did not file the statement. I am trying to get clear what your point is.

Mr. J. R. BALDWIN (*Deputy Minister, Department of Transport*): In explanation, I would say that there is no specific rental or depreciation item in that. This is the general overhead item calculated in a percentage ratio to the labour costs, which is part of the contract; and the overhead payment is presumably to reimburse the shipyard for all the miscellaneous supervisory expenses, which include the use of the yard, which could be considered depreciation.

Mr. BELL (*Carleton*): Is not the issue this: is there an item of profit in that?

Mr. BALDWIN: Not as far as I am concerned.

Mr. BELL (*Carleton*): There is no profit in that item. The only profit to the company is the \$130,000?

Mr. BALDWIN: That is right.

Mr. BELL (*Carleton*): Mr. McGregor's belief is that there is a profit shown in the \$525,000.

Mr. GOLDEN: I do not wish to be difficult about it, but Mr. McGregor said that I had misrepresented the statement. I did not file the statement. At page 278—Printed Issue No. 9—Mr. McGregor said, "Does he get rental for his yard?" To which I replied, "Of course, he gets depreciation on his equipment."

Mr. MCGREGOR: I said what?

Mr. GOLDEN: You said, "Does he get rental for his yard?" And I said, "Of course, he gets depreciation on his equipment." And then I went on to say, "This will appear an allowable item of cost. I cannot say what, in fact, were the charges; but I am sure Mr. Baldwin can produce them."

Mr. MCGREGOR: These charges were included in that document?

Mr. GOLDEN: Mr. Baldwin filed it, showing \$524,000.

Mr. MCGREGOR: When we were trying to find this out, why did you not come across and make a clear statement of everything, just as it is today, and clean it up once and for all? He got \$525,000 for the rental of his yard, and so on, did he not?

Mr. GOLDEN: Included in that figure of \$525,000 is an item for depreciation, yes.

The CHAIRMAN: Anything else?

Mr. MCGREGOR: Yes, there is a question of the architect's fees.

The CHAIRMAN: Will that take long?

Mr. MCGEE: I move we adjourn.

The CHAIRMAN: If we could finish it would help us all.

Mr. MCGREGOR: Better leave it over until the next meeting.

The CHAIRMAN: Do you want another meeting, Mr. McGregor?

Mr. MCGEE: Leave it in the hands of the steering committee.

Mr. BELL (*Carleton*): No, we should decide it now.

Mr. MCGREGOR: Do you want to go on, if so, we will go on with it. I find this in the printed evidence of the Committee at page 277:

Mr. PRATT: I beg your pardon; I meant that. Is that the usual architect's fee for a job of that type—about 5 per cent?

Mr. GOLDEN: Yes.

Mr. GOLDEN: No.

Mr. MCGREGOR: There seems to be a misprint.

Mr. GOLDEN: That should be corrected. I wish to apologize to the committee, if I seem to have tried to answer questions about architects. I was not doing that. I do not know anything about it. I was carrying on where someone had mentioned the standard fee for a contract of this type. That is at page 277, at the top of the page. What I was answering was: is it usual for a contract of this type? I was not answering about architects. I do not know anything about that.

Mr. MCGREGOR: It is quoted here.

Mr. GOLDEN: It was not quoted by me when I answered the question; that is the point I am making.

Mr. MCGREGOR: You say that 5 per cent is not the regular fee?

Mr. GOLDEN: For architects?

Mr. MCGREGOR: Yes.

Mr. GOLDEN: I do not know anything about architects' fees. You will see at the bottom of page 276 I said:

There are two separate things there. This is the fee to the shipyard, not to the naval architect.

Then Mr. Pratt said:

I beg your pardon; I meant that.

So I think he agreed with me that he wanted the fee for the shipyard, and I said that it was about 5 per cent. Then Mr. Walker took that up about the architect.

Mr. MCGREGOR: One other point. I see that, in addition to his 11½ per cent fee, he got for telephones and telegraphs the sum of \$10,752.46. I am asking you if that is a fair charge?

Mr. GOLDEN: I do not know anything about that contract, sir.

Mr. MCGREGOR: Someone must know about it.

Mr. BALDWIN: These were cost accounts that were submitted to us and cleared by the Department of Finance before they were paid.

Mr. MCGREGOR: I have been in the contracting business for a long time, and I never was paid anything on a fixed fee price for telephones at the rate of \$10,752. I think that is a very unjust charge. I cannot understand how anyone could O.K. that charge. I would like to know who O.K.'d the charge.

Mr. BALDWIN: The accounts were accepted by the Department of Transport and the Department of Finance.

Mr. MCGREGOR: That means that you O.K.'d the charge?

Mr. BALDWIN: Not personally, but I have the responsibility for it.

