

J

103

H7

1956

P8

A1

HOUSE OF COMMONS
Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

(Including First Report to the House)

THURSDAY, MARCH 8, 1956

THURSDAY, MARCH 15, 1956

WITNESS

Mr. Watson Sellar, Auditor General of Canada

STANDING COMMITTEE

On

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
and Messrs.

Anderson	Hanna	Mitchell (<i>London</i>)
Applewhaite	Harkness	Mitchell (<i>Sudbury</i>)
Argue	Henderson	Monteith
Ashbourne	Hollingworth	Noseworthy
Balcer	Holowach	Nowlan
Balcom	Houck	Pommer
Beaudry	Kickham	Poulin
Boisvert	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>)
Breton	<i>Guysborough</i>)	Proudfoot
Bruneau	Laffamme	Regier
Cavers	Leduc (<i>Jacques-Cartier-</i>	Rowe
Cloutier	<i>Lasalle</i>)	Schneider
Denis	Maltais	Thomas
Fulton	McGregor	Tucker
Goode	McLeod	Van Horne
Hamilton (<i>Notre-Dame-</i>	McWilliam	Weaver
<i>de-Grâce</i>)	Menard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
THURSDAY, January 26, 1956.

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

Messrs.

Anderson,	Hanna,	Mitchell (<i>London</i>),
Applewhaite,	Harkness,	Mitchell (<i>Sudbury</i>),
Argue,	Hees,	Monteith,
Ashbourne,	Henderson,	Noseworthy,
Balcom,	Hollingworth,	Nowlan,
Beaudry,	Holowach,	Pearkes,
Boisvert,	Houck,	Pommer,
Breton,	Kickham,	Poulin,
Bruneau,	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>),
Cameron (<i>High Park</i>),	<i>Guysborough</i>),	Proudfoot,
Cannon,	Laflamme,	Regier,
Cavers,	Leduc (<i>Jacques-Cartier-</i>	Schneider,
Cloutier,	<i>Lasalle</i>),	Thomas,
Denis,	Macdonnell,	Tucker,
Fulton,	Maltais,	Van Horne,
Goode,	McLeod,	Weaver,
Hamilton (<i>Notre-Dame</i>	McWilliam,	Zaplitny—50.
<i>de Grâce</i>),	Ménard,	

(Quorum 15)

Ordered,—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, March 2, 1956.

Ordered,—That the Public Accounts, Volumes I and II, and the Report of the Auditor General of Canada for the fiscal year ended March 31, 1955, be referred to the said Committee.

WEDNESDAY, March 7, 1956.

Ordered,—That the name of Mr. Rowe be substituted for that of Mr. Macdonnell; and

That the name of Mr. Balcer be substituted for that of Mr. Pearkes, on the said Committee.

THURSDAY, March 8, 1956.

Ordered,—That the said Committee be empowered to print from day to day 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

Ordered,—That the said Committee be given permission to sit while the House is sitting.

WEDNESDAY, March 14, 1956.

Ordered,—That the name of Mr. McGregor be substituted for that of Mr. Hees on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, March 8, 1956.

The Standing Committee on Public Accounts begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print from day to day 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

2. That it be given permission to sit while the House is sitting.

Respectfully submitted,

Sgd. Charles A. Cannon,
Chairman.

(The said Report was concurred in by the House this day.)

MINUTES OF PROCEEDINGS

THURSDAY, March 8, 1956.

(1)

The Standing Committee on Public Accounts held its organization meeting at 11 o'clock a.m., in Room 277. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Applewhaite, Balcom, Boisvert, Breton, Cameron (*High Park*), Cavers, Cloutier, Fulton, Hamilton (*Notre-Dame-de-Grâce*), Harkness, Hees, Hollingworth, Holowach, Kirk (*Antigonish-Guysborough*), Laflamme, Leduc (*Jacques Cartier-Lasalle*), McLeod, Mitchell (*London*), Mitchell (*Sudbury*), Monteith, Nowlan, Pommer, Poulin, Power (*St. John's West*), Regier, Rowe, Schneider and Tucker—(29).

The Chairman expressed his appreciation for having been elected to preside the deliberations of the Committee.

The Orders of Reference, dated January 26 and March 2 were read.

The Committee proceeded with its routine business.

On motion of Mr. Applewhaite,

Resolved,—That the Committee ask permission to sit while the House is sitting.

On motion of Mr. Balcom,

Resolved,—That the Committee ask leave to print from day to day 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Cavers,

Resolved,—That the Chairman and nine other members, to be selected by the former, compose the Sub-Committee on Agenda.

The Committee discussed future meetings.

On motion of Mr. Fulton,

Resolved,—That the Committee call Mr. Watson Sellar, Auditor General of Canada as its first witness.

On motion of Mr. Nowlan,

The Committee adjourned to the call of the Chair, it being 11.25 a.m.

THURSDAY, March 15, 1956.

(2)

The Standing Committee on Public Accounts met this day at 11 o'clock. Mr. Charles A. Cannon presided.

Members present: Messrs. Anderson, Applewhaite, Argue, Balcer, Balcom, Beaudry, Boisvert, Cameron, (*High Park*), Cavers, Cloutier, Fulton, Goode, Hamilton (*Notre-Dame-de-Grâce*), Hanna, Harkness, Henderson, Hollingworth,

Holowach, Kirk (*Antigonish-Guysborough*), Laflamme, Leduc, (*Jacques Cartier-Lasalle*), Maltais, McGregor, McLeod, McWilliam, Menard, Mitchell (*London*), Mitchell (*Sudbury*), Noseworthy, Nowlan, Pommer, Poulin, Power (*St. John's West*), Regier, Rowe, Thomas, Tucker, Van Horne, Weaver, Zaplitny—41.

Also present: Mr. William Benidickson, Parliamentary Assistant to the Minister of Finance.

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

The chairman presented as follows, the First Report of the Subcommittee on Agenda:

"The Subcommittee on Agenda held a meeting in Room 497.

Present: The Chairman and Messrs. Applewhaite, Balcom, Breton, Cameron (*High Park*), Harkness, McLeod and Noseworthy.

Your Subcommittee recommends:

1. That the Committee commence its business by hearing the Auditor General of Canada on Thursday, March 15, pursuant to the motion of Mr. Fulton passed on March 8 at the organization meeting, and by examining Mr. Sellar on his report for the year ended March 31, 1955, as contained in Volume I of the Public Accounts (1955) referred to the Committee.

2. That meetings be held on Tuesday, March 20 and Thursday, March 22.

3. The election of a Vice-Chairman in the person of Mr. Cameron (*High Park*)."

On motion of Mr. Applewhaite, seconded by Mr. Anderson, the above report was adopted.

Mr. Watson Sellar was called and examined on his Report on Public Accounts to the House of Commons for the year ended March 31, 1955.

It was agreed that certain matters pertaining to finance be deferred until a later date when the Deputy Minister of Finance will be asked to appear before the Committee.

At 12.45 p.m. the examination of Mr. Sellar still continuing, the Committee adjourned until Tuesday, March 20.

Antonio Plouffe,
Assistant Chief Clerk of Committees

EVIDENCE

THURSDAY, MARCH 15, 1956.

The CHAIRMAN: Order. We have a quorum so I suggest we get down to business. Since our last meeting the subcommittee on agenda has met and has made a report which I would ask the clerk to read:

(See minutes of proceedings)

The CHAIRMAN: May I have a mover for the adoption of the report.

Mr. APPLEWHAITE: Could we have the list of those present read again?

The CHAIRMAN: Those present at the subcommittee meeting? They were the Chairman the Messrs. Applewhaite, Balcom, Breton, Cameron (*High Park*), McLeod and Noseworthy.

Mr. APPLEWHAITE: Mr. Harkness was there.

The CHAIRMAN: Yes, he was there. I am sorry. With that correction may I have a motion for concurrence?

Report agreed to on the motion of Mr. Applewhaite seconded by Mr. Anderson.

The CHAIRMAN: Gentlemen we have with us this morning Mr. Watson Sellar, the Auditor General of Canada. I propose, if it is the wish of the committee that we go through Mr. Sellar's report paragraph by paragraph. Mr. Sellar is here to answer any questions which may be asked by members of the committee. I think you all have copies of the report. It is in volume 1 of the Public Accounts but we also had it distributed to all the members of the committee in booklet form. We shall begin with paragraph 1.

Mr. Watson Sellar, Auditor General of Canada, called.

The CHAIRMAN: Are there any questions on paragraph 1?

No questions.

Paragraph 2?

By Mr. Nowlan:

Q. On paragraph 2, I notice the phrase "by means of comprehensive tests of vouchers". I would just like to get an idea of the system that is followed with regard to these comprehensive tests of vouchers. I know it must be a physical impossibility to check every expenditure made and I was wondering what system is followed, particularly in the Department of Public Works where work is sometimes done without contract. Let us suppose that, in my own riding for example, a building is being constructed. Are all the vouchers for that particular building checked by your department. What system do you follow in making the check?—A. Mr. Chairman, in reply to that question—the Department of Public Works is a very satisfactory example—I may say that every voucher is examined in detail first by the comptroller of the treasury staff before any payment is made. Prior to that the vouchers are of course considered by the department. We come in after the payments are made. We do not examine every voucher. That would be physically impossible; it

would be a duplication of effort and an unnecessary cost. We make a selection by types of accounts, the record of the contractors and any special circumstances that might have arisen during the performance of the contract. We do not examine every contract. We make a selection. We keep men constantly engaged on the audit of public works accounts. They are located in the Hunter building along with the department. We also send men into the field to make examinations here and there across the country, but the bulk of our work is done in Ottawa. In addition we have men to check the stores, the issue of stores and so on, and to check the equipment of the department as assigned to the various contractors.

We pay particular attention to contracts which we call day labour jobs because there is no fixed price on them, and their cost is to be determined as work progresses. Actually, during the course of a year we review in detail a very substantial part of the outlays of the Department of Public Works, but in relation to the total number of vouchers our examination may not exceed 10 per cent.

Q. How many men do you have on the staff?—A. I have no staff assigned particularly to one department, so I will give you the number of the staff as a whole: about 140 people.

Q. And you say 10 per cent of the actual jobs would be, perhaps, audited by your department?—A. Yes, but in the case of a very small department where there is not really a balancing of responsibilities and where one man may have to make decisions regarding both spending and the approval of the vouchers, we examine the situation more closely. That is in a quite small department.

Q. Those are all the questions I have, Mr. Chairman.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. On that same point, the government accounting system generally, irrespective and leaving aside for a moment the audit by the treasury department, does operate a system of internal check for these expenditures?—A. Yes, Mr. Chairman. In some departments of course it is very elaborate; the Post Office and National Revenue departments are examples of departments where there is a very elaborate control section; National Defence also, and to a lesser degree other departments have it. But, they are only responsible for the regularity of our commitments and as a whole they do a very good job. That is why we can get along with about 140 people. The accounts are well kept.

Q. Mr. Sellar did mention some departments in which the authorization for the expenditure and verification of the subsequent amount of the invoice would stem from the same person. That, in effect, means there is not a system of internal check within that particular operation?—A. That is correct, sir, but you have to bear in mind they are not spending a great deal of money and the cost would not be out of proportion. Let us take the chief electoral officer; between elections he has only a few people and they have to do everything.

Q. Could you identify for us the government operations where there is no internal check?—A. That is an independent check? Am I right when I say that?

Q. Yes. I am eliminating the treasury department check and your own.—A. Yes.

Q. And I am seeking information as to the individual departments in which there is no internal check within the department itself.—A. I would not like to try to list them because I might be unfair. I would say a little department such as the International Joint Commission where they have a very small staff on the administrative side since it is a technical job. I doubt if they have much; or if the Board of Transport Commissioners have much

because they have only a few expenses. It is merely salaries and it would not pay them to go to the expense of having several people employed just to check the accounts. The head of the department and some of the senior people have to take that responsibility.

The CHAIRMAN: Is it not a fact that even in some of the small organizations there is always some kind of a check?

The WITNESS: Yes; but I understood the question to be an independent check.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes.

Mr. BALCOM: In the case of National Defence there is an independent audit which goes around to all the independent branches, for instance Vancouver and Halifax, and checks their accounts; that is, they come from Ottawa?

The CHAIRMAN: Is that a fact?

The WITNESS: Yes, sir. The head of the internal audit was an officer of the audit office. He was transferred there. He is a very high class fellow and he has a staff of 100 people travelling all the time and we are provided with copies of all their reports.

The CHAIRMAN: Are there any other questions on paragraph 2?

By Mr. Mitchell (London):

Q. Mr. Chairman, Mr. Sellar mentioned that selection was made of the individual operations which he was going to delve into. How is that selection made? Is it just a case of drawing it out of a hat or is there any basis for the selection?—A. No, sir. It is based on experience and watching the transactions as they flow through. An auditor, while he is not supposed to be a detective, is expected to have a suspicious mind.

The CHAIRMAN: If there are no more questions on paragraph 2, we shall proceed to paragraph 3.

Paragraph 4?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Mr. Chairman, I have a question in that connection. This, of course, refers to non-tax revenues in the consolidated revenue fund. Is that correct?—A. Yes.

Q. I refer back now, in order to give you the background for my question, to the proceedings of this committee in 1951. There we find, on page 23, a statement first in the form of a question by Mr. Macdonnell in which he says:

I suppose there is a case where money could be paid to Canada, such as by a foreign government purchasing munitions in this country, or anything of that kind, where the money would just go like other money into the consolidated revenue fund, or is it conceivable that you might have a separate fund for moneys which were in no sense that of this government?

That is the end of Mr. Macdonnell's question, and it is followed by Mr. Clark, the Deputy Minister of Finance at that time, who says:

If there was a contract or, let us say an agreement, under which that money would be paid to us to be used for the purchase of defence equipment for a foreign government, I think it would be money paid to Canada for a special purpose. It would be public money in that sense and it would go into the consolidated revenue fund but it could be disbursed for the specific purpose without further appropriation by parliament.

That is the end of my quotation. Does that agree with your understanding of the situation?—A. Yes. The financial administration Act provides for receiving money for special purposes, holding it in the consolidated revenue fund and re-spending or spending it for that particular purpose. Actually, sir, you quote Mr. Macdonnell as referring to a purchase of armaments or something like that from another government. Currently that would pass through Canadian Commercial Corporation accounts rather than the government accounts.

Q. But there is nothing, let us say, to prohibit it?—A. I would prefer putting it in a very simple term which we understand. A farmer wants to get a pure bred animal and asks the Department of Agriculture to pick one out for him. He sends the price for that to the department and the department pays it out. That is a very simple transaction and while it flows in and out of the consolidated revenue fund it is not recorded as an expenditure.

Q. On what authority would that money which has come in be disbursed?—A. Under the authority in the section of the Financial Administration Act.

Q. There would not be any special warrant?—A. No. It would come in and be deposited in the usual way to the credit of the Receiver General and the comptroller of the treasury would issue the cheque in payment.

Q. You would not find it necessary in connection with transactions of that kind to draw the attention of this committee or the attention of the house to it in your annual report?—A. No, because it is not taxpayer's money.

The CHAIRMAN: It is money received for a special purpose?

The WITNESS: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is the one point I want to make. It seems to me it is conceivable that a department of the government might engage in transactions which would be of interest to parliament in one respect or another without them necessarily coming under the immediate surveillance of parliament, or the immediate regard of parliament, under such a provision. I think I can cite specifically because the question is raised in this particular paragraph, the question of some arms to foreign governments. If a foreign government wishes to enter into an undertaking with the federal government for the procurement of arms here in Canada they can turn over money; those arms could be procured through the aegis of the federal government and they would be paid for and the transaction would not necessarily come under the scrutiny of parliament. Is that not correct?

The CHAIRMAN: Where do you see the reference in this paragraph to the shipment of arms?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am referring to my previous remarks in which I quoted in connection with the receipts of this kind from the report of 1951 where specific reference was made to this type of transaction.

The CHAIRMAN: Well, of course, Mr. Sellar has not been assigned here to give evidence about the 1951 expenses or disbursements. It is only the public accounts for 1955 which have been referred to us, and I wonder if your question is in order under the circumstances.

By Mr. Applewhaite:

Q. Does not this paragraph 4 of the Auditor General's report refer to non-tax revenues and refer to moneys which are the property of the taxpayers of Canada as against moneys held in trust, such as received from a foreign government?—A. As I understand the question, non-tax moneys are moneys actually received for public purposes and therefore they are recorded in the revenues of the country. Moneys received for a special purpose, given by a

government to buy anything, or given by anybody to buy anything are not recorded in this as revenues, but if they are not disbursed by the year end—and so are being held—they are recorded in a special account and set up as a liability in the statement of assets and liabilities. They would appear there, but if during the year everything was cleared, there would be no appearance at all.

The CHAIRMAN: Does that answer your question, Mr. Applewhaite?

Mr. APPLEWHAITE: Not quite. The first line that refers to the \$321 million odd. Is all that money the property of the people of Canada, or is some of it merely held in trust, like for your farmer who wanted to buy—

The WITNESS: Oh, I am sorry, I misunderstood you there. The \$321 million is the property of the taxpayers of Canada.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. The explanation of that previous observation; the reason I draw 1951 into this discussion is that, at that time the committee was considering the Financial Administration Act and certain changes therein, and the financial administration of the government of Canada, and the audit of the public accounts and financial controls of corporations. Therefore, that is the act under which Mr. Watson Sellar I would think operates and draws his authority, is that correct?—A. Yes.

Q. And therefore I felt that a reference to that was quite proper. I was not trying to draw into the matter the individual proceedings of 1951. I was referring to the act, and my explanation of certain sections there, under which Mr. Sellar operates.—A. Yes.

Q. You see what bothers me?

The CHAIRMAN: Well, again Mr. Hamilton, in 1951 the Financial Administration Act had been referred to the committee, and the committee very properly studied the act then, but it is not referred to the committee this time. That has been referred to the committee so I will allow Mr. Sellar to answer it. However, there may be some relation between your question and the matter Will you repeat it?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Essentially my question was; whether it would be possible for the federal government to engage in, say the purchase of arms for a foreign country as their agent, with the foreign government sending money to Canada; it going into the consolidated revenue fund, it being paid by the consolidated revenue fund for that purpose without it necessarily coming directly under the surveillance of parliament?

Mr. CHAIRMAN: Just a minute Mr. Sellar. I do not think, Mr. Hamilton, that that is—that the matter you are referring to now is within the terms of reference of the committee. We are here to examine the Auditor General's report for a specific period, and to examine the accounts for a specific period. I wonder whether it is proper for you to ask Mr. Sellar for legal opinions on hypothetical cases in the interpretation of the financial administration Act.

Mr. MITCHELL (*London*): Well, Mr. Chairman, we are considering non-tax revenues to the amount of \$321-odd million, and Mr. Sellar himself said that that does not represent the full intake or outgo from the consolidated revenue fund, and Mr. Hamilton's question is directed to the difference between the \$321 million and what the total intake and outgo may be.