Mr. MCGREGOR: Well, if you are satisfied to let them get away with it, it is O.K. with me; that is all.

Mr. MCGEE: I move we adjourn.

Mr. BELL (*Carleton*): No meeting tomorrow?

The CHAIRMAN: The Committee is adjourned, at the call of the chair.

APPENDIX A-5

DEPUTY MINISTER OF TRANSPORT

OTTAWA, CANADA

June 10, 1959.

Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. Macnaughton:

Further to my letter of May 26th and the questions which were raised subsequently in the Public Accounts Committee on June 9th regarding the cost of the SELKIRK, there is one additional point that I wish to put on record.

Some questions was raised as to the amount listed for telephone and telegrams in the sums paid to the Naval Architects.

I did not mention this at the time, in view of the lateness of the hour and the obvious desire of the committee to adjourn, but this general heading, by error, omitted the word "etc." and in fact, the item covers such matters as travelling expenses for the firm as well and should not be taken as solely related to telephone and telegraph costs.

Yours Sincerely,

J. R. Baldwin,
Deputy Minister.

APPENDIX A-6

DEPARTMENT OF NATIONAL DEFENCE
(1957-58)

		<i>Standard Object of Expenditure charged</i>
Teachers salaries.....	\$ 4,371,000	<i>Professional and Special Services.....</i> (04)
Transportation of children.....	177,000	<i>Travel and Removal Expenses.....</i> (05)
Text books and school supplies....	508,000	<i>Materials and Supplies.....</i> (12)
Non-resident school fees.....	922,000	<i>Municipal or Public Utility Services.....</i> (19)
School Maintenance.....	838,000	<i>Municipal or Public Utility Services.....</i> (19)
Miscellaneous.....	432,000	<i>All Other Expenditure.....</i> (22)
Capital costs including capital assistance.....	5,436,000	<i>Buildings and Works including Land Construction or Acquisition.....</i> (13)
Gross Expenditure.....	12,684,000	
Less—Grants received from educational authorities and sundry fees.....	1,196,000	{ 513,000 credited to Municipal or Public Utility Services.....(19) { 660,000 credited to Professional and Special Services.....(04) { 23,000 Non Tax REVENUE—Miscellaneous
	11,488,000	

NOTE—The above figures are partly estimated but for all practical purposes they are as precise as any that can be obtained without a detailed analysis.

EXHIBITS

No.		Issue No.
P-1	Table showing comparison of 1948 and 1958 Service Forces establishments and pay rates. (Printed).....	4
P-2	Memorandum on telephone conversation between Mr. Galpin and Mr. Grandy of External Affairs, relating to Canadian Red Cross. (Printed).....	6
P-3	Photostat copies of Cheque and Receipt relating to Canadian Red Cross.....	7
P-4	Letter of Mr. D. A. Golden relating to copies of Contracts and Amendments and related forms for Wood Island—Caribou Ferry.	9 and 10
P-5	Letter of Mr. D. A. Golden enclosing copies of Contracts with Okanagan Helicopters Limited and Canadian Helicopters (1954) Limited.....	9
P-6	Letter of Mr. J. R. Baldwin enclosing amounts paid to shipyards and Naval Architects.....	10 Printed in Issue No. 12
P-7	Original Invoices re transportation of Army personnel. (To be returned).....	10