Mr. BEAUDRY: Mr. Chairman, Mr. Sellar has already indicated that that sum would come under the heading of revenue and I think that answers the question.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You see, Mr. Chairman, what I am directing attention to is this, under disbursements of non-tax revenues you have got quite an adequate breakdown in the public accounts. There is an analysis of all the disbursements which are made in accordance with the parliamentary vote. I take an interest, however, more than an interest in revenues, because it seems to me that in certain cases we are not getting, to the same extent, details of revenue that we were getting on the details of expenditures. Coming now, down to this specific paragraph, and I have tried to direct everything within the frame of this specific paragraph; you find only a generalized statement regarding this in Mr. Sellar's report under paragraph 4, and you find a further breakdown in table nine on page 25 in the explanation, but even there we finally come down to a fairly sizeable amount, not in relation to the total expenditures of the country, but, nonetheless, a fairly sizeable amount, for which there does not seem to be details of where it came from, as to the source. At the bottom of that there is an amount of \$3·2 million miscellaneous, and that—

The CHAIRMAN: What are you referring to exactly, Mr. Hamilton, \$3·2 millions?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): The \$3·2 million miscellaneous.

The CHAIRMAN: Not in paragraph 4. What paragraph are you—

Mr. HAMILTON (*Notre Dame de Grâce*): Oh, no.

The CHAIRMAN: We are supposed to be studying paragraph 4 as I understand it.

Mr. FULTON: It is page 25 of the public accounts which gives the breakdown, and the total \$321 million.

Mr. NOWLAN: Table 9.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I identified it before. Table 9 on page 25 of public accounts. Now, that gives the breakdown of the \$321 million that was referred to in paragraph 4.

The CHAIRMAN: Yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. We find \$131 million odd for the post office, \$133 million odd return on investments and that sort of thing; then we come down here to the bottom where we have got the item \$3·2 million miscellaneous. I find myself interested in that because of the point I brought out before, it is possible for money to go into the consolidated revenue fund and come out of it, which has nothing to do with parliamentary votes. Now, I can see where it would come out without the authorization of parliament, so we would know nothing about it, and the only way to find out about this money is to locate it going into the fund. Do you agree with me on that Mr. Sellar?—A. Well, of course, this table you refer to on page 25 of the public accounts is prepared by the Department of Finance, and they would be the people who could give you quite easily a listing of this \$3·2, how it is made up, but if you went through the departmental statements that follow, you will find the contents of the \$3·2 million made up of a large number of small items, special in nature, or of one sort or another under various departmental services. You would save time by questioning a Department of Finance man rather than myself, because they prepared that, and I don't know where they get the \$3·2 million.

The CHAIRMAN: Well, if it is the desire of the committee, after we finish with Mr. Sellar we can assign somebody from the Department of Finance and get the information for Mr. Hamilton.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Fine. I would just like to summarize my understanding so that I am quite clear on this point. It is possible for money to go into the consolidated revenue fund and to be paid out, which does not have the specific authorization of parliament?—A. No.

Q. I beg your pardon?—A. I would not say that, sir. The very large sum that you talk about would be represented by post office money orders, and postal notes. Now, they are authorized that system is authorized by the Post Office Act, and they would not they do not appear either as revenue or expenditures, and they run into very large sums of money in a year.

Q. Yes.—A. Then again, we have this general authorization in the Financial Administration Act which says that moneys 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. Now, that is a parliamentary direction and authorization; so I have to challenge you, sir, when you say, "Without authorization of parliament". There is that general power.

Q. But I was thinking to take your specific bull.—A. Yes.

Q. And I refer not to your words, but to the animal. There is a case where the money can be paid in and out without specific parliamentary authorization?—A. I would say so, yes.

Q. Where it would not come under the surveillance of parliament?—A. It would come under just what I have quoted to you.

The CHAIRMAN: Would it not be true, Mr. Sellar, that such a receipt of money would not be under the specific authorization of parliament, it would be money that was paid in voluntarily for a specific purpose, and earmarked for that purpose, and used for that purpose, and neither the receipt nor the disbursement would need to be authorized by parliament because it is paid in voluntarily by the taxpayer and used for that specific purpose, is that not so?

The WITNESS: That is my view.

Mr. HARKNESS: In this section there is interest on loans to national government, \$35,684,000. Looking at the table on page 26, table X, I see the United Kingdom is responsible for \$22.8 million, and other national governments \$12 million. What are these other national governments, and are any of those loans in default?

The CHAIRMAN: Have you the answer for that?

The WITNESS: Yes. Will round figures satisfy you, or do you wish them—

Mr. HARKNESS: No, round figures will be fine.

The WITNESS: France \$6,025,000; Netherlands \$3,179,000; Belgium \$1,557,000; Norway \$376,000; Czechoslovakia \$624,000; Indonesia \$106,000. The only country that is in default is Nationalist China, and as a matter of fact Norway is paid in advance.

Mr. HARKNESS: How much is Nationalist China in default?

Mr. BEAUDRY: \$24,329,000, according to paragraph 63 on page 22 of the Auditor General's Report.

The CHAIRMAN: What page, Mr. Beaudry?

Mr. BEAUDRY: Page 22, paragraph 63 of the report before us.

The CHAIRMAN: Are there any more questions on paragraph 4?

By Mr. Noseworthy:

Q. I have just one question, Mr. Chairman. Coming back to the point raised by Mr. Hamilton (Notre-Dame-de-Grâce): just what audit is made of the amounts which are paid into the consolidated revenue fund and the amounts

paid out under the authority that you reported?—A. Again, the test is not a 100 per cent examination. But at the year end we have to reconcile the overall totals, and if there is any discrepancy between what the overall totals should show and what the records of the department record, we then check back to find it. It may be that in one department there is a 100 per cent examination while in another department the examination may be a very limited one. But everything is recorded in the accounts of the department.

The CHAIRMAN: Are there any further questions?

By Mr. Thomas:

Q. What provincial governments are included in this?

The CHAIRMAN: Would you mind repeating your question, please, Mr. Thomas.

Mr. THOMAS: I think I have found it now, thank you.

The WITNESS: It is the western provinces in connection with the settlement made in 1948.

Mr. THOMAS: I see.

The WITNESS: A list of the provinces that owe money is given on page 95 of the public accounts, schedule F.

The CHAIRMAN: Are there any further questions on schedule F, or on paragraph 4? If not, let us proceed to paragraph 5. Are there any questions on paragraph 5?

By Mr. Harkness:

Q. I am not quite sure what Mr. Sellar is getting at by saying that there should be perhaps a different classification, or that the thing would be clearer if this particular classification was omitted.

The CHAIRMAN: What classification are you referring to?

Mr. HARKNESS: That occurs at the end of this paragraph.

The CHAIRMAN: At the end of which paragraph? You mean paragraph 5? Thank you. I have not reached the end yet.

The WITNESS: My view is that with things as they are now, with expenditures of over \$4 billion, and with special receipts of a relatively small sum, it would be less confusing if you just threw them into an ordinary revenue statement, and not have special statements which might cause some people to wonder: why are these shown separately? I would just merge them in with the others. Immediately after the war it was a very large item, but now it is quite small.

By Mr. Harkness:

Q. What is the nature of these surplus crown assets which are now included in this \$25 million?—A. Do you want a summary of them?

Q. Just a very rough summary. As you said, at the end of the war this was a very big item because there were large amounts of surplus war materials, buildings, and so on being disposed of. But that situation has now come to an end, and I wonder what these items include now in view of your opinion that they should be not classified as special items any longer, but just come under the general revenue?—A. In 1946, for example, special receipts totalled \$650 million. That is why I say that it was a big item then, but now it is about \$29 million, and of that, \$13½ million represent instalments payable under agreements for sale for either plants and ships, or whatever you like to call it, as they are sold. Sales were made on the basis that the payments would be made over 10 or 15 years or so. That took \$13½ million.

Then some war time housing has finally been disposed of, and that provides \$4½ million. Out west we sold certain telegraph lines. I think these ran out of Prince George but I am not sure. They represented \$1½ million. The Wheat Board had two little surplus accounts, and both were around \$300,000. We received \$150,000 from the National Film Board being its profits in the previous year. They are just little items like that which now comprise the total.

By Mr. Fulton:

Q. I am not altogether clear on this matter either. I wonder if you would be kind enough to explain to me, or perhaps make a reconciliation of your statement starting in the second line of paragraph 5, with the total found on page 27 of the public accounts, table XI. You say that about \$25 million of the special receipts of credits represent proceeds on the sale of surplus crown assets, but that the amount should not be regarded as all inclusive, because \$5,058,000 of proceeds from other sales was included in ordinary revenue under the heading of non-tax revenues. By these words "other sales", do you mean sales of surplus crown assets?—A. Yes, sir.

Q. Then that \$5 million should be deducted from the \$25 million, and it would come out to \$20·5 million as shown on page 27. Is that the way in which it is arrived at?—A. I am sorry but I am not clear. That total on page 27 comes to the same figure as I have, \$28·8 million.

Q. Yes. In the breakdown of the total you show proceeds from the sale of crown assets as \$20·5 million. But in the first statement in paragraph 5 on page 3 of your report—you say about \$25 million of this is represented by proceeds of sales of surplus crown assets?—A. Yes sir.

Q. Let me ask you this: why is that \$5 million to be deducted? Was that not in effect sales of surplus crown assets?—A. No, it is not deducted. It is shown under another heading. We feel that the total amount was really \$34 million and not \$29 million, because you have \$5 million shown in a different statement. That is why I wanted to merge it all together so that there would be no guess work and you would find the exact total in one spot.

Q. I am confused again. You say that the \$25 million represents proceeds from sales of surplus crown assets; while on page 27 the proceeds from the sale of crown assets is shown as \$20 million.

The CHAIRMAN: Plus four and one half.

Mr. FULTON: Yes. Now I see.

Mr. BEAUDRY: The actual proceeds were around \$33 million?

The WITNESS: Yes, about \$34 million.

By Mr. Noseworthy:

Q. I think the point there is that at the beginning of paragraph 5 we are told that \$25 million of the \$28 million was proceeds from sales of surplus crown assets, whereas in the total on page 27, only \$20 million of the \$28 million is accounted for by proceeds.—A. No, sir; plus the \$4·5 million for the war time housing that was built by the war time housing corporation and which was really regarded as war activities.

Q. You mean that was included in the \$25 million in your paragraph 5?—A. Yes.

The CHAIRMAN: They are also crown assets. Are there any further questions on paragraph 5?

Mr. BEAUDRY: Mr. Chairman, can we clarify the total of \$28,839,000, the figure corresponding to the five or so words in the first line of paragraph 5, \$28·8 million?

The CHAIRMAN: Yes, that is so, evidently.

By Mr. Regier:

Q. Mr. Chairman, I think I know how the Auditor General works in regard to the expenditure of public funds. However, I am not clear on how far his authority extends when it comes to the disposal of Crown assets. Who assures the taxpayers of Canada that value has been received for assets sold? Is that solely under the jurisdiction of the department concerned or is that also included in the responsibility of the Auditor General? I have in my mind, at the present time the government is undertaking quite extensive sales of homes under Central Mortgage and Housing Corporation. Do we have to rely exclusively on the reports of that organization to assure that value is being received, or is that also within the jurisdiction of the Auditor General?—A. Well, the Auditor General has no responsibility for policy that is a decision vested in the executive. Only if a price were outrageous in relation to the value of it, I think would I ever have anything to bring to the notice of this committee. I certainly would not have any power to say it was wrong. But, actually, before any of those surplus assets are sold bids are always invited by public advertisement. And if it is in a large amount, the governor in council or the treasury board has to sanction the deal. So I think you are reasonably protected. And so far as the wartime housing you are referring to is concerned, this was housing built around munition plants in various parts of the country. But, at the end of the war the Wartime Housing Corporation was wound up and as a convenience Central Mortgage was assigned to take over the management and disposal of them. My understanding is—of course, I am not the auditor of Central Mortgage—but my understanding is they always try to sell to the occupants of those places if they want them. They fix their prices on the basis of the time the houses were built, the cost of them, the construction, their use since and what a fair going price is. Now, I do not think they are trying to make a big profit out of it, but rather in terms of the value to the fellow in the place. If he has kept it up well, they would like to see him get it.

Q. We have the Auditor General admitting some responsibility. He says if an outrageous price were asked, either high or low—I wanted to ask what procedure he has for a case of that kind coming to his attention—and he also mentioned they are not sold unless bids have been asked for—what means has he for the like of these things being called to his attention? Does he exercise some over-all supervision over these sales?—A. No, but we have access to all files, and we are auditors of the surplus Crown Assets Corporation, and, therefore, we are required to keep ourselves familiar with its activities. But, we do not try to say that we know better than the department concerned what is a fair price for a thing.

Q. Is it right to say then, that unless a claimant wrote into the Auditor General's department, the likelihood exists that sales could be made without bids being asked for or that an outrageous price could be asked for, either high or low, and a sale actually made, and it comes only to the notice of the Central Mortgage and Housing Corporation officials?—A. In a sense, sir, that is a hypothetical question. But, as to the direct question would we only know it if somebody writes in and complains to us, actually, I have never received a letter from anyone complaining about prices. As to our general knowledge, it is just a review of the files.

If you limit your question solely to housing, wartime housing sold, then, Central Mortgage is the authority that you should investigate to find out about that. If it is general, you have to bear in mind that in some cases there could be only one buyer, only one person would be in the market for that particular thing. And you do not need extensive advertising in a case like this.

By Mr. Fulton:

Q. Mr. Sellar, you have told us you are not the auditor for Central Mortgage and Housing Corporation?—A. Yes, sir.

Q. And they are now making all the sales of these houses whether war-time houses or built subsequently?—A. That is right, sir.

Q. So, they do not come under your jurisdiction in any way?—A. No, the act provides that two firms of accountants examine their accounts.

By Mr. Nowlan:

Q. Mr. Chairman, with respect to the Crown Assets Surplus Corporation, I would like to ask Mr. Sellar a question. What is the bookkeeping set-up with respect to assets which are sold by the Crown Assets Corporation? Perhaps I can illustrate it better by something that happened recently. The Crown Assets Surplus Corporation offered for sale assets which formerly belonged to the Department of National Defence. They were offered for sale in bulk—not in bulk, but there were 28 units advertised for sale, and, in fact, there were 15 particular sales of 28 units each. And, I presume, all these matters have been transferred over to Crown Assets Disposal Corporation before sold. After the sale was made and the purchaser bought them, the officer at the R.C.A.F. station where some of these were located said, "Somebody made a mistake, one of these units should not have been included." It was a very valuable one. Actually, there were 28 units which were not sold, and which are still, I presume, vested in the Department of National Defence. How does your bookkeeping system show a matter such as that in so far as the balance sheet is concerned? Are they still considered the property of the War Assets Corporation and not sold or transferred to the Department of National Defence?

Each of these items was worth about \$5,000, there was about \$100,000 involved. They were advertised for a year and then sold. Tenders were called for; and yet delivery was refused on bought and delivered, with 28 of these particular units, because they said someone had made a mistake. National Defence said, "They should never have been transferred to Crown Assets, they do not belong to them and we are going to keep them." I wonder if you had an experience such as that, and what the situation is as far as your records are concerned.

The CHAIRMAN: These are houses you are alluding to?

Mr. NOWLAN: No, items of national defence. The particular unit is a generator unit, 28 generators complete with all the appurtenances thereto. They were included in a package lot of 28 units. When the sale was made this one unit was deducted, and they said, "No, you cannot take that one. Someone made a mistake."

The CHAIRMAN: And you want to know what the bookkeeping entry was in that connection?

Mr. NOWLAN: Yes, what became of these generators and how could they be transferred to the Crown Assets? Subsequently the Department of National Defence said, "They are not Crown assets; they are ours."

The CHAIRMAN: If Mr. Sellar has the information there is no objection to his giving it.

The WITNESS: The situation is this; immediately after the war it was the practice of the Department of National Defence sometimes to turn over all storehouses with all contents, and the corporation took possession and control and had to make the inventory and everything else. That was not found to be efficient or effective. Subsequently it was arranged with the Department of National Defence that when the department declared something surplus

custody would continue in the department; but the responsibility for negotiating for the disposal would be taken over by the corporation. Therefore, in the instance you have referred to, namely that of these generators, the Department of National Defence would be the physical custodian of the material. You might say that Crown Assets were merely acting as a sales agent. The act also provides, if my memory serves me aright, that at any time if the department requires something that it has declared surplus the Minister of Defence Production can say: "all right you can keep it."

The CHAIRMAN: But as a matter of fact it does remain in the physical custody of the department?

The WITNESS: And in its store records. But you have to bear in mind that national defence stores are not reflected in the account.

Mr. NOWLAN: The assets are not transferred from a particular department to the Crown Assets Disposal Corporation?

The WITNESS: No. You can say that they are technically; but physically, no.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Before any defence equipment or supplies can be disposed of is it necessary for them to be declared surplus by National Defence?

The WITNESS: If they come within the meaning of surplus crown assets, yes. They must be declared over the signature of the minister.

By Mr. Goode:

Q. I would like to ask the witness a question about the auditing of Central Mortgage and Housing Corporation accounts. I am rather interested, and I would like to know on whose authority is the auditing of Central Mortgage and Housing Corporation accounts done by outside accountants?—A. Under the authority of the parliament of Canada, sir. It is in the act.

Q. Have you ever been approached to supervise the auditing of Central Mortgage and Housing accounts at any time?—A. No sir.

The CHAIRMAN: Are there any other questions on paragraph 5?

By Mr. Fulton:

Q. Are assets such as wartime houses and defence department stores reflected in the balance sheet of Canada?

A. No sir. Incidentally, some assets of the Central Mortgage and Housing Corporation are so reflected by reason of loans they have. The loans are set up as assets. But as to the physical part, the answer is, no. It is not the practice to put up stores as assets in the balance sheet of Canada.

Q. Has it ever been?—A. In modification of that answer, let us take for example the Department of Transport which has a revolving fund for stores—from memory it is in the region of \$4 million. That amount is set up as an asset.

Q. I am completely unfamiliar with these things. Could you tell us whether, in striking a balance sheet it would be normal not to reflect the physical assets?—A. No. But it is not normal for a government to have a balance sheet. We are unique in this country. We provide a statement of assets and liabilities and the Minister of Finance is required to make a selection. What he does is this: he limits his listing of assets and liabilities to what we might call the cash items. He does not list any stuff that could be converted into money.

Q. The only way these things ever come into the account is when they are disposed of, and the cash for the sale appears?—A. Take this building here, for example. It is not in the financial statement. It is charged to expenditure.

Mr. APPLEWHAITE: May I ask a question in that connection, Mr. Chairman? When government money is spent for the buying of an asset such as a truck or an airplane is this shown as an expenditure at the time?

The WITNESS: And is written off.

The CHAIRMAN: Are there any other questions on paragraph 5? If not we will proceed to paragraph 6. There are no questions. Paragraph 7.

By Mr. Noseworthy:

Q. In paragraph 7 there is a reference to the Agricultural Prices Support Act, and a reduction from \$37 million to \$3 million. Where can we find the details of that reduction?—A. There is a reference to it in paragraph 51 of my report and you will find a statement regarding the Agricultural Prices Support Act in A-75 of the public accounts.

The CHAIRMAN: Are there any more questions with regard to paragraph 7? If not we will proceed to paragraph 8.

By Mr. Harkness:

Q. Mr. Chairman, in paragraph 8 it says that a reserve was set up about 15 years ago to provide against losses on ultimate realization of assets listed in the statement of assets and liabilities. No addition was made to the \$496,384,000 reserve in 1954-1955, while in the previous year \$50 million had been added. What are the assets that this reserve is set up against? What are the assets which are referred to in this case?—A. Everything listed on the assets side of the statement of assets and liabilities is set out on page 86. That is all the loans, investments and so on.

The CHAIRMAN: You are referring to page 86 of the public accounts?

The WITNESS: Yes, there is a general reserve against everything.

By Mr. Harkness:

Q. I know you have dealt with this particular item on page 35. It says there that the balance of the reserve is equivalent to 6.9 per cent of the aggregate recorded assets. Do you consider that this is sufficient?—A. Pardon me sir, did you say page 35?

Q. Yes, at the bottom of page 35. It mentions some \$496 million.—A. Yes sir, but that is the report of the Deputy Minister of Finance, not mine. You would have to call him. The Deputy Minister of Finance signs that report.

Q. In any event this \$496 million constitutes apparently 6.9 per cent of the aggregate recorded assets. My question is: do you consider that that is a sufficient reserve?

The CHAIRMAN: I think that question should be asked of the Deputy Minister of Finance who signs the report.

The WITNESS: I can give an answer to that.

The CHAIRMAN: If Mr. Sellar is prepared to answer the question I have no objection.

The WITNESS: I do not want to refer members back to the auditor's books of previous years specifically, but on more than one occasion I brought to the notice of the House of Commons in my report that the Department of Finance never provided me with a schedule as to how these sums of \$25 million or \$50 million were calculated—what assets were recorded as doubtful or not, and I told them that I could never accept it without question because it seems to me extraordinary that our assets should diminish at the rate of \$25 million or \$50 million every year. It was not logical. But the Department of Finance never gave this information to me. You cannot complain, or criticize the government for this because they are, actually, showing their

net debt as something bigger than they would otherwise. They would, rather, be working against themselves if they want to show a low net figure. However, I am hopeful. The Department of Finance has now decided that at the moment they need not put up anything. That may mean they are analyzing their assets more carefully and that in future they will give me particulars with regard to the way in which they calculate these assets. On that basis I can form an opinion and if I think there is something which you gentlemen should know I could put it in my report.

By Mr. Harkness:

Q. The situation at the moment seems to be this: we really have no basis on which to reach a conclusion as to whether this reserve is ample or whether it is not?—A. No sir, unless you ask the Deputy Minister of Finance to explain it to you. I cannot, because I have never got any explanation.

Q. I remember something which took place in past years with regard to this matter and that is why I asked the question. I take it from your answer Mr. Sellar that you would consider this to be a matter which we should take up now with the Deputy Minister of Finance?—A. Yes sir.

The CHAIRMAN: If I understand you correctly Mr. Sellar the gist of your remarks is that this reserve has not been justified. In other words as far as you can see this reserve is not required?

The WITNESS: No sir. I did not say that. I think you need a reserve because there are some of these assets on which you will never get the money back altogether. I am not trying to criticize the future of any of the crown corporations, but they will never repay all of the money that we have spent and which is up there as assets. There are some loans recorded to foreign governments in respect of which we may not get our money back. Then again, we may have to negotiate a settlement or a compromise with some of the provinces at some time, and all for good reason. Therefore I think it quite proper that the Minister of Finance has set up a reserve. The only thing I do feel is that we should have a little more information about this subject.

We have to be fair to the Minister of Finance. He says: "I cannot disclose in print particulars of the assets which I regard as perhaps doubtful accounts." He said that he cannot particularize and he has a point there. But I do think, inside this room or by letter, he should tell me how he calculates it so that when I am certifying the financial statement I do not need to automatically qualify as I am now.

Q. In other words if there were more information you could give a truer picture of what the contracts actually are?—A. Yes, whether it is fair or not.

By Mr. Argue:

Q. Can you give us the reason why there was no money put in this account in 1954-55 and \$50 million was added to it the year before?—A. This is a decision of the Minister of Finance and you would have to ask him. Offhand my opinion would be that the minister decided he had an adequate reserve for the time being and was not going to add to it this year.

Q. Is it possible, under this procedure, for the Minister of Finance to hide or get rid of part of a rather embarrassingly large surplus, and in a year when he might be incurring a deficit the thing he is likely to do is put nothing in the account and when he has overtaxed the public in a given year he is likely to put a substantial amount into the account?

The CHAIRMAN: That is a hypothetical question which the Auditor General should not have to answer.

By Mr. Regier:

Q. Could I ask Mr. Sellar under what legislation or authority has the minister the power to allocate anything to such a reserve, and if so is that authority also one at the discretion of the minister?—A. Mr. Chairman, section 63 of the Financial Administration Act provides that: "Subject to regulations of the Treasury Board, the minister may establish such reserves with respect to the assets and liabilities, as in his opinion are required to give a true and fair view of the financial position of Canada."

Mr. REGIER: Thank you.

By Mr. Leduc (Jacques Cartier-Lasalle):

Q. Is it true that the government operates on revenues and expenditures?—A. Yes, a cash basis only.

Q. And that the reserve will only be to set up the assets and liabilities?—A. Yes, sir.

By Mr. Fulton:

Q. Do I understand from that the implication is this is not a transaction of cash at all?—A. No, just bookkeeping.

Mr. HARKNESS: Mr. Chairman, I would suggest we should keep it in mind to have the Deputy Minister of Finance present at a subsequent meeting in order to go into this particular matter, which I think is one of some importance.

The CHAIRMAN: I am making a note of it. If it is the desire of the committee we shall do so.

By Mr. Leduc (Jacques Cartier-Lasalle):

Q. I think this item of reserve is only a matter of a decision in respect to the assets and liabilities, whether you put \$50 million as a reserve or \$45 million; it only affects your statement of liabilities?—A. That is quite right. It is not a write-off of any of your assets. It is just a reserve against what they may ultimately produce.

The CHAIRMAN: Is it not the same as a reserve set up by any corporation for bad and doubtful debts? It is a matter of estimation?

The WITNESS: Yes.

The CHAIRMAN: Some people may think it is too much and others may think it is not enough.

By Mr. Fulton:

Q. When it is decided that it is uncollectable and you would write it off then does your reserve depreciate by that amount?—A. First they would have to come to parliament and get permission to write off that bad debt and then it would be charged as a rule against this reserve.

Q. And the reserve would be decreased by a certain amount?—A. Yes.

By Mr. Noseworthy:

Q. Is there a table here, or available, showing over what years that \$496 million reserve was paid up and the amounts placed there each year?—A. There is no table, sir. But it started I think in 1941 at \$25 million, continued at that rate for several years and then was increased to \$50 million and then this continued for the year I am now reporting on.

Hon. Mr. Rowe:

Q. Would there be anything to prevent a Minister of Finance adding an occasional \$200,000 at any time?—A. I could not imagine him doing it, sir, because he would show an awful deficit.

Mr. HARKNESS: Unless he had a big surplus.

Hon. Mr. ROWE: If the Minister of Finance's judgment was not too good he could probably do that.

The CHAIRMAN: I think it is a matter of estimation what the reserve should be and the Minister of Finance is entitled to put up what he wants. If the house thinks it is not right, they can bring it to the attention of the public.

Hon. Mr. ROWE: We have no details of it. There is such a vast difference of opinion even in the House of Commons. It is the practice I am thinking of rather than being critical.

The CHAIRMAN: As Mr. Sellar has said, he thinks it would be a good thing if the committee were given details of how these reserves are estimated and when we have the Deputy Minister of Finance here I think you can ask him this question at that time. Mr. Sellar has not got the details.

Hon. Mr. ROWE: It is pretty hard to pass any opinion on the soundness of judgment as to whether we need over \$500 million which you have now, in comparison to 1950 of \$25 million as we had at the start.

The CHAIRMAN: I do not think there is a danger of his setting up \$500 million in any one year.

Hon. Mr. ROWE: The total amount.

Mr. REGIER: I cannot reconcile in my mind the answer Mr. Sellar gave Mr. Rowe a few moments ago. Mr. Rowe suggested a situation where \$200 million would be put into the fund and Mr. Sellar's reply was he would have an awfully big deficit. If I got it right it cannot be reconciled with the answer given us before, that actually it is not an outlay of money at all and is merely a bookkeeping entry. That would not explain the answer Mr. Rowe got. If that is all it is, it could not possibly be responsible for a deficit.

The CHAIRMAN: It would not be shown as a deficit because it would be inscribed as an expenditure. It is in the report here: Added to reserve and charged to expenditure.

Mr. REGIER: It was explained that in no case is it an expenditure.

The WITNESS: I may have been a little loose in my language. I used the word "deficit"; I should have said "net debt", which would be more accurate. It would have affected your net debt figure and that is what you quote when you speak of the financial position of the country, the net debt figure.

The CHAIRMAN: Are there any other questions on paragraph 8? Paragraph 9?

By Mr. Fulton:

Q. Mr. Sellar, would you, in respect of your comment in the first two lines, tell us how it was handled up to 1954-55?—A. You are referring now to the old age security fund?

Q. Yes.—A. That account has run a deficit every year and it is treated as a special account to which a portion of the income tax and a portion of the sales tax revenues are credited. The act provides that the Minister of Finance may make advances to the credit of this account when necessary. This is the amount he has had to advance. The act also provides that the minister from time to time shall keep the house informed as to whether he thinks the vote will produce enough to carry it or if appropriate action should be taken to

raise the income of the fund. For several years the practice has been, by an item in the estimates, to charge off the deficit to expenditure and keep the fund in balance. That is still being done. That is how the account stands; instead of raising the levies you charge it off to expenditure by means of the item of estimates.

Q. That was not done in 1953 and 1954, you say.—A. No, but it has been done since. It was done in 1955.

Q. Was 1953 and 1954 an exception?—A. No, there is no exception. The treatment is the same, but you have got to bear in mind they do not know their exact figure at March 31, and therefore action is taken in the subsequent financial year. It was carried forward. Pardon me, Mr. Chairman, I see what is worrying Mr. Fulton. In one year it was done within the year and the next year it was not done, and therefore you have a hiatus in that one year.

The CHAIRMAN: Any other questions on paragraph 9?

By Mr. Noseworthy:

Q. Is it, Mr. Chairman, to be the practice of the government each year to charge off any deficit of the old age security fund as was done last year?—A. That has been the practice, sir, to bring in a vote to parliament, generally in the supplementaries, or some other time to write off that deficit to date.

The CHAIRMAN: Any questions on paragraph 10? I might ask you, Mr. Sellar on paragraph 10, why is the amount of the subsidy payable to Ontario so much higher than any of the other provinces?

The WITNESS: I can get you the figures, sir. It is a much larger province, of course, but again the Deputy Minister of Finance is the man that has the statistics, and you are thinking of having him, but it is really because the province of Ontario is a larger province and has a big source of income.

Mr. TUCKER: Quebec signed no tax rental agreement and Ontario did.

The CHAIRMAN: Any other question on paragraph 10? Any questions on paragraph 11?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Just one simple one, Mr. Chairman. At least I hope it is simple. The last sentence says, "Post Office costs do not include outlays for accommodation, these being items of expense charged to public works appropriations." That is general throughout the government, that public works takes up the cost for provision of buildings and that sort of thing for all departments. Now, my question is this, Mr. Sellar, is there any subsidiary schedule anywhere which contains, either perhaps in your report or in the details, an estimate of the cost of these services, department by department, provided by Public Works?—A. No, sir. In your earlier statement you are not fully correct, sir. The department of insurance, by law, has its expenses reimbursed by insurance companies and trust companies, and in billing the companies for their share of the cost, the rentals that the Public Works pay are included. Likewise in the case of unemployment insurance, while the Public Works Department may rent office accommodation for the unemployment insurance and pay the rentals, U.I.C. reimburses rentals for them.

Q. To Public Works?—A. To Public Works, yes, and in certain cases National Defence pays the cost rather than the Public Works.

Q. But apart from one or two minor exceptions.—A. For the departments generally, we look to Public Works, and you will not find any place a tabulation of what you may call an interdepartmental service charge against a department.

Q. The reason I ask that is that the Post Office Department's statement contains their own estimate of some \$13 million for the provision of these services by the Public Works Department. I was wondering if there was any opportunity to verify that independently of the statement in the Post Office Department report?—A. I suppose there could be, but I don't know whether anybody has ever done so.

The CHAIRMAN: They must have it in the Public Works Department books, surely?

The WITNESS: Well, sir, your trouble is this: we in this country like to have rather ornate public buildings. We quite often put post offices on the ground floor. However, you could give exactly the same service, postal services, in much cheaper floor space than we do in public buildings. We own that building, therefore what is the comparable rental rate that we should show in estimating the value of the post office? Should we say it is \$5 a foot because this is an ornate building, or could we say we could get this rental for \$2 a foot, what figures should we use? If you have a rental you have the figure, but when the government owns the building you are estimating what the rental should be. I know that the Post Office has claimed they could never afford to pay a rental based on the cost of some of the public buildings we put up. The postal service would not justify it. That is why I say it is a matter of estimate when you come to that.

The CHAIRMAN: Any other questions on paragraph 11? Paragraph 12?

By Mr. Harkness:

Q. Mr. Sellar, on paragraph 12, does this deficit of \$151·8 million indicate the entire picture as far as the government financial situation is concerned? What I had in mind is this: there are a lot of crown companies, for one thing; and this is one example, which make a considerable profit. They do not turn those profits over to the consolidated revenue fund, and therefore there is an asset there which belongs to the people of Canada, and which I would think really should be reflected in the over-all financial picture, but it is not shown, and there may be a considerable number of other items of the same kind; some of which may be assets and some of which may be liabilities. That is why I ask you the question as to what extent this shows the final financial picture for the year's operation.—A. Just transactions through the consolidated revenue fund, sir. It does not include profit of corporations that remain with the corporation.

Q. Well, is there anything else that it does not include?—A. I would have to think that over, sir, before I tried to give you an answer because I do not want to mislead you. I do not know the answer at the moment. I would like to think that over.

Q. You see, this is the thing I have wondered about on several occasions, how can you get at the real, or the actual picture, because there is this one thing that I know of that is not included, and there must be others.—A. Well, we have, of course, taken the view, sir—that is, when I say "we", I mean the audit office, that we should have the assets reflected in the public accounts of Canada comparable to the liabilities reflected in the accounts of the corporations to the government of Canada, and that we should adjust those figures annually, so they do reflect what you have in mind, but that is just an office opinion. We have never discussed it with others and we do not know what their views are, but that would be one means we turn to to accomplish what you have in mind.

Q. Well, at our next meeting can you let us have any other items such as the one I have mentioned which would make a difference in this figure of \$151 million?—A. I would have to think that over, sir.

Q. Well, that is what I say; can you perhaps give us that information at the next meeting?—A. I think for your purposes, sir, it will come under paragraph 96 in my report.

Q. Well, that is the one that deals with crown companies?—A. Yes, and that is where it would almost all be.

Q. But my question was, what other items besides crown companies, which was the one I knew of, might not be reflected?—A. As I say, I would like to think, but I do not know of any offhand.

Q. Well, you might perhaps tell us next meeting?—A. Yes.

The CHAIRMAN: Any other questions on 12? 13?

Mr. HOLOWACH: One question on 13, Mr. Chairman. Are the receipts and payments, Mr. Sellar, recorded directly in various special accounts; do they go through the usual audit examination by your department?

The WITNESS: Yes, sir.

Mr. FULTON: Would the revolving funds of the various departments be, among those referred to on page 13, such as the Department of Transport revolving fund, would that be one you refer to there?

The WITNESS: The costs and charges in that revolving fund are to appropriations, and therefore we audit the account through these appropriations.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, under section 13 Mr. Sellar says, “—some acts direct receipts and payments to be recorded directly in various special accounts.” And he then lists 1, 2, 3, 4, 5; are there any additional to the five which you list?

The CHAIRMAN: You mean the five in the five following paragraphs?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Yes, he says “The financial transactions of some are summarized in the following paragraphs.”—A. I don’t think there are any others, sir. What is making me hesitate for a moment is that, I am not sure about the House of Commons pension account. I am not exactly sure what the status of it is, but I don’t think there are any. I think it is the whole list.

Q. If I may, just for a moment again, to clarify in my own mind; I am sorry to be so slow about it, but the bull that you referred to before; the money would go into the public accounts and it would be paid out of the public accounts and as we said before it would not be recorded specifically. Is there any way whereby one could find a schedule or listing of any such transaction in which the government was involved?—A. Yes. You will find at the end of the financial statement of every department a listing of the open accounts. That is where you will find anything that is left in there at the year’s end.

If you are interested you will not find it anywhere except in the department’s records. You will not find it in the reports here.

Q. That was, essentially, the point I wanted to make. If the federal government was acting, let us say, as purchasing agent for a private individual, buying a bull in South America, or for a foreign government in buying arms and munitions in Canada, and if that money was paid to Canada and paid out in the same year, it would not be reflected in the public accounts at all?—A. No sir.

Q. And there is no way whereby we could ascertain that information from an inspection of the public accounts or of any public records of the government?—A. You are laying emphasis on “public records”; it is in the accounting records of course.

Q. Yes, but there is no way whereby an ordinary member of parliament could turn it up at all?—A. No. It is not laid before you.

By Mr. Maltais:

Q. If there should be something wrong in the course of the year, you would pick it up and mention it in your report, would you not?—A. I would have to, sir.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. There might be nothing wrong whatsoever in the transaction. It might be a perfectly legal transaction; and therefore you would not find it necessary, if it was a perfectly legal and proper transaction, to bring it to our attention. A. No. I would make no reference to it, because I assume you are interested in what is falling on the taxpayers of this country, either in the way of their paying out money or bearing the cost.

By Mr. Maltais:

Q. If there was any loss on the part of the Canadian government, would it be recorded?—A. Yes. If there was such a loss it would have to be paid out of something; therefore it would have to come out of some appropriation and would be reflected in that appropriation.

Q. The taxpayers' money is not endangered in that type of business.

Hon. Mr. ROWE: If there was no loss, it would be none of parliament's business.

The WITNESS: Yes sir. The words "parliament's business" are your selection. I would say that it is not parliament's responsibility.

By the Chairman:

Q. Is it not a fact that it is not parliament's responsibility because the money involved is not money collected from the people of Canada? The money is received from outside sources for specific purposes and it is used for those purposes. Is that a fact?—A. No, I would draw a distinction there.

Q. I was referring to Mr. Hamilton's (Notre-Dame-de-Grâce) example, of the government buying arms or livestock, or anything, when in such cases the government gets the money from the very person for whom the government makes the purchase, and from whom they are receiving that money.—A. The reason I interrupted, Mr. Chairman, is that the British North America Act says that moneys in the consolidated revenue fund shall be appropriated by parliament for the public services of Canada.

If you buy something for an individual or for his benefit, that is not a public service activity. It is a personal transaction. That is the distinction I would draw.

Hon. Mr. ROWE: You distinguish then between the bull and the 25 pound shells!