APPENDICES

	Page No.
A Canadian National European Flood Relief Committee, and Campaign and Public Relations Sub-Committee.....	157
B Canadian National European Flood Relief Committee Meeting of February 13, 1953.....	158
C The Canadian National European Flood Relief Fund Statement of Contributions and Disbursements, as at May 31, 1955.....	164
D Canadian National European Flood Relief Fund—Final report of July 15, 1955.	165
E Memorandum to The Rt. Hon. Louis St. Laurent, from Dr. W. S. Stanbury, Re C.N.E.F.R. Fund dated July 15, 1955.....	168
F Letter to Dr. W. S. Stanbury from Rt. Hon. Louis St. Laurent, dated July 28, 1955, and letter to Rt. Hon. Louis St. Laurent from Mr. F. P. Varcoe, Deputy Attorney-General, dated July 26 1955.....	171
G Letter to Rt. Hon. Louis St. Laurent from Dr. W. S. Stanbury dated August 10, 1955.....	174
H Letter to Mr. A. E. Ritchie, Economic Division, Office of Under Secretary of State for External Affairs, from Dr. W. S. Stanbury, dated April 18, 1956.....	174
I Letter to Dr. W. S. Stanbury from Rt. Hon. Louis St. Laurent dated April 23, 1956.....	176
J Letter to Dr. W. S. Stanbury from Mr. Jules Léger, Under Secretary of State for External Affairs, dated June 29, 1956.....	177
K Canadian Red Cross News Service, Press Release, dated June 29, 1957.....	178
L Canadian Red Cross News Service, Press Release, dated June 30, 1957.....	178
M Letter to Mr. Norman A. Robertson, Canadian Ambassador to the United States, from Dr. W. S. Stanbury, dated July 2, 1957.....	179
N Letter to The Rt. Hon. Vincent Massey, Governor General of Canada, from Mr. Charles LaFerle, Hon. Secretary, Canadian National European Flood Relief Fund, dated July 17, 1956.....	180
O Letter to The Canadian National European Flood Relief Fund to all members from Mr. Charles LaFerle, Hon. Secretary, dated August 10, 1956.....	182
P Letter to Dr. W. S. Stanbury from The Rt. Hon. Louis St. Laurent, dated October 24, 1956.....	184
Q Letter to Mr. Charles LaFerle, Hon. Secretary, C.N.E.F. Relief Fund, from the Rt. Hon. Vincent Massey, Governor General of Canada, dated November 1, 1956.....	184
R Letter to all members of Canadian National European Flood Relief Fund from Mr. Charles LaFerle, dated November 5, 1956.....	185
S The Canadian Red Cross Society International Relief Fund—Statement of Receipts and Disbursements for period July 13, 1956 to December 31, 1958..	186
T The Canadian National European Flood Relief Fund Statement of Contributions and Disbursement as at July 12, 1956.....	187
U Internation Relief Fund Statement dated April 28, 1959.....	188
V Letter of Deputy Minister of Welfare to Chairman relating to accumulated Family Allowances, dated May 14, 1959.....	280

	<u>Page No.</u>
W Office Working Paper relating to the form and size of Public Accounts. (Prepared by Auditor General).....	313
X Letter of Assistant Comptroller of the Treasury to Chairman relating to number of printed copies of Public Accounts, dated May 27, 1959.....	341
Y Letter of Deputy Minister of Defence Production to Chairman forwarding legal opinion of the Deputy Attorney General, Department of Justice, relating to helicopter contracts, dated June 1, 1959.....	341
Z Mimeographed copy of Audit Report of Auditor General on The Canada Council dated April 28, 1959.....	349
Z-1 Statement of Auditor General on The Canada Council Act—Section 22, Chapter 3.....	350
A-1 Letter of Hon. Brooke Claxton to Mr. G. E. Beament, Q.C., dated March 13, 1958 and the latter's legal opinion on humanities, etc., and on the building of dormitories and residences of Canadian Universities, dated April 10, 1958.....	352
A-2 Letter dated June 8, of Hon. Brooke Claxton to Chairman listing changes to be made in his testimony of June 3, 1959.....	398
A-3 Letter of Deputy Minister of the Department of Defence Production dated June 3, 1959, enclosing copy of telegram from Mr. G. C. McPherson to Mr. D. Mundy relating to Okanagan Helicopter Company dated June 2, 1959.....	415
A-4 Letter of Auditor General to Mr. R. H. McGregor, M.P., relating to vessel "Lord Selkirk" dated June 3, 1959.....	416
A-5 Letter of Deputy Minister of Transport dated June 10, 1959 to the Chairman regarding "LORD SELKIRK" vessel.....	428
A-6 Statistical data relating to educational expenses, Department of National Defence.....	428

INDEX TO WITNESSES

	<u>Issue No.</u>
MR. E. B. ARMSTRONG Assistant Deputy Minister (Finance), Department of National Defence.....	10
MR. LOUIS C. AUDETTE, Q.C. Chairman, Canadian Maritime Commission.....	8, 9
MR. J. R. BALDWIN Deputy Minister, Department of Transport.....	8, 9, 13
MR. H. R. BALLS Comptroller of the Treasury, Department of Finance.....	10
MR. H. F. CLARK Chief, Finance Division, Department of External Affairs.....	6
HONOURABLE BROOKE CLAXTON Chairman, and Mr. A. W. Trueman, Director, The Canada Council.....	12
DR. G. F. DAVIDSON Deputy Minister (Welfare), Department of National Health and Welfare.....	8
MR. P. DAVOUD Chairman, and Mr. A. S. McDonald, Q.C., Executive Director, Air Transport Board.....	9
MR. E. A. DRIEDGER Assistant Deputy Minister, Department of Justice.....	8
MR. D. A. GOLDEN Deputy Minister, Department of Defence Production.....	8, 9, 13
MR. W. R. JACKETT Deputy Minister, Department of Justice.....	13
MR. WATSON SELLAR, C.M.G. Auditor General for Canada.....	1, 2, 3, 4, 5, 6, 7, 10, 11, 12
DR. W. S. STANBURY National Commissioner, The Canadian Red Cross, Toronto.....	6