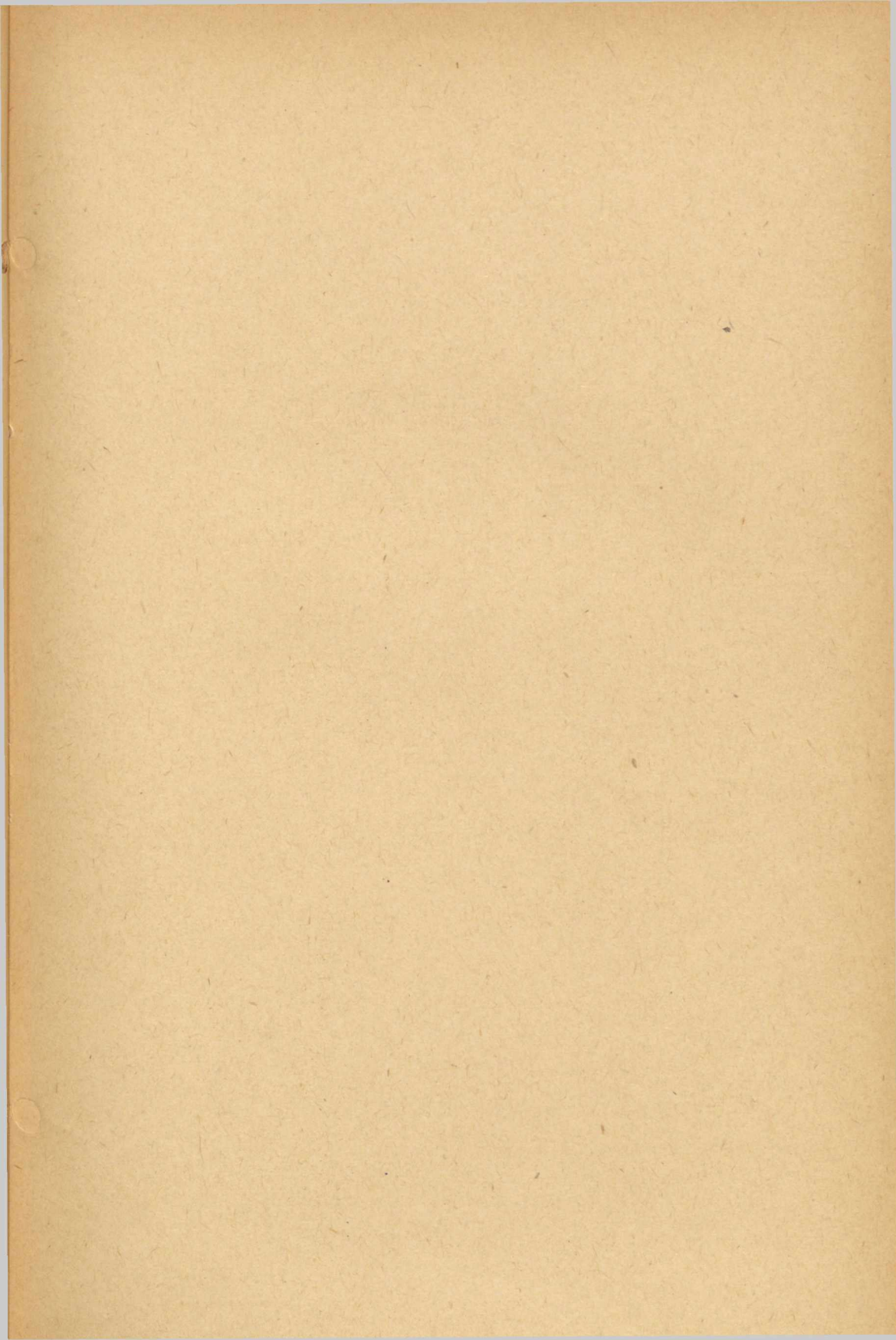
By Mr. Applewhaite:

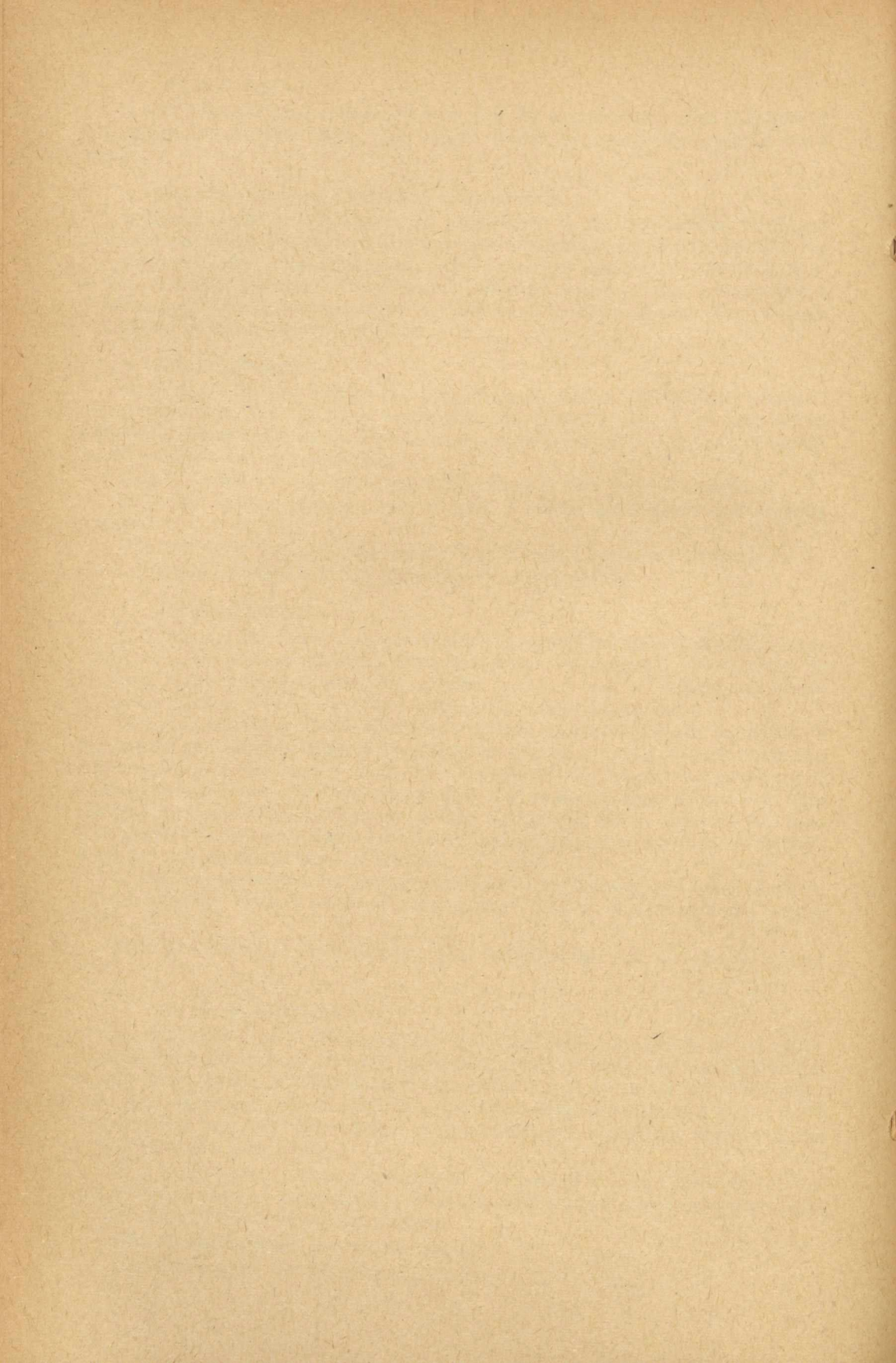
Q. Would this be a fair statement from the point of view of the Auditor General; that Parliament through the public accounts deals with moneys which belong to the people of Canada, and with them only? Is that a fair statement?—A. Yes. As I said before, when the post office department sells a man a \$100 money order and later on redeems it, that transaction does not appear in the public accounts in any way.

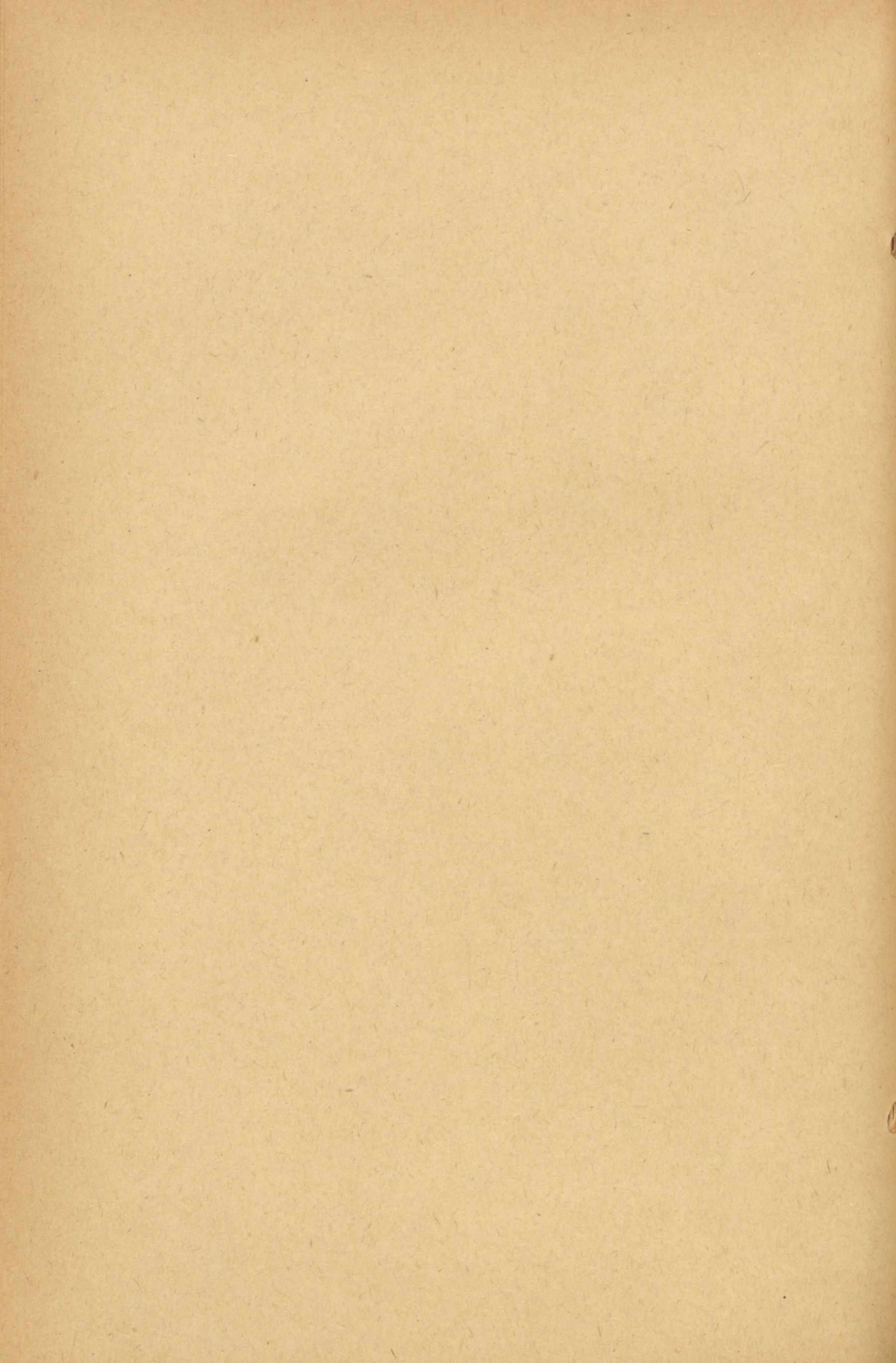
The CHAIRMAN: It is now quarter to one, and if it is not the wish of the committee to start on government annuities and the other particular paragraphs at this time, I think we might adjourn.

Mr. NOWLAN: When do we meet again?

The CHAIRMAN: On Tuesday at 11 a.m.







HOUSE OF COMMONS
Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 2

TUESDAY, MARCH 20, 1956

WITNESS:
Mr. Watson Sellar, Auditor General of Canada.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

On

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.

Vice-Chairman: A. J. P. Cameron, Esq. (*High Park*)
and Messrs.

Anderson	Hanna	Mitchell (<i>London</i>)
Applewhaite	Harkness	Mitchell (<i>Sudbury</i>)
Argue	Henderson	Monteith
Ashbourne	Hollingworth	Noseworthy
Balcer	Holowach	Nowlan
Balcom	Houck	Pommer
Beaudry	Kickham	Poulin
Boisvert	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>)
Breton	<i>Guysborough</i>)	Proudfoot
Bruneau	Laflamme	Regier
Cavers	Leduc (<i>Jacques-Cartier-</i>	Rowe
Cloutier	<i>Lasalle</i>)	Schneider
Denis	Maltais	Thomas
Fulton	McGregor	Tucker
Goode	McLeod	Van Horne
Hamilton (<i>Notre-Dame-</i>	McWilliam	Weaver
<i>de-Grâce</i>)	Ménard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 20, 1956.

The Standing Committee on Public Accounts met this day at 11 o'clock. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Applewhaite, Argue, Ashbourne, Balcer, Balcom, Beaudry, Boisvert, Breton, Cameron (*High Park*), Harkness, Henderson, Holowach, Houck, Kirk (*Antigonish-Guysborough*), Maltais, McGregor, McLeod, McWilliam, Ménard, Mitchell (*London*), Mitchell (*Sudbury*), Monteith, Noseworthy, Pommer, Poulin, Regier, Schneider, Thomas, and Tucker. (30)

Also present: Mr. William Benidickson, Parliamentary Assistant to the Minister of Finance.

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

The Committee resumed consideration of the Public Accounts for the year ending March 31, 1955, particularly the Auditor General's Report thereon.

Mr. Watson Sellar was called. He gave answers to questions asked at the previous meeting.

His examination was continued.

At 12.45 o'clock, Mr. Sellar's examination still continuing, the Committee adjourned until Thursday, March 22 at 11 o'clock.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

March 20, 1956.
11 A.M.

The CHAIRMAN: Order. We have a quorum, gentlemen, so we shall start. We shall continue this morning with Mr. Sellar's evidence.

At the end of the last meeting, Mr. Sellar, there were two questions. One by Mr. Hamilton, I think, and one by Mr. Harkness which you said you wanted to think over, and to which you said you would get the answers for this morning.

Mr. Watson Sellar, Auditor General of Canada, called.

The WITNESS: Yes, sir.

The first question asked me was whether—in paragraphs 13, 14, 15, 16 and so on, where I list certain transactions which do not pass through the revenue expenditure statements—there were any other significant ones that should be added. I asked for time to think it over, because there is a very wide range of transactions that can be involved. Collectively you will find them either in item 18 in the statement of liabilities, or in schedules “K” and “L” to the statement of liabilities. “K” and “L” are set out on pages 100 to 102. These are very varied. A great many of them are of no concern. Some of them are small amounts. There is the Indian trust fund, there is the Post Office savings bank, and so on. I do not think that those are what the questioner had in mind, sir. I think what he wanted was something that related to the ordinary administration of government which was not reflected either in the income or outgo. If I am right in that assumption, I would say there is one account that I would have added in the light of the discussion on Thursday last.

The treatment given to it is perfectly proper but I would have added, by way of information, that the Post Office revenues do not include—that is the Post Office revenues as reported do not include about \$20 million of expenditures and revenues that are made directly out of post office receipts. The reason is, the Post Office Act provides that the cost of revenue post offices, and of certain transmittal charges, when goods—mail passes through foreign countries shall be charged directly to revenue. Therefore, there is about \$20 million, of which \$17½ million was paid to the revenue Post Office, that is recorded neither as revenue, nor as expenditure. The particulars are given, of course, in the public accounts on page S-13. Therefore, the information is before the committee. But, I think, if I were re-writing this particular part now, I would have included post offices.

The second question, sir, if I recall correctly, was asked by Mr. Harkness. His first point that he raised was whether I was satisfied that the statement of assets included all liabilities of crown corporations and whether they were set up for the proper amount. I replied that I did not think so, and that I had referred to that later in my report. I drew his attention to paragraph 96. I am sorry, but I was careless; I should have also referred to paragraph 62 which deals with that subject specifically. I apologize to you, sir, for making that slip. I should have said 62 and 96 as correlated paragraphs.

Then Mr. Harkness asked me if the assets statement included all items that would reasonably and properly be rated as assets. Now, we have to

bear in mind that we are dealing with about \$7 billion of assets. Therefore, I took it for granted that Mr. Harkness' question did not refer to some small incidental item, but he was really thinking in terms of large sums of money.

There are two transactions, sir, where the accounting treatment is correct, but there is an alternative treatment that could be given. Those are the only two items that occur to me.

The first relates to the unemployment insurance fund. I will use round figures. The account approximates \$850 million. In the liability side of the statement of assets and liabilities, the amount shown in connection with that fund is approximately \$13 million; that is all. But, in the schedule attached to the balance sheet it shows that the total of the fund is \$853 million, but that \$839 million are invested in securities. Therefore, it is only the net that is not invested that is shown.

Now, the alternative treatment would be to show the total liability as \$853 million on the liability side, and on the assets side put up a separate item showing cash \$13 million, and securities \$840 million, and then you would have your balance.

The reason for this treatment, gentlemen, if it is of interest to you, is that employees and employers regard this fund as their money, not government money. They want to keep it separate and distinct from the government accounts. This is psychological, but I think the same aim would be served if we showed it clearly.

The second account, sir, which also involves a large sum of money is the advances to the treasurer of the United States for purchases that we are going to make in that country of munitions of war.

I deal with that in paragraph 35 of the report now before you.

Under the law of the United States a foreign government desiring to procure munitions from the government of the United States must pay cash in advance. As a result at the end of the financial year we had \$343 million on deposit with the treasurer of the United States. Against that we had deliveries of approximately \$181 million, so that there was a net balance in our favour of \$162 million as of that date.

Now, the total amount we have advanced to the treasurer of the United States has been recorded as expenditures in the year when the advances were made, not all in the year which you now have before you. Some relate to prior years, but they are all recorded as expenditures. Therefore, this item does not appear in the balance sheet.

Now, my feeling is that in view of the fact that there is a very large sum of money involved, that the alternative treatment might be, to set up the equivalent of a procurement revolving fund, show that as an asset and charge all deliveries as made, so that you would have before you automatically in looking at the financial statement what was the amount of money held by other governments.

Those two, sir, are the only items that I think might be worthy of consideration, and as I said before, the accounting treatment is strictly right. I am only offering an alternative to what is now being done.

By Mr. Harkness:

Q. Well, the general picture there, Mr. Sellar, would be, in order to get a sort of true picture of the assets, you would have to add to it this \$162 million and approximately \$700 million from the unemployment insurance fund plus an amount which you do not know from the crown assets, or, I mean from the crown companies?—A. Yes, sir, and you have to increase your liability item for the unemployment insurance fund proportionately.

Q. Yes. Now, on the other side of the ledger, as far as liabilities are concerned, are there any items there?—A. No, sir, no.

Q. Just the item on the assets side?—A. That, sir, is something I do not need to stop and think about, because that is my job, to see that they are all in before I certify the accounts. I am less worried over assets than I am over liabilities.

The CHAIRMAN: Well, now that we have finished dealing with the questions that were held over from the last meeting, we might proceed with paragraph 14 of Mr. Sellars report, "Government annuities".

By Mr. Pommer:

Q. Mr. Chairman, on this item I notice in the last year is a \$372,000 contribution by the government to maintain the statutory reserve. Does that stay pretty well constant, that amount each year, \$372 million, or does it vary to any great extent?—A. \$372,000.

Q. To maintain the statutory reserve?—A. Mr. Chairman, this is a deficiency, because it really stems mainly from contracts entered into prior to 1936 when the government guaranteed 5 per cent interest compounded half annually.

By Mr. Harkness:

Q. Five or four?—A. Five, up to 1935.

Q. I thought it was four.—A. And then it dropped to four, but it is those old contracts. Currently the contracts are regarded as more or less actuarially sound, so there is no big change in those, and these amounts should diminish as the people die off, but you can regard them currently as more or less stable.

By Mr. Pommer:

Q. When you state, Mr. Sellar, this is actuarially sound, does that mean that the annuitant pays pretty well the cost?—A. Well, the interest rate is now $3\frac{1}{2}$ per cent, and that is the statutory reserve.

Q. What is meant by the "statutory reserve" there?—A. That is the amount necessary, estimated by the actuaries as required to discharge the liabilities under contracts.

Q. It varies then, does it?—A. I beg your pardon?

Q. It varies?—A. Yes.

Q. I notice the amount at the present time is \$864,543,000?—A. Every time a new contract is made, naturally the amount you require for the reserve goes up.

By Mr. Monteith:

Q. Mr. Sellar, the contracts that were entered into prior to 1936, would they carry a 20-year guarantee as a maximum?—A. I am sorry, sir, I would have to inquire as to that.

Q. In other words, these—this required amount each year will probably be diminishing rapidly from now on, would it not?—A. Again, I would have to inquire to give you a true answer, because I do not know. I will inquire and find out.

By Mr. Harkness:

Q. In what form is this credit of \$864 million held?—A. Bookkeeping.

Q. It is straight bookkeeping?—A. Yes, sir. There are no securities. It is credited to the government of Canada.

Q. Well, in other words then, there is no interest received on it, and the money is used as part of the consolidated revenue fund, and the interest which is allowed on money paid in by contribution is just charged up against that consolidated revenue fund?—A. Yes, the government pays interest on the use of the money.

Mr. APPLEWHAITE: They paid that \$31 million last year, did they not? This \$31 million referred to in the second line was paid by the government?

The WITNESS: Yes.

The CHAIRMAN: Are there any other questions on paragraph 14? If not, we will go to paragraph 15, "Old age security fund". No questions on paragraph 15. We will take paragraph 16, "Unemployment insurance fund". If there are no questions on paragraph 16 we will go to paragraph 17, "Superannuation and pension fund accounts". There being no questions on paragraph 17 we will go to paragraph 18, "Army benevolent fund".

Mr. BALCOM: Mr. Chairman, I would like to ask Mr. Sellar if administrative expense of \$84,000 seems high for the amount of money, that is \$465,000 disbursed.

The CHAIRMAN: Yes, Mr. Sellar.

The WITNESS: Mr. Chairman, you have to bear in mind that the army benevolent fund is a peculiar organization. The act stipulates that it is not part of the public service, nor are its employees to be members of the public service. It is an entirely independent body.

This problem in connection with administration charges stems from the fact that it has to cover the ten provinces of Canada. They may have a returned soldier some place away off, and not another one near. It has to go and make its investigation in that area. That is the reason.

Actually, sir, I think that the gentleman who compose the board are very careful in their expenditures. It is the volume of business and the way it is spread out that is responsible for the cost.

I might add, sir, that the reason I make reference to the army benevolent fund, which is a small show as far as money goes, is because no place else will you find it in the public accounts. I am named the auditor of it, but it is not in the public accounts, and that is why I put it in.

The CHAIRMAN: No more questions on paragraph 18? Then, we will proceed to paragraph 19. As there are no questions on paragraph 19 we will proceed to paragraph 20.

Mr. MONTEITH: Pardon me, Mr. Chairman.

The CHAIRMAN: On 19 or 20?

By Mr. Monteith:

Q. On 19. I wonder if I might ask Mr. Sellar if in his opinion the requirements as set out under the Financial Administration Act are comprehensive enough, are they sufficient?—A. I think they are, sir. I regard the final words the all important thing, "to any other case that the Auditor General considers should be brought to the notice of the House of Commons." That is a basket item and in our audit we regard that as covering anything that is not included above.

The CHAIRMAN: Are there any questions on paragraph 20?

By Mr. Harkness:

Q. Yes, I wonder by what authority or by what means does the R.C.M.P. hypothecate its funds that you mention for this rental scheme?—A. Well, they are not—you mean to say their authority for making a long-term contract?

Q. Yes.—A. Yes. Well, that is—

Q. Which binds them to certain payments?—A. Yes. That falls under the question of the power of the crown to contract for an indefinite period. So far as I know the law has always held that the crown can make any contract it likes, but that the contract, so far as the money is concerned, is dependent upon parliament appropriating the necessary funds. Whether that is a correct statement of the law, I will leave to the lawyers to answer.

Q. Well, then the situation here is that if parliament did not appropriate sufficient funds, this contract would be null and void?—A. I would not say null and void, sir. I would say it would be unenforceable.

Q. Well, do I take it from this paragraph that you consider this was not a good contract?—A. No, sir, I express no opinion as to whether it is a good or bad contract, because I know nothing about rentals. The thing that worried me is really the relationship of the House of Commons with the executive government.

Q. Yes.—A. That is to say, when the House of Commons—parliament, pardon me, parliament has enacted that if Central Mortgage and Housing Corporation guaranteed any builder rentals, that they shall charge a premium, and that the term of the agreement shall not be more than 30 years. Now, that is addressed to Central Mortgage and Housing Corporation. The Central Mortgage and Housing Corporation is a little unusual among corporations. Might I read you one section of the Central Mortgage and Housing Corporation Act; it is section 3: "There is hereby established a corporation called the 'Central Mortgage and Housing Corporation' consisting of the minister and those persons who from time to time comprise the board of directors. Consisting of the minister—", are the words to which I draw your attention. You will find that in no other act. While the minister is not on the board of directors it is the using of this phrase, "consisting of the minister" that puzzled me, whether that should be regarded as a direction, not only to the Central Mortgage and Housing Corporation, but also to the crown generally. I do not know the answer, but I thought I should bring it to your notice.

Q. Well, as far as the estimates of the R.C.M.P. are concerned, the section which provides a vote for quarters and what not is adequate to cover this sort of business?—A. Oh, it might well be, sir, that there will never be a cent charged to the appropriation. The R.C.M.P. constables and officers who occupy this may pay enough rent to fully take care of every obligation arising under this contract. This is only in the event of the occupancy falling below 95 per cent when there would be a charge on the public funds.

Q. When there is a liability. However, my question still remains; is there provision in the estimates to cover that kind of thing?—A. Well, you have got a question of law. As far as I am concerned, I regard that National Defence has the authority to provide housing for its personnel. I have always regarded that the R.C.M.P. had power to provide for its personnel. As a matter of fact, we have constructed various buildings, both in Ottawa and also in Regina, in the form of barracks for the accommodation of personnel. But, when you go beyond this and deal with general housing, it seems to me you have a question then of relationship between parliament and the department. I do not know the answer, but I thought I should draw it to your notice.

Q. Well, from that point of view, the question does not arise, I do not think, as far as National Defence is concerned, because you have a vote which takes care practically of all the money needed for National Defence in the one vote, and it is quite within their power then to use that money for buying arms or in housing, or anything else which they feel it is desirable as far as I can see, but when you come to the other departments you do not meet that same situation, the money that is voted for housing must be used for housing. Now, I do not, I cannot see particularly where there was any money voted

to cover this purpose as far as the R.C.M.P. is concerned?—A. I do not wish to argue, sir, with you as to the point; I am just wanting to draw a few facts to your attention. One is this: that the R.C.M.P. Act provides for paying an allowance for billeting of the force and so on, and the appropriation to the R.C.M.P. I always regard as given subject to the provision of the R.C.M.P. Act. I think you will find in that act adequate authority for them going to the expense of providing billeting for their personnel.

Q. Well then, why do you think the matter of the jurisdiction of parliament over these expenditures arises?—A. Because in the case of Central Mortgage and Housing Corporation, if they entered into such an agreement it can be for only 30 years. Legislation limits it to 30 years and it can only give that guarantee subject to the owner agreeing to pay a certain premium per annum to the corporation. In this case there is no premium payment, there is no cut of the rental, and the period is longer than 30 years.

Q. In other words you think it is not consistent with the Central Mortgage and Housing Corporation legislation?—A. It is not in exact agreement, but whether or not that is permissive or otherwise, I do not know. I would assume it is permissive because it was made by the R.C.M.P. which is under the Minister of Justice, and therefore I assume he explored it from the legal viewpoint.

The CHAIRMAN: Are there any other questions on paragraph 20? If not we shall go on to paragraph 21.

By Mr. Mitchell (London):

Q. Is the tendency indicated in paragraph 21 a general one or is it one of the very few isolated examples?—A. It is isolated, sir, and generally occurs among small staffs. There is a reason, to some degree, for this situation continuing to exist. In the weights and measures laboratory they are hoping to move into larger quarters at which point they can bring their tariff into harmony with costs. Public Works have so far not been able to provide for expansion.

Q. You use the words "for example".—A. Yes, there are other cases. Take the case of the Bankruptcy Act; the fees of liquidators have not been adjusted for a number of years.

Q. Are these cases general or limited in the number?—A. They are limited in number.

By Mr. Noseworthy:

Q. Is the Auditor General's opinion that these fees are not in line with present day fees?—A. I am guessing to the extent but take for granted that a cost established in 1909 would not represent the cost in 1956. I am just going on that proposition.

The CHAIRMAN: On the other hand, Mr. Sellar these are services to the public, are they not, and the total amount would not be very great?

The WITNESS: Oh no, the amount involved is only about \$5,000 in this instance.

The CHAIRMAN: There are no other questions on paragraph 21, so we will proceed to paragraph 22.

By Mr. Monteith:

Q. In this paragraph Mr. Sellar you mention three special situations. Take this first item relating to Halifax—that is purely because of local provincial laws?—A. Yes sir.

Q. And in the second case you say that this sheriff was following a practice that has since been corrected?—A. I think it has. I cannot tell you for certain because we have not been into the office since. The difficulty in the

second case is the practice could be unfair to a debtor because, strictly speaking, penalties continue to run until we get the money, and the fact that the sheriff holds the money does not mean that the income tax people have it.

Q. In other words the sheriff may hold the money and have to go back to the debtor for more because he did not turn it in?—A. He is a very good sheriff; we are not criticizing him—just the practice.

Q. And in the third case I assume that this sum of \$8,675 has now been turned over?—A. At the time of the audit it had not been turned over. Whether it has been turned over since I do not know because we have not been in the Montreal office recently. We shall be in there this spring.

Q. Just as a matter of interest how many income tax collection offices are there across Canada?—A. I would have to get that figure for you sir.

Q. Do you visit them all—or do you visit them all periodically?—A. Periodically sir. We take certain areas and we try to cover them all over a reasonably short cycle of years.

Originally we had no authority to go into income tax offices at all—it was ruled that we had no authority to do so—but when Mr. F. H. Brown was made Commissioner of Taxation he indicated to me the desire that we should go into everything and his successor, Mr. Scully, felt the same way. Then the act was amended in such a way that we were made responsible for going in and examining the assessing process.

The CHAIRMAN: When was that amendment made?

The WITNESS: In 1951. We meet with splendid co-operation from the income tax people both in the field and in the head office.

By Mr. Monteith:

Q. Do you find that the diligence with which the collection of arrears is made is equal in all offices?—A. No, one cannot say that because to a degree it depends on the man at the top. If you have a man there who is advanced in years and he is beginning to slow down he is naturally not as full of vim and vigour as a fellow who hopes to get ahead.

By Mr. Tucker:

Q. How does the government enforce Exchequer Court Judgments in Nova Scotia?—A. I believe the government was trying to work out an arrangement with the province.

Q. I thought you would know just whether they were enforcing these payments or not. There are great possibilities in this, I can see.

By Mr. Harkness:

Q. Is there any provision that these collections which are made by sheriffs should be turned in immediately they are collected?—A. It is a general practice. Cases quoted are exceptions.

Q. But there is a definite regulation?—A. It is not a regulation; it is a definite provincial rule that as soon as a sheriff collects money he should turn it over, and it is the job of the dominion government officials to see that they do.

By Mr. Cameron (High Park):

Q. Do you run across cases where a taxpayer has been penalized as a result of failure to turn in money?—A. No, but we do see considerable paper work spent on calculations to see that a taxpayer was not unnecessarily penalized.

Q. Would you not consider that when a man passes money over to the sheriff he terminates his liability so far as that item is concerned?—A. That is my view.

Q. It just happens that the government does not get the money as soon as it should?—A. Yes.

By Mr. Mitchell (London):

Q. Have the necessary instructions been sent out to deal with this matter?—A. The income tax head office acted immediately on this.

By Mr. Monteith:

Q. Mr. Sellar, in auditing the affairs of these various branch offices did you consider it your duty to check on the amounts of penalties charged to taxpayers, interest charges and that sort of thing?—A. We pay more attention to the system than we do to individual files. We just draw out individual files to see how the system is working. We do not particularly set out to look into penalties, interest charges and so on. I would therefore have to ask my men to what extent they check the calculations for penalties and such matters.

Q. I do not know whether this question should be put to you or not, but I would be interested if you could answer it: has a local income tax office the power to forego a penalty?—A. I am not certain as to the general practice; it may vary in accordance with the size of the office. They may give more discretion to a senior official in Toronto than to some small office. However, I think they may enjoy discretion up to a certain amount; when dealing with amounts in a higher range they would have to refer to head office. I would have to verify that.

By Mr. Regier:

Q. Is it a case that some officials of the income tax department are permanently assigned to one corporation?—A. That is a question you would have to ask the income tax department. I have not the answer.

Q. Is it within your power to make any recommendation as to the salaries offered to income tax auditors? To mention the point which I have specifically in mind, I have on numerous occasions heard it said that when a smart civil servant working for the income tax branch shows his ability, the firm that he has been working on is able to hire him away from the Civil Service with the result that all those whom we have working on behalf of the public are the beginners.

Mr. CAMERON (*High Park*): On a point of order, Mr. Chairman, has this anything to do with section 22 of the auditors' report?

Mr. REGIER: I was asking, or attempting to ask, whether it is part of Mr. Sellar's responsibility to make recommendations on how we might retain in the income tax branch civil servants who show some ability.

The WITNESS: I think the answer must be: no.

By Mr. Mitchell (London):

Q. I presume, Mr. Sellar, that the last sentence of the paragraph simply draws attention to the fact that this Waterloo outport has remained open regardless of the fact that it was directed to be closed in 1954. Is that right?—A. In part, yes. There is a need for the outport, and it is being run cheaper than it was before; but I wanted to suggest that some time, when the act is opened up, that section could be amended.

The CHAIRMAN: Are there any questions on paragraph 24?

Any questions on paragraph 25?

By Mr. Harkness:

Q. These two paragraphs deal with very much the same thing?—A. Yes. It is all the same.

Q. And what you are dealing with is whether it is appropriate for this fund to be operated this way and whether there is parliamentary authority for so doing?—A. Yes, simply from the viewpoint of the House of Commons maintaining control over public money.

Q. Have you any suggestion as to how this might be handled, apart from the way it is being done here?—A. I have no objection to this, except that I think that it should be authorized by parliament. Let us take, for example, the immigration authorities; they operate various services for immigrants, providing meals and so on. The immigrants pay. Part of those charges are absorbed by the votes for immigration and part are paid out of the revenues. In this case the effort is made to charge everything against the operation. I favour everything being done under one heading, because then it is possible to see what the cost is. But strictly speaking I doubt if there is complete parliamentary authority for the practice of the Department of Transport, though I think it is sound.

By Mr. Mitchell (London):

Q. In other words you recommend that the total cost of the operation be shown and a credit also shown for the amount contributed by the immigrants?—A. Yes, I would like it run as a business proposition. If you have a commercial operation I suggest you should run it as a commercial operation with the net deficit—if there is a deficit—appropriated by parliament and any surplus—if there is a surplus—credited to the consolidated revenue fund.

Q. I am just trying to get this cleared up. Are you in fact recommending that the total cost of the operation should be charged and shown, together with any returns which may come in—in this particular instance from the provision of meals to immigrants—rather than the present practice of simply showing a deficit under the particular operation?—A. I am not sure that I clearly understood the point involved but what I favour is this: I do not believe in making estimates larger than they need to be, and when you are going to perform a service from which you derive a revenue I would appropriate the net amount required for that service so that it is not possible to use the money for some other purpose. But, as I say, there is a disagreement in the public service on the question of which viewpoint is correct.

By Mr. Harkness:

Q. In fact what is happening here is that this vote is being made and there is no need for it?—A. Which are you referring to?

Q. To number 25.—A. All right, there is a little problem here. You have these catering services at Gander which are being operated by a commercial caterer, and some of the phases of activity are returning a profit while others are sustaining a loss. In addition the department is bearing certain charges directly. We are taking the income from the operations into a vote, making payments out and just dealing with the net. On the other hand in the same estimates you have a \$1 appropriation authorizing the Federal District Commission to use rentals from housing that has been acquired by them for the national capital plan. You have considered it necessary to put a specific item into the estimates to give them that power, but in the case we are discussing you have not put in anything. That is my whole point. I feel you have not got the entire protection to which you are entitled.

The CHAIRMAN: You think the act should be amended to give that protection?

The WITNESS: That is my feeling, but others have different opinions; the Department of Finance does not agree with me entirely.

By Mr. Applewhaite:

Q. When I read this paragraph some time ago I thought what the Auditor General was telling us was that if these lines of small print at the top of page 9 had formed a specific item in the estimates the position would be legally clear.—A. That is correct.

The CHAIRMAN: Are there any questions on paragraph 26?

By Mr. Harkness:

Q. Paragraph 26 discloses a difficult situation inasmuch as \$500,000 was authorized and \$2,200,000 spent. That difficulty arises in the same way, I take it?—A. Yes sir. In principle there is no difference.

Q. But in effect parliament has no control over this \$1,750,000 which was used, and in your view parliamentary control should operate as far as that expenditure is concerned?—A. My view is the one I expressed in reply to the last question put to me: it would be desirable to have an item in the estimates indicating how parliament consented to that being done.

The CHAIRMAN: Are there any questions on paragraph 27?

Mr. APPLEWHAITE: Mr. Chairman, I presume nothing has been done with regard to D.V.A. in order to continue to get that percentage of receipts from the telephones for the welfare work?

The WITNESS: Nothing has been said to me this year about it, and therefore I cannot answer your question.

The CHAIRMAN: Are there any questions on paragraph 28?

By Mr. Monteith:

Q. Is the net result of this the fact that Canada has spent this amount of \$680,000 on behalf of the Colombo Plan but that we do not receive credit for having spent it in India? I was just wondering.—A. The word "credit" could be treated in two ways. The Indian government is appreciative of our sending the boilers. On the other hand it would be possible to say that the \$600,000 was not added to the counterpart funds being used for economic development projects. In the second sense we are not getting any credit.

Mr. HARKNESS: In effect what has happened is that \$680,000 has been spent which was not authorized by parliament?

The CHAIRMAN: I don't think that is right.

The WITNESS: It was spent as authorized by parliament but the Indian government was not required to set up a counterpart fund.

The CHAIRMAN: Is it not a fact that because the Indian government valued our contribution at less than cost the Indian people got that much less benefit out of the counterpart fund that should have been set up to equalize our contribution?

The WITNESS: Yes, but the reason I am bringing this to your notice arises from a little question of principle on which I don't know the answer. The agreement with the various governments in South and Southeast Asia provides that the rupee equivalent in this counterpart fund shall be the equivalent of the Canadian dollar cost. Those agreements have come to the notice of parliament and form part of the treaty series that the Department of External Affairs puts out.

In this particular case there is a departure from that provision. The department itself feels the action taken was quite proper; the boilers did in fact represent economic development expenditure and it was merely a matter of convenience that the total amount was not added to the rupee account. However, I entertained doubts as to the discretion of the department not to insist that the full amount be set up in the rupee account and therefore I bring the matter to your notice. I know the department does not share my view.

Mr. HARKNESS: That is the point which I was trying to make. Parliament has directed that the money be used for a certain purpose and in a certain way, and in this case it was not done.

An Hon. MEMBER: May I ask, with regard to that—

The CHAIRMAN: Perhaps we should have that point answered before we go further.

The WITNESS: What was the question again?

The CHAIRMAN: Will you repeat the question, Mr. Reporter?

REPORTER (reads): Parliament has directed that the money should be used for a certain purpose and in a certain way, and in this case it was not done.

By the Chairman:

Q. What do you say to that, Mr. Sellar, it seems to me what Mr. Harkness has said is not correct.—A. It all depends sir on what is the effect of what I call these treaty agreements which are a statement of principle—whether those are binding and whether you made the appropriations subject to the provisions which they contain. In the same account as you have before you, you will find an expenditure representing about \$900,000 worth of diesel engines for Ceylon—an expenditure which also included the same provision with regard to the rupee account. Ceylon put up the full amount in the rupee account. Turning to the case of India, India got the boilers and put up this lesser amount. I don't say that any law has been broken or that this is an irregular payment, but it is a question of whether or not we should have insisted that both countries be treated alike and the value of Canadian costs be the yardstick.

Q. But from the point of view of the money provided by parliament here, that \$600,000 was actually disbursed in Canada for the purpose authorized by parliament, was it not?—A. Yes.

Q. So it is not exact for Mr. Harkness to say that the \$680,000 which was voted by parliament was not used for the purpose for which it had been voted? In fact it had been used for the purpose for which it was voted.—A. If you adopt the broad meaning that I think the Colombo Plan intends to convey, namely the economic development of the countries in South and Southeast Asia the \$680,000 did not go to a specific project such as would be deemed a project within the meaning of the treaty series.

Q. That is, the counterpart project organization that was set up.—A. The dollars certainly helped India, and what helps India indirectly helps her directly. It is simply, as I say, a question of the principle as laid down in the printed statements that come before parliament which said that the Canadian dollar cost would be treated as the yardstick for the rupee account. In this case that was not done.

I don't know whether the provision is permissive or not. The words "Colombo Plan" constitute a very broad expression.

Q. I would ask one question to clarify this: Is it not a fact, Mr. Sellar, that the money actually voted by the Canadian parliament was spent in Canada and that the only thing you are complaining about in this paragraph is the fact that the counterpart fund against which it is being set off in India is

not as large as it would be if the locomotives had been valued at their actual cost in Canada?—A. I would say: yes. You are right, sir, except that I do not like the use of the word “complain”. I am just drawing your attention to this matter.

The CHAIRMAN: I withdraw the word “complain”.

By Mr. Tucker:

Q. Surely the fact that certain agreements are in effect at the time money is voted by parliament does not preclude the Canadian government from modifying those agreements in order to carry out the purposes of the Colombo Plan if it wishes to do so? In other words, if the government finds it necessary in the case of one particular country to say: “instead of your appropriating the full amount we realize that you are in somewhat of a difficult financial position and we will undertake to modify the agreement” that would be in order.

I suggest to you that the government has full power to modify the rules which it makes as long as the money which has been voted by parliament goes to the Colombo Plan. That is all we are concerned about, and whether the government has modified the plan or not it will have to answer to parliament for its actions. But so long as the money goes to the plan, whether it goes under the agreements which existed at the time the money was appropriated or whether it goes under the agreements as they are modified later on, I submit to you that the government has a right to act as it thinks most advisable. It does not necessarily have to spend the money on the basis of the plan as it was originally drawn.—A. In reply to that, Mr. Chairman, I would say that I am not thinking in terms of the government of Canada. I think in terms of the House of Commons whose officer I am. I see the government of Canada modifying the terms of a standard agreement. Whether the government of Canada has the power to do this or not is not my business. My business is just to draw this matter to your notice. You can throw it out of the window if you like.

Q. Is it not true that when we voted money for the Colombo Plan we voted it for the government to use for carrying out that plan by means of agreements which it considers appropriate, and that the government is not bound to pay out the money under a certain line of agreements that existed at the time the money was voted. The House of Commons exercises its power in giving the government the right to make these agreements and to spend this money. If the government exercises these powers I do not think it is an infringement upon our power of control, because we retain control over the government's rights to make agreements, and in that degree we exercise control over the method of expenditure. As I say I do not think there is any infringement of our power of control over the expenditure of money.

The CHAIRMAN: Well, the Colombo Plan authorities report to the house, and then we get a report of what has been done with the money that we have voted.

Mr. TUCKER: And there are different agreements with different countries, and they have to be varied from time to time.

Mr. HARKNESS: What you have been doing, Mr. Sellar, I take it, is pointing out that the departments have been to some extent arrogating to themselves the power to spend money, and there is some doubt whether they were authorized to spend it—authorized by parliament—to spend it for this particular purpose.

The CHAIRMAN: That would not apply to paragraph 28.

The WITNESS: I would say it is not that. It is whether they are spending money in the manner parliament contemplated.

Mr. HARKNESS: That is what I said, or what I intended to say—that they were spending this money, and there is some doubt as to whether that was what parliament had intended they should spend it for.

By Mr. Noseworthy:

Q. I wonder if I might be permitted to direct a question to Mr. Sellar. Is it correct to say that, in this particular case, the government of India received \$680,000 less because of this deal than they would have received had the money been paid to them—that is, instead of locomotives—and that the government of India actually lost \$680,000, or did not receive \$680,000 of the vote that was voted by parliament?—A. My answer to that would be, "Yes". But, on the other hand, what is the real value of the boilers?

By the Chairman:

Q. Is it not a fact—just to clarify this point—is it not a fact that the whole of the money voted by parliament, including the \$680,000, was disbursed in Canada, or actually paid out, as you say in the note on page 10?—A. It was all paid out in Canada, yes.

Q. It was all paid out; and it was used for the purposes for which it was voted by parliament, was it not?—A. It was used for the purposes of the Colombo Plan.

Q. It was used for the purposes for which it was voted by parliament, in the sense that it was spent in Canada to pay for locomotives sent to India afterwards.

Mr. NOSEWORTHY: Nothing was said about locomotives.

The CHAIRMAN: Just a moment, now.

By the Chairman:

Q. Is it not a fact, also, that because the Indian government have valued these locomotives at less than their cost in Canada, the counterpart fund that was set up against that in our agreement with India was less than it would have been otherwise?—A. That is right.

Q. But, still, I come back to my point, that the money voted by the House of Commons was actually spent for the purposes for which it was voted, but that it did not produce the results that had been expected; is that not right?—A. I am not so sure you would say, "the results that were expected."

Q. When I say "the results that were expected" I mean that the counterpart fund was not at the amount we thought it would be, because the Indian government valued these locomotives at less than their cost.—A. With our consent.

Q. With our consent?—A. Yes.

By Mr. Maltais:

Q. Is the technical assistance Canada provides under the jurisdiction of the Colombo plan vote charged against this vote?—A. Yes. You have to bear in mind that there is a special account called the Colombo plan account. But it does not expire at the end of any year. It is cumulative, so that this vote is credited to that account, and all charges for technical assistance are charged against that account.

Q. Would you say that if one of those experts was a Canadian at a very high salary, and they were free to get an expert from another country at a cheaper rate, that the Colombo plan would be short of the difference between that salary, because of the cheaper price for the labour than we find here in Canada? I will try to make my question clearer than I have up to now. An expert in Canada, an engineer let us say, at \$10,000 a year—he could go to work

in India under the Colombo plan. If a French engineer were willing to work for \$8,000, if India was free to pick up its own expert, would mean that the Colombo plan in India would be short by \$2,000, because the Canadians have sent over their own expert at a higher rate of pay than the French would have done—that is, if India was free to pick up its own expert?—A. No, that would not arise, because we would not allow India any discretion in the matter, if we picked out the expert.

Q. Does not the agreement, the Colombo plan, provide that we also pick the type of help that we are going to give to India, whether it be in the nature of locomotives, or whether it be technical assistance, or whether it be something else? This matter of \$680,000 has arisen out of the valuation, as I understand it, that we put on certain things that we had provided to India under the Colombo plan?—A. Yes.

Q. It could have been more or it could have been less, if some other country had put a lower valuation on its locomotives?—A. If no other country had offered it as cheaply as Canada, there would be no difference.

Q. There would be no difference?—A. Yes.

By Mr. Applewhaite:

Q. Can Mr. Sellar tell us whether the request for us to consent to the lower valuation of these boilers was made before we shipped them, or after the boilers had arrived in India?—A. Negotiations were before; but it was not much before. It was just about the time of the shipments. I am talking about the final shipment. There may have been more than one shipment. But it was more or less about the same time. There would be a few months' difference, perhaps, but not much.

By Mr. Thomas:

Q. Would not the whole point be as to whether or not the Canadian government should insist upon the Indian government making up the difference between the selling price of locomotives and the cost to the Canadian government?—A. Again you are getting me into a matter of policy, which I would like to avoid. I would say that my point is this: is it of interest to the House of Commons that something was accorded for less, on a charge to a vote labelled, "Colombo Plan." I would not like to discuss the policy angle.

By Mr. Noseworthy:

Q. Can Mr. Sellar tell us this: is this an isolated example regarding the Colombo plan, or does it apply in all cases where we give to these Asian countries goods manufactured in Canada and charged at the Canadian price?—A. Mr. Chairman, my reply to that would be this, that we have made shipments of wheat to India, and I think also to Pakistan. Perhaps we have also shipped to Ceylon. Those have gone in at the world price, which was the price Canada paid for it. We have shipped some other materials also—where it was the world price—and it has gone in at that price.

In this particular case, the Indian government was not really buying. It was the Indian railways, which is a separate corporation—and that is how this difference in price comes in. But where the Indian government has received things and kept things, they have invariably, to the best of my knowledge, put up the rupee equivalent in the Canadian case.

By the Chairman:

Q. Was this an isolated case, you might say?—A. Yes, that is why I bring it to your attention.

Q. Then, if there are no more questions on paragraph 28, we will go to paragraph 29.

By Mr. Monteith:

Q. Mr. Sellar, you mention these two items—I believe there are three items—in connection with the expenditure on the Garland building in Ottawa, and that they have been distributed between two different votes?—A. Yes.

Q. And you give this as an illustration; and I presume there are other instances which have come to your notice in the past, where a similar situation has developed. Your thought, I presume, is that under one vote the true expense involved is not shown?—A. That is correct. I am relying on a long-established practice in the United Kingdom.

It originated when they purchased a piece of land for the parliament buildings at Westminster, back in the last century. There was a question of the legal charges on the transfer of the land. There was a legal vote and also a vote for the purchase of the property. The question was as to which vote those legal charges should be allocated. They charged them up against legal cost and the public accounts committee disagreed. The reason was—and I shall read the reason—they wanted to charge it to the land. The reason was as follows:

The advantage of such procedure would be that the facts would be so recorded that there would be no possibility of the charge being lost sight of, as part of the cost of the service, in case it became necessary to ascertain the actual cost, whereas if charged to the law vote it might escape notice of anyone preparing the total cost statement in the future.

It was just to get it all under one heading, so that if you ever wanted to look up the cost of that particular thing, you would find it right there in one place, under one heading.

Q. But your recommendation would be, I presume, that that particular method should be followed in the future—that is, everything having to do with one particular item of business should be charged to one vote?—A. The department and the treasury both agree with me, that it is desirable to avoid splitting.

By Mr. Applewhaite:

Q. Is not the logical result of that set out under vote 376, which deals with unforeseen amounts? Would that not be met there?—A. No, because unforeseen amounts, unforeseen improvements, are to cover something that could be anticipated or guessed at the time the estimates are being prepared. Perhaps you have a fire or there may be a hurricane, and you need to do something in future, and you need money to finance that cost.

Q. I do not wish to argue, Mr. Sellar, but I wish to follow that up. Is repairing damage caused by fire or by hurricane unforeseen improvement, or is it not repairs and renovations?—A. I would say—and, again, perhaps I am careless in my wording—it is unforeseen expense.

Q. Unforeseen improvements, surely, of the same sort could happen?—A. That could happen if you suddenly got a very bad leak in a roof, or something like that.

Q. That amount would still be charged to some building. And if you extended it to this unforeseen improvements vote, has not the same situation arisen to which you have drawn attention here?—A. Well, you have to bear in mind that the Department of Public Works get quite a grilling when they come before treasury board for their estimates. They have to establish pretty well why they want the money, and they identify it with expenditures that they plan to make on specific buildings, all over the country. Then, they say,

"There are some buildings that we think are in perfect shape, but something may happen to them during the year, and we may have to do something. Give us a little money for them."

Q. It is sort of a contingency fund?—A. Yes.

By Mr. Tucker:

Q. I am looking at paragraph 29. I note that the vote says, "Maintenance and operation of public buildings and grounds, including repairs and upkeep—". You vote certain money for the repair of an elevator. You will vote to repair an elevator and you find that it will be impossible to repair it, and that you should replace it. We have no right to replace it under item 362, because that applies only to repairs and upkeep. The right place to put it is under "Unforeseen improvements". I submit that that is a proper use of the money voted by parliament—to vote a certain amount for repairs. And then they say, "If there should be an unforeseen improvement required, we will give you so much money to do that." When you put in a new elevator, that is not a repair; it is a replacement, a capital expenditure. And I submit that that is the purpose of the appropriation—I submit that, with all deference. It is for the proper use of the money voted by parliament.—A. If you were to look at the full text of the vote, and the heading for it, you would read these words, which cover this particular vote, "Acquisition, construction and improvement of public buildings; construction, acquisition, major repairs and improvements of, and plans and sites for public buildings listed in the details of the estimates." That covers almost everything.

This, in my opinion, was more or less of a slip-up in this particular year. There was enough money in the vote. There was no effort to find a place to make an expenditure when there was no money. There was enough money in the vote. But, by chance, the cost was split. As I say, all concerned think it would be fairer to the House of Commons if, in future, we tried to keep all expenditures under a single heading.

By the Chairman:

Q. All expenditures for one building, do you mean?—A. Yes.

By Mr. Harkness:

Q. In other words, if in the discussion of the estimates the wisdom of having made these repairs, and so on, were brought up, the member bringing it up might very well not realize that there was this extra \$35,540 that had been spent?—A. That is right.

By Mr. Applewhaite:

Q. What vote was that you were reading from, Mr. Sellar?—A. From the heading of the Public Works estimate.

The CHAIRMAN: It was vote 362.

Mr. APPLEWHAITE: That is not vote 362; that is from the heading.

The CHAIRMAN: Then, are there any questions on paragraph 30 in the report?

By Mr. Harkness:

Q. It is a small payment which was not authorized, and is a straight example of unauthorized expenditure?—A. No, it was properly authorized. It was just a question of whether there is the obligation to pay for what you might call provincial services. Whether the parliament of Canada should sanction it. This is just a very small item, but I am obligated to draw it to

your notice. I do not think, as a matter of fact, that you should bother your head about it, that is my humble opinion, if I may express it.

The CHAIRMAN: Then, are there any questions on paragraph 31?

By Mr. Harkness:

Q. On paragraph 31 it says, "A special clause has been written in to the effect that funeral expenses were to be a first charge." Who would write in this special clause?—A. We are not certain about it but it would be some officer in a district office who handled the insurance, when that man came in and wanted an insurance policy. It was written in by some official, unknown to Ottawa.

Q. And it never should have been written in?—A. No, it is against the law.

The CHAIRMAN: Then, are there any questions on paragraph 32? If not, are there any on paragraph 33?

By Mr. Harkness:

Q. On paragraph 32, this is another clear example of a debt being written off, which there was no power to write off.—A. The proper action in this case would have been to decide, "we are now going to press for payment, and set it up as an account receivable, and at the end of five years we will go to parliament and ask for authority to write it off. But we are watching, in the meantime, just in case the party may become solvent." It is a hard luck case.

Q. I think what was done was quite justified; but the general point it brings up is this: what means is there to prevent such things taking place again?—A. Just the attempt I am making now, the action I am now taking, to draw it to your notice. You have enacted—and perhaps at this point I might read from the Financial Administration Act, which says:

The Governor in Council, on the recommendation of the treasury board, may, if he considers it in the public interest, delete from the accounts in whole or in part, any obligation or debt due to Her Majesty or any claim of Her Majesty (a) that does not exceed \$500 and has been outstanding for 5 years or more or (b) that does not exceed \$1,000 and has been outstanding for ten years or more. They should have waited five years.

Q. Yes, but when something has been done contrary to that act, what punitive measures are possible which would probably prevent a recurrence of this?—A. We have arranged that they would set it up in their accounts again.

Q. So that it is now back as a charge?—A. Yes, it is now back. The department was not trying to put across a fast one.

By Mr. Tucker:

Q. In other words, the direction not to collect this account was regarded by the people involved as an extinguishment of it; whereas by law, it could not be extinguished in that way. It was a matter of giving proper recognition to the order in council. I suggest that the order in council was not out of order at all, because they surely have the right to say, "we are now trying to collect this debt." The fault is not with the government, but with the way they treated the order in council.

By Mr. Harkness:

Q. I suggest that the fault is with the government, in that they were trying to set aside the law.

Mr. TUCKER: I suggest that is not so.

The CHAIRMAN: Let us get the answer from the witness.

By Mr. Tucker:

Q. When you say that you waive collection, you do not try to extinguish the debt. You simply say that you are not going to try to collect—and they have the right to do that. But they have no right to write it out of the accounts until five years have passed.

The CHAIRMAN: Now it has been written back into the account, so everything is all right.

Mr. TUCKER: I submit that waiver does not mean extinguishment. Waiver of an attempt to collect does not mean extinguishment. Anyone who has tried to collect accounts from time to time must know that you waive collection, but that does not say that you have no right to collect it.

The CHAIRMAN: I suggest it would be difficult for Mr. Sellar to give an opinion on the order in council, without seeing it.

Mr. TUCKER: But I presume that Mr. Sellar looked at the order in council before he wrote this paragraph in his report.

The WITNESS: I think I can dispose of this matter in short order. The point is this: the order in council used the word "waive." I have the text here, and it states that treasury board recommends that authority be granted to waive action to recover from so and so.

By Mr. Tucker:

Q. In other words, they say, "we will not take action to recover".—A. What happened is this: you lawyers may place great emphasis on words, but we civil servants respect authority. We would consider that as meaning that the government had said, "Do not collect from this woman; forget it". And we would just—well, we would not bother putting it back in the accounts at all. We would not give it, perhaps, the legal meaning that you give it.

I suggest that the legal meaning is the proper meaning, and that they have not done anything improper when they say that they waive the attempt to collect it. But they have not attempted to extinguish it by passing an order in council. So I suggest that you are suggesting that the government passed an order in council that it had no right to pass.

Mr. MONTEITH: Probably the hon. member for Rosthern should be the Auditor General.

Mr. TUCKER: No; we are sitting in this committee, and I have a right to make comments, just the same as hon. members of the opposition parties.

The CHAIRMAN: Well, gentlemen—

Mr. TUCKER: If Mr. Sellar disagrees with my suggestion, that the waiver of the right to collect does not mean extinguishing the debt, then I invite him to say that.

The WITNESS: I simply say that civil servants are not lawyers and they do not consider words with such great care. They would just regard this order in council as saying, "That is done; forget it".

By Mr. Cameron (High Park):

Q. Did they read section 23 of the act?—A. We have done so.

Q. You have done so; but civil servants are just as smart as others.

Mr. HARKNESS: The fact is that there was no authority for the order in council, and you are drawing it to our attention.

Mr. TUCKER: That is the whole point; I suggest that there was authority for the order in council. They have the right to say to their administrative officers, "You do not need to collect this account." That is the point I make. There is the suggestion here that an order in council has been passed that the government had no right to pass. My suggestion is—I challenge that suggestion, as made by Mr. Sellar, to the committee, by saying that it was not properly given effect to in the bookkeeping.

The CHAIRMAN: And it was reestablished in the bookkeeping.

Mr. HARKNESS: Mr. Tucker is losing sight of the fact that there is an act which forbids this order in council.

Mr. TUCKER: I suggest that the act does not forbid it, at all. The act says that a debt cannot be cancelled; but there is nothing to say that you are to pursue a person, if they cannot pay.

The CHAIRMAN: Well, we have taken note of the different opinions that have been expressed. I think perhaps now we might pass on to something else.

Mr. MONTEITH: I suggest this is a case where the government has acted by order in council, and where the matter should have come before parliament for consideration—in connection with using this fund for research.

The WITNESS: If I might draw your attention to this, I would say that the main estimates for the present year, under item 284, regularize this whole thing. They have agreed with the view that we have advanced, and they are now bringing it to parliament, so that it might be right in the future, and also to regularize the past.

By Mr. Tucker:

Q. Does that estimate say that the debt shall be extinguished? Does that estimate say that it shall be extinguished?—A. No—I would say that we are now discussing paragraph 33.

The CHAIRMAN: Yes, we are now on paragraph 33.

Mr. ARGUE: You are just one paragraph behind.

The CHAIRMAN: Are there any questions on paragraph 34?

By Mr. Monteith:

Q. This suggests that, apparently, a lot of orders are placed at the end of the year, and deliveries are not made. Cheques are issued in payment of those orders, and the cheques are not properly given in payment until delivery is made—which delivery may take place several months after the expiration of the fiscal year; am I right so far?—A. Apart from the fact that it might be implied that you were thinking that they had issued orders about March 31. That would be wrong. It would be some time in the earlier period. But they had not been delivered as of March 31. Then, as you say, cheques were drawn, but they were not released until several months later.

The CHAIRMAN: Would they not come under the treasury board?

By Mr. Monteith:

Q. Would that be done in an attempt to use up the vote?—A. I would not say it was, in this case. I do not think there was any wrongful intent. But it

is a bad practice. Again, if I may quote from one of the standard authorities on the subject, I would point out that he used a very simple description when he said:

Generally speaking, payments should not be made except in very special cases, until the conditions entitling the contractor to receive such payments have been fulfilled, especially as there is a natural tendency at the close of a financial year to make advances for payments on account rather than to have to surrender a balance and increase the burden of a subsequent year.

In effect, there was a little more money available in the present year than there would have been. We have had cases, sir, when we have taken delivery in yards. There was one particular case years ago where a steel company in Winnipeg was prefabricating steel for a building in the northwest. We had the money and they had the steel, but owing to very severe storms they were not able to ship it before March 31. They stacked the material in a special corner of the yard. The government engineers inspected it, found it satisfactory, and secured the consent of the governor in council for a payment on account.

By Mr. Monteith:

Q. To continue this for a few seconds—you mention this case up in the north, but a similar procedure has not come to your attention in any other department?—A. No sir. That is why this one stands out.

The CHAIRMAN: Would not this irregular way or proceeding be due to weather conditions and to the conditions generally up north?

The WITNESS: I have no idea what was the reason for it. There was a change in practice as compared to past years.

By Mr. Monteith:

Q. You are pointing out that there was \$55,000 in cheques spread over 75 cheques issued and drawn in April of which 28, representing \$8,660, were still being held at the time the audit was completed in August?—A. Yes.

Q. To all intents and purposes some of these might still be held?—A. I have not looked at the matter since preparing the report.

Mr. NOSEWORTHY: What is the sum total involved? I thought that if this had been closed out at the end of year as required by statute the department would have had to come to parliament for a larger grant the following year than was necessary, by reason of the fact that they were holding back these cheques.

The CHAIRMAN: Well, Mr. Noseworthy, I think we could probably get information on that point from the Department of Northern Affairs and National Resources. We could hear someone from that department later on if it is the wish of the committee.

By Mr. Tucker:

Q. Do you consider that when a cheque is issued and not paid over the amount is paid?—A. The regulations and rules governing the treasury provide that cheques must be released and paid to the recipient forthwith. We cannot regard expenditure as having occurred until that happens.

Q. But if you issue a cheque and do not hand it over, have you actually made payment? There is a suggestion that something has been done which is contrary to the act.

Mr. MONTEITH: It is charged in the account.

By Mr. Tucker:

Q. Is the suggestion being made that the act has been infringed? I would ask you this: if you issue a cheque and keep it in your possession have you actually made payment? If you regard it as an expenditure—in recording it on the account at the end of the year they show X dollars spent when, in fact, it is in their possession. It does not infringe the act?—A. It is regarded as an expenditure.

Q. In other words, the bookkeeping has not been right?

The CHAIRMAN: As I said before, Mr. Tucker, I think we could probably get an explanation of that from the department concerned.

Mr. TUCKER: What I am concerned about is whether there has been an infringement of the act, and I am suggesting that there has been no infringement of the act because the money has not actually been paid.

The CHAIRMAN: My suggestion is that we will know better if we get the facts from the department.

Mr. TUCKER: I am taking the view that a cheque was not handed over.

Mr. MONTEITH: I am suggesting that it has been, because it is shown in the Public Accounts as having been spent.

By Mr. Tucker:

Q. What in Mr. Sellar's view constitutes payment of an account? If the government sends you a cheque and then holds it up would you consider that you had been paid that amount?—A. There is one exception that I would be inclined to make—an exception under which I would regard payment as having been made and as a proper charge on expenditure, and that is when you purchase land and the title has to be cleared. In these circumstances the Department of Justice asks for a cheque that it can pay over. In some cases that is regarded as expenditure.

Q. And properly so because that goes in trust, entailed to the vendor.—A. Otherwise, though, I would not regard payment as made until the recipient has the money.

Q. So it should not be regarded as a payment. I was just wondering.

Mr. HARKNESS: The main point has been made by Mr. Monteith when he suggested they wanted to use up that vote before the expiry date and therefore they issued the cheques.

The WITNESS: In reply to that I can only say that I do not know what the department had in mind. It was the practice that was adopted. Whether they were intending that should become a standard practice bearing in mind that they are now getting lower estimates every year, I don't know.

Mr. REGIER: What would happen if any of these cheques were never paid out because delivery was never made?

The WITNESS: The cheques would be cancelled and the consolidated revenue would be credited with a refund on previous years' expenditure.

The CHAIRMAN: Are there any questions on paragraph 35?

By Mr. Applewhaite:

Q. In connection with these large sums of money deposited in the United States well in advance of delivery, what I would like to know Mr. Chairman is this: are they converted into United States' funds involving foreign exchange, and if so at what rate; is the conversion made at the time we deposit the money or at the time the various deliveries are made, and if a foreign exchange premium or discount is involved where does it show in the Public Accounts?—A. The deposit is made in United States' dollars because that is the currency

of the contract. Exchange cost may or may not be involved. Sometimes we have very large balances in the United States and funds from these may be used; alternatively there may be actual transfers from Canada in which event the charge to the National Defence account would be the actual cost of the American dollars. That means that if our dollar was at a premium the goods would cost so much less than if it were at a discount. That is the way in which the difference would be reflected.

Q. Where would that actually be shown in the accounts? Would it be reflected only in a reduction or an increase of the amount expended?—A. It would not be shown separately. It would just be shown as the amount of the contract.

By Mr. Harkness:

Q. As I understand it the situation is that the Department of National Defence places a contract in the United States. In these circumstances it is required to put up the price or a percentage of the price at the time of placing the contract. Is that the situation?—A. Yes sir. Perhaps you would like me to read you a summarized extract from the section concerned. I am quoting now from the United States Military Security Act section 106b.

Whenever equipment or materials are sold from the stocks . . . such nation . . . shall first make available the fair value . . . before delivery . . . Before a contract for new products is entered into . . . such nation . . . shall (a) provide the United States with a dependable undertaking to pay the full amount of such contract . . . and (b) shall make funds available in such amounts and at such times as may be necessary to meet the payments required by the contract . . . in advance of the time such payments are due.

That is the extract from the United States legislation. When we enter into a contract, the United States tells us in due course how much money we should put up against it and we deposit that sum with the United States' treasury. The arrangement is a good one from the viewpoint of Canada because it means that we receive the benefit of the prime contract with the American producer. We get a good price and we also get the benefit of priority in delivery. Further, we get the benefit of their inspection. Finally, and what is more important, we get the benefit of any adjustment in the pricing that the Americans enforce on their contracts. We could not enforce that, but they can.

I don't like the fact that we have to pay in advance, but the administrative staff here are all satisfied that we do get a good return through this method of purchasing.

Q. The general effect is, though, that a certain amount of money is detained in the United States on deposit and we do not know how long it will be before we get goods in return.—A. That is correct, and it also means that you are charging expenditure on National Defence this year, although you will not get the goods for another year. That is unusual.

By Mr. Monteith:

Q. You call our attention, Mr. Sellar, to the fact that \$15 million was advanced in the last few weeks of the fiscal year, but because of special circumstances, including the variety of orders placed, it appears you were not able to ascertain whether the advances in March were imperatively necessary.—A. There is a balance of \$162 million there. There was \$343 millions on deposit and \$181 million worth of deliveries which had been made, leaving \$162 million.

Q. In your work do you check to see whether that \$162 million corresponds with deliveries, orders, or that sort of thing?—A. Yes sir. One of my jobs is

to see that money is not advanced towards the year-end just to use up a vote. We went into this matter and the treasury went into it and we were both ultimately satisfied that it was necessary to make that advance.

By Mr. Tucker:

Q. You say it was not practicable to ascertain whether the advances in March were imperatively necessary. You will see now that what should be said is: It was found that the advances were required to meet the orders placed. The paragraph reads as it stands that you were not satisfied that it was necessary to make these advances, but you are quite satisfied now that it was proper to make them?—A. This report was written in the month of August. We are now in the month of March and in the interval I have been able to satisfy myself on the matter.

Q. And you have found that this was in order?—A. I would like to have my report dealt with as at the time I wrote it, sir.

Q. I am concerned with the situation as at present.—A. As of today I am quite satisfied.

Mr. NOSEWORTHY: There is no reflection on a good government.

Mr. TUCKER: All I wanted was to find out the actual facts because I conceive that there are going to be speeches made, possibly, on some of these instances and I want to have these things cleared up.

The CHAIRMAN: Mr. Tucker is just clarifying the fact that since the report was written Mr. Sellar has received additional information which makes it clear that the \$15 million advance was fully justified at the time it was made.

Mr. MONTEITH: I think Mr. Sellar had already given me that answer.

The CHAIRMAN: Yes he had. I just wanted to clarify the position.

Mr. TUCKER: I want to make it very plain that when anything is read from this report it does not necessarily apply to the present situation—there are some of my friends here whom I can envisage reading from this report.

Mr. HARKNESS: Mr. Tucker would like to have a defence on the record before there is any attack.

Mr. TUCKER: I am judging from past experience.

The CHAIRMAN: It is nearly one o'clock. Shall I have a motion to adjourn?

Hon. MEMBERS: Aye.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

(Including First Report to the House)

THURSDAY, MARCH 22, 1956

WITNESS

Mr. Watson Sellar, Auditor General of Canada

STANDING COMMITTEE

On

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.

Vice-Chairman: A. J. P. Cameron, Esq., (*High Park*)

and Messrs.

Anderson	Hanna	Mitchell (<i>London</i>)
Applewhaite	Harkness	Mitchell (<i>Sudbury</i>)
Argue	Henderson	Monteith
Ashbourne	Hollingworth	Noseworthy
Balcer	Holowach	Nowlan
Balcom	Houck	Pommer
Beaudry	Kickham	Poulin
Boisvert	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>)
Breton	<i>Guysborough</i>)	Proudfoot
Bruneau	Laflamme	Regier
Cavers	Leduc (<i>Jacques-Cartier-</i>	Rowe
Cloutier	<i>Lasalle</i>)	Schneider
Denis	Maltais	Thomas
Fulton	McGregor	Tucker
Goode	McLeod	Van Horne
Hamilton (<i>Notre-Dame-</i>	McWilliam	Weaver
<i>de-Grâce</i>)	Menard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, March 22, 1956.

(4)

The Standing Committee on Public Accounts met this day at 11 o'clock. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Anderson, Applewhaite, Argue, Ashbourne, Balcom, Beaudry, Boisvert, Cameron (*High Park*), Cannon, Hanna, Harkness, Henderson, Houck, Kirk (*Antigonish-Guysborough*), McGregor, McWilliam, Ménard, Mitchell (*London*), Mitchell (*Sudbury*), Monteith, Nowlan, Pommer, Poulin, Proudfoot, Regier, Schneider, and Thomas—27.

The Committee resumed its study of Public Accounts (1955) and the Auditor General's Report thereon.

Mr. Watson Sellar was called and his examination continued.

The witness made a correction in his evidence to the Committee on March 15 with respect to the rate of interest on Annuities. (of today's evidence)

On Paragraph 36 (Auditor General's Report):

Mr. Harkness asked that the witness reveal the name of the contractor involved. Because this information could be sought and obtained at a later date from an official of the Department concerned, at which time the Committee will be examining the Public Accounts in detail, the Chairman ruled that Mr. Sellar should not reveal the contractor's name at this stage.

Mr. Harkness appealed from this decision. The Chairman's ruling was sustained on the following division: Yeas 11, Nays 6.

At 12.45 o'clock Mr. Sellar's examination still continuing, the Committee adjourned until Tuesday, March 27, at 11 o'clock a.m.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

MARCH 22, 1956.

The CHAIRMAN: Gentlemen, we have a quorum so we shall start.

Mr. Sellar, I believe, has a few questions to answer from the previous meeting.

Mr. Watson Sellar, Auditor General of Canada, called.

The WITNESS: Yes, sir. I was asked how long it was expected that credits would have to be added to the reserve in connection with the Government annuities fund. I have made inquiries of the department and their opinion is, due to the continuing lengthening of the life expectancy of mankind, that the reserve will have to be added to for many years to come, so then it will be an annual item.

The second question was, whether the 20-year guarantee was in the contracts prior to 1935. The answer is yes. It has been in since the inception of the act.

Then, I was asked the number of income tax offices in Canada. There are 28 regional offices.

I was also asked whether in our examinations we scrutinize the penalties and interest charges. I said I would have to refer to our programs to see to what extent that is done. All examiners have instructions to make the necessary tests to satisfy themselves that there is no partiality, etc.

Those are the questions.

Now I would like to correct a mis-statement I made at the last meeting.

I was asked a question, or in fact I volunteered the statement, that back in the 1930's 5 per cent was the rate used in certain annuities. Doubt was expressed as to the accuracy of that, but I persisted, and now I find I was wrong. The rate was never higher than 4 per cent. I am sorry I made that mistake.

Mr. HARKNESS: That was my impression, that it was 4 per cent.

The CHAIRMAN: Thank you, Mr. Sellar.

We shall go into the examination of the Auditor General's report, paragraph 36.

By Mr. Harkness:

Q. This appears, on the face of it, to have been a very imprudent contract so far as the Canadian taxpayer is concerned. Who made these contracts; who were the contractors?

The CHAIRMAN: I do not think that the name of the contractor should be given at this meeting. It is not customary for names of contractors to be given at meetings of this kind, and it is not fair to them to have their name mentioned here in connection with contracts when they are not here to defend themselves.

If it is the opinion of the committee that we should get the name of the contractor and go into this more fully, I suggest that this is not the time. After we have finished with Mr. Sellar we could call somebody from the department and then go into it at that time.

Mr. HARKNESS: As far as the proposition is concerned that names of the contractors and so forth are not brought up in this committee, that certainly was not the practice some years ago. I can remember several cases in which contractors and specific contracts were dealt with.

Mr. NOWLAN: Contractors have been brought before the committee. Their names must have been made available so that they could be called. That has been the practice before.

Mr. HARKNESS: I do not think there is any use in this committee proceeding, as it were, in the dark in respect to a particular matter of this kind, and it would seem to me we should be given all the information which Mr. Sellar has. If he does not have all the information we want then I think we should proceed as I have indicated and call other witnesses.

The CHAIRMAN: It would not do us any good to get the name of the contractor at this meeting this morning. We can go into that in more detail after we finish with the Auditor General. It is not fair for the names of contractors to be mentioned before the committee when the contractors are not here to defend themselves. It would not be fair to the contractor.

Mr. HARKNESS: I think you will find plenty of precedents in previous committees where names of the contractors were mentioned. We do not think this committee should take it as a general rule that we are not allowed to find out the name of any particular contractors or any particular person concerned as far as these observations of the Auditor General go.

The CHAIRMAN: I do not say it is a general rule, but I am saying, at this time, while we are examining the Auditor General's report it is not the time to mention the name of the contractor or have his name before the committee here when he is not here to defend himself.

Mr. HARKNESS: Mr. Chairman, I think that that is just going to destroy the work of the committee.

The CHAIRMAN: Certainly not. We can get that at a later date.

Mr. HARKNESS: The point is if there is any particular contractor or person whom we want to call, we have to know the name first. They can always be called later and may make any defence they wish to make.

Mr. BOISVERT: Mr. Chairman, if the hon. member is right we could have all the contractors of Canada being called as witnesses before this committee. I do not think that is the proper way to deal with this matter. I believe if the hon. member has the name of the contractor in his mind he could let the chairman know the name and we will ask the contractor to come before this committee and explain his position. But, at the present time, I feel it would be unfair to any contractor having his name before this committee before he has a chance to appear and explain.

The CHAIRMAN: It is just a matter of procedure. I am of the opinion that this is not the time to mention the name of the contractor when we are dealing with the Auditor General's report in a general way. Later on, if the committee wants to assign somebody from the department, or through some official of the department get the name of the contractor, if it is the opinion of the committee we should hear the contractor, then we could hear him at that time. He would be here and would be able to answer any questions. I rule, as a matter of procedure, that this is not the time to mention the name of the contractor now.

Mr. NOWLAN: On a point of order: There is nothing in this section which reflects upon the contractor in any way. You seem to be inferring that the contractor is guilty of some offence.

The CHAIRMAN: No.

Mr. NOWLAN: The Auditor General's report does not reflect on any contractor and I suggest that a Public Accounts Committee of the House of Commons in dealing with the Auditor General's report in which he refers to a government contract surely should have the name of that contractor. I presume that the name is in the book because presumably the contractor was paid and I suppose if one wanted he could look into this section, ask which page the particulars of this item are on, and then find the name.

I have been on this committee for some years, and when it was set up before, and I know that contractors were named and there was no question raised whatsoever.

The CHAIRMAN: There are precedents for it.

Mr. CAMERON (*High Park*): Mr. Nowlan has produced the reason. He said there is no suggestion that this contractor has done anything wrong and that there is no reason why his name be placed before this committee. We decided that if we wanted we could call someone from the department to justify this particular contract, to explain it, and I think that is the way it should be done. But, to take an isolated name of a contractor out of the air who is involved in this would be, no matter how innocent he is, perhaps placing some stigma on his name. Mr. Chairman, your position is the right one.

Mr. NOWLAN: The chairman inferred we were doing something unfair to the contractor behind his back and I said there was no reflection on him and there was no reason why he should not be named.

The CHAIRMAN: I just said, as a general principle, it was not a good practice to mention the names of contractors before this committee at this time when we are examining the Auditor General's report. That is my ruling.

Mr. HARKNESS: Mr. Chairman, I would submit that your ruling is directly contrary to the entire procedure in the House of Commons, and the procedure in the House of Commons also covers the procedure in the committees. In the house, if a member asks who had a particular contract there is never any hesitation on the part of the minister who is asked the question in stating that, even when the estimates are being discussed, on a question before the Orders of the Day, or on a written question. The matter of saying who the contractor was, to my knowledge, has never been question. The information is always given.

The CHAIRMAN: It has been decided before.

Mr. HARKNESS: Surely the name procedure must follow in this case.

The CHAIRMAN: It has been decided before that when this committee is examining the Auditor General's report is not the time to mention the name of the contractor. I do not say that you will not eventually get the name of the contractor, but I am saying this is not the time. This is not the time when the contractor's name should be put before the committee. That is my ruling.

Mr. HARKNESS: I would appeal your ruling.

Mr. BEAUDRY: On a point of order, you cannot appeal the chairman's ruling in committee.

Mr. HARKNESS: I have certainly been present on many committees when it was appealed.

Mr. APPLEWHAITE: I think Mr. Beaudry is right. I think the appeal is to the house from the ruling of the chairman.

Mr. CAMERON (*High Park*): I think we are getting worked up about nothing. Mr. Sellar is not a minister of the crown. When you have a minister

of the crown before you then you can ask these questions. Mr. Sellar is a representative of the whole parliament of Canada. He has put this information before us and I do not think he has any duty to answer nor should he be asked anything further than to make short comments. We all know there is a way this can be done. Why are we beating around the bush now trying to squeeze out the name of a contractor for absolutely no purpose whatsoever.

Mr. NOWLAN: What is this committee for but to get information. Apparently our friend Mr. Cameron thinks there is something here. We may not get any information anyway, but we certainly are entitled to ask some questions with respect to this.

The CHAIRMAN: I rule that Mr. Sellar is not to answer that question at this time. It will serve no useful purpose and it is a matter for the department. If you want to assign the minister or any employee from the department at a later date that will be your privilege; but, at this time I rule Mr. Sellar is not to answer the question. As to the matter of appealing my ruling, so as to save time I have no objection to having the appeal at this time.

Do you want to appeal to the committee?

Mr. HARKNESS: Yes.

The CHAIRMAN: All those in favour of upholding my ruling?

Appeal of chairman's ruling lost on division.

The CHAIRMAN: I declare that the appeal is lost.

By Mr. Harkness:

Q. Well, Mr. Sellar, what particular guns are these? Are these the 4.5 inch naval guns which the Canadian destroyer escort is now being equipped with?—A. I am not certain, sir. I would have to get that information. My impression is they are 6-inch, but I do not know.

Q. You do not know what particular guns they are?—A. No, sir.

Q. Have you the terms of the contract which was entered into in connection with this particular transaction?—A. In part, yes.

Q. Could you give us those?—A. You see, I have no access to the contract with the United States government.

Q. Then, I take it from what you have just said, that there was more than one contract here. There was a contract between the Canadian government and the contractor I presume and then between the Canadian government and the United States government, or was there a joint contract between the Canadian and United States governments on the one hand and the contractor on the other?—A. The contractor was a party in both contracts.

Q. Are they two separate contracts?—A. Again I am in trouble because I am not familiar with the whole file. I just know part of the files. My impression is you would regard it as two contracts.

Q. One between the Canadian government and the contractor and one between the United States government and the contractor?—A. Yes, sir.

Q. Then is there any contract between the United States government and the Canadian government involved too?—A. I do not think there is any written contract. I do not know why there would be. I think there would be discussions and understandings, but I do not think there would be anything in writing other than correspondence.

Q. Is the contract you had the one between the Canadian government and the contractor?—A. That is the one we were interested in in particular.

Q. What are the details of it?—A. The production of the guns, the cost, plus certain percentages of profits depending upon what the nature of the activity was.

Q. Can you give us the details as far as you have them?—A. That is what I mean. So far as we know it was cost plus.

Q. You do not actually have the contract before you?—A. No. On certain phases of work the plus was to be a certain percentage and on other phases it was to be another percentage. I just have the total figure, that is all.

Q. What was the percentage in each case?—A. Again, I did not expect to be asked that question and I do not have the data in front of me.

Mr. MONTEITH: Is there any reason why this contract should not be presented to the committee?

The CHAIRMAN: We do not have the contract for one thing.

The WITNESS: I do not have the contract.

Mr. MONTEITH: At some other meeting of the committee, then?

The CHAIRMAN: I said that at a later date the committee can assign employees of the department to go into this matter at greater length, if it is the desire of the committee; but this morning Mr. Sellar does not have the contract with him.

By Mr. Harkness:

Q. What are the figures you do have in respect to the contract?—A. Well, I have this, that the cost to Canada was approximately \$356,000 per gun and that in turn is made out of amounts totalling \$16,376,571.

Mr. MONTEITH: That is the actual charge to the Canadian government?

The WITNESS: That was the cost to the Canadian government.

Mr. MONTEITH: What did the original contract call for?

The WITNESS: There would be no fixed figure in the original contract because it was cost plus. The basis of the price was fixed, but not the price figure.

Mr. THOMAS: That would mean that the guns were delivered by the contractor to the Canadian government and subsequently delivered by the Canadian government to the United States?

The WITNESS: No, sir. Those are the guns, the 46 guns, delivered to Canada.

Mr. THOMAS: Just the 46 delivered to Canada?

The WITNESS: Yes, sir.

Mr. THOMAS: The point is Canada had to pay a higher price to the contractor than did the United States. There was actually no loss to the Canadian government on the guns sold to the United States?

The WITNESS: No, sir.

Mr. NOWLAN: Your position, or original basis, of paying was varied? What was the original basis?

The WITNESS: Here again I have to qualify myself because it was founded on the American contract which I do not have. My understanding was that the United States government decided to have the production in Canada, and they negotiated at that end, and that negotiation proceeded to a point where you might say there was an understanding. Then, Canada indicated an interest and the basis had to be changed on account of that interest. Furthermore the United States decided that unless it could be assured that the 180 guns were not going to cost more than \$45 million they would have to drop the matter. Their reasoning was that they had to defend themselves before congress and could not afford to pay a higher price for guns produced in Canada than they would pay in the United States to their producers there.

The CHAIRMAN: The maximum we could get for the 180 guns was \$45 million from the United States?

The WITNESS: Yes.

The CHAIRMAN: I understand the fact that we made 180 guns for the United States was also an important factor in reducing the cost per unit for the Canadian guns.

Mr. NOWLAN: Are you giving evidence, Mr. Chairman?

The CHAIRMAN: I am asking Mr. Sellar.

The WITNESS: I have been told, and I think it could be supported, that because the American order would be such a large part of the total production that various items of costs which would have fallen on Canada, were split. In other words, I was told had there been an order only for 46 guns the cost would have been prohibitive to Canada to go ahead with. Too much is involved in proceeding on a contract like that. If you want that to be spelled out you would have to get someone who knows about it from the department.

The CHAIRMAN: You said:

To an undetermined degree, subsequent production on Canadian account benefited by certain items of cost wholly absorbed by Canada under the arrangement, particularly those relating to preliminary expenses and plant rehabilitation costs.

Would you like to amplify that statement.

The WITNESS: What that means is this: As a result of that there are facilities in Canada where we could order like guns and have them produced where five years ago we could not.

By Mr. Nowlan:

Q. These facilities were prepared for this contract, were they, Mr. Sellar?
—A. The facilities?

Q. Yes.—A. You have to bear in mind that the tooling and preparing of plans and so on had to be done—buildings, of course, were already in existence; it was not a starting from scratch proposition.

Q. Is the cost of tooling and the preparing of the facilities all included in these items here?—A. No. Not all the tooling; but the preparing of the building plans, engineering plans, layout, the renovating of various facilities are all in there.

Q. You refer to the department. I suppose you were referring to the Department of Defence Production?—A. Yes.

Q. That is the department?—A. Yes. National Defence paid the bill but—

Q. There was a contract signed by the Minister of Defence Production?
—A. There was a contract signed by the Department of Defence Production and I assume by the minister.

Q. You speak, in your second sentence, about, "during the audit one large contract was observed where the original basis of sharing was later varied . . ." That refers to after the contract was signed?—A. I am not going to say that because I am not sure, but I know it was changed at the time when the United States indicated that \$45 million was the maximum it would put into the contract. Whether there was something signed between the United States and the contractor, or whether there was something signed between the Department of Defence Production and the contractor, I am not sure. I would have to verify that.

Q. I think earlier you said there was a contract between the contractor and the Canadian government and there was a contract between the United States government and the contractor?—A. I assume the latter. I have never seen it; I take it for granted there would be.

Q. As between the two governments there was just correspondence and negotiations?—A. To the best of my knowledge, yes.

Mr. THOMAS: Would you say that due to the fact that the United States lowered its offer to \$45 million that there would be any additional cost to the Canadian government as to the original expenses it involved in retooling and changing around of the planning? They had to undertake a larger percentage of that than they would have had to had the American government paid the full price for the guns.

The WITNESS: Yes, sir. That is the reason for the difference.

Mr. NOWLAN: You do not have the contract yourself?

The WITNESS: No, sir.

The CHAIRMAN: I understood Mr. Thomas to say that the United States had lowered their offer. I did not understand you to say that they lowered their offer. Do you know that as a fact?

The WITNESS: You might say they froze their offer to \$45 million.

By Mr. Thomas:

Q. In other words, they gave a cost plus contract originally and froze it at \$45 million?—A. A target price contract.

Q. When they did that the Canadian government was obligated to pay a higher initial cost to the contractor than they would have had to do had the American government paid the full cost price for the guns?—A. Yes.

Q. Have you any idea how much difference that might have made to the dominion government?—A. \$112,000 per gun which made the difference. The reason was, sir, I think there was a bona fide misunderstanding some place along the line where it was assumed that the production was to be wholly self-contained and that no components were to be purchased outside, and so on, and the Americans were under the impression that components were to be purchased outside; then when it came to their knowledge that in Canada a complete self-contained unit was being set up they said, "No, we cannot stand for that; \$45 million is the maximum we can go." Again, this is to a degree hearsay.

The CHAIRMAN: These are assumptions?

The WITNESS: Yes.

Mr. THOMAS: Have you any idea what the cost would have been per gun to Canada had the United States paid at the same rate? I suppose that could be worked out.

The WITNESS: Yes. It could be worked out.

Mr. BALCOM: Is the difference not largely represented by the engineers retained in Canada and the other facilities that are left to us to use if we want to?

The WITNESS: Plus, sir, an item of customs duty. Some of the materials naturally came from the United States and in the case of the United States production there would be a refund of those customs duties. As a matter of fact there was a refund of \$671,000 on the American contract. What the amount was on the Canadian I do not know. That is also an item you would have to take into consideration.

Mr. HARKNESS: The general position is that you do not have the details of the transaction really and cannot give them to us?

The WITNESS: I cannot give them to you because, as I say, I do not have the contract before me and I have not had access to the files of the United States government.

Mr. HARKNESS: Mr. Chairman, I would suggest in order to go into this it is necessary for us to get a witness from the Department of Defence Production. I think that is the procedure we should follow.

The CHAIRMAN: We can consider that suggestion after we finish with the Auditor General's report. We had a meeting of the steering committee and it was decided at that meeting we should begin by hearing the Auditor General and then after that we should go into the matter of crown corporations. After we have dealt with those matters, if it is the desire of the committee, we can call individual departments and go into individual transactions.

Mr. HARKNESS: This is one of the matters brought up in the Auditor General's report and my presumption was—and I would think that it would be general—that we would be able to get all the information in connection with the particular transactions and we are not able to get it from Mr. Sellar; therefore, I would think as part of the consideration of the Auditor General's report we should call the witnesses necessary in order to get the information.

The CHAIRMAN: That is not the way we proceed in this committee. Later on when we come to examine the transactions in detail and the public accounts in detail we can go into that; but, this is not the time to go into it now on the Auditor General's report. You are not suggesting we suspend Mr. Sellar's evidence now?

Mr. HARKNESS: No. I would suggest we go ahead with Mr. Sellar's evidence now. In the meantime we could have arrangements made to call necessary witnesses to clear up this particular matter, and for the time being this item would just stand.

The CHAIRMAN: I gave that undertaking before, Mr. Harkness, that if it was the desire of the committee, at the suggestion of any member of the committee, to assign people from the department to go into a transaction in detail that it would be done.

Mr. HARKNESS: All right.

The CHAIRMAN: Now we will go on to paragraph 37.

Mr. MITCHELL (*London*): I presume this is another case where you could not permit the Auditor General to mention the name of the contractor?

The CHAIRMAN: Well, I think the same ruling I made on paragraph 36 applies.

By Mr. Mitchell (London):

Q. May I proceed to ask if Mr. Sellar has found this to be a common practice or an isolated instance?—A. This is an isolated instance, sir. The reason it is drawn to your notice is that it is unusual for the parks branch to recognize a liability for an accident on a road until it is proven that their road is at fault.

Mr. HARKNESS: Have you any idea why they did it in this case?

The WITNESS: I have none. I know they acted on legal views.

By Mr. Mitchell (London):

Q. You say "the files do not record that any demand was ever made on the contractor to share in the cost of the accident." Was any effort made to find out if there is any reason be it legal or otherwise, that there was no proceeding instituted?—A. I wrote to the department asking that question last year, and the department advised me that the matter had been considered by the Department of Justice's agent at Edmonton they had retained for this case and it had been ruled that there was no liability claim against the contractor. I have not seen that ruling, or that opinion, from the Edmonton agent, but that is the reason the department did not press it.

The CHAIRMAN: If I understand you correctly, Mr. Sellar, the Department of Justice obtained a legal opinion that there was no responsibility on the part of the contractor and that that is the reason why the contractor was not asked to pay?

The WITNESS: Well, perhaps the easiest way would be for me to quote the reply I received from the Department of Northern Affairs and National Resources.

The CHAIRMAN: What is the date of the letter?

The WITNESS: June 9, 1955. It includes these words: "The agent for the Justice Department considered the question of responsibility by the contractor and expressed the opinion that no liability could be fastened on him. This view was concurred by the law officers of the Crown."

By Mr. Applewhaite:

Q. I have two or three questions to ask on this. It is my understanding—and members of the committee will correct me if I am wrong—that the findings of a coroner's jury has no importance whatsoever in fixing legal liabilities. Why did the Auditor General quote from the coroner's jury verdict in this connection?—A. Simply because it seemed to summarize the question whether anybody was liable at all. That was all, sir. I wanted to take it from some official document rather than to take the responsibility for saying it myself.

By Mr. Balcom:

Q. This does not establish that the coroner's jury would have any great weight in a court of law?—A. I do not think they pay any attention to it. I just put it in for a descriptive build-up.

By Mr. Applewhaite:

Q. The amount would be \$61,017 as the total amount which the department would have to pay?—A. Yes, sir.

Q. Is that included in the figure against Jasper Park on the second line?—A. It is to be found on page R-90. Pardon me; R-39 right at the foot of the page under the heading "payments of damage claims".

Q. It is shown as a charge to vote 304 which is broken down in two different ways on pages R-5 and R-6. Is that the same \$61,017 shown at the bottom of page R-30 that is also included in the summary of vote 304 as shown on pages R-5 and R-6.—A. Yes sir. It is in there but I am not sure to which of the allotments it is charged.

Q. Vote 304 is broken down in two ways, one by purposes, that is the first one, a sort of general classification, and the second time it is broken down by parks.—A. Yes.

Q. And there is an item for Jasger Park which is the only one in that description that I can see where this \$61,017 would be. I am referring to the second line from the top on page R-6.—A. Speaking from memory I think you will find that this amount is incorporated in the last item on page R-6, namely "head office, administration and information, \$239,284". I think that is where you will find it is charged but I will not say for sure.

Q. Well, counting that one, you have three different methods of showing the distribution of the \$4 million odd. If it is any one of them, it must be in all three of them.—A. That is right.

Q. I was saying that in the second case it must be in the Jasper Park item.—A. The easiest way would be for me to give you the exact information as to where it is.

Q. I will tell you why I have been working on this line: the expenditures under vote 304 are divided in one instance as between the head office and various parks. The title of the heading is "administration, operation, and maintenance". I do not know in what way the department sets up its accounts for the different parks. What I was getting at was that if this \$61,017 is shown as included in the administration and operation of parks, it would make the overhead cost of administration of the parks look higher than it should in view of the amount of work which is done. I wondered whether or not it should not be entirely isolated as a damage claim rather than as a charge against any one.—A. Again, I think it would be helpful to you if I got the figures identifying it in all of these divisions.

Q. Thank you.

By Mr. Regier:

Q. Was the payment made by the department prior to their being advised that they would not be able to have a claim on the contractor, or was it made after?—A. Oh, it was after. The payment was made on the last day of the financial year, March 31st, 1955. That is the date of the Treasury Board minute.

Q. In that case, was a reason given by the department for assuming any responsibility whatsoever? According to the statement from the law officer the opinion was that evidence was not available to establish whether the cause was the negligence of the bus driver or the faulty road conditions? Does the department automatically assume responsibility for 50 per cent of all accidents that happen on the highways that are in the parks?—A. Mr. Chairman, I do not know what the law officers had in mind, but I do know this: the law officers took notice of the fact that it was going to be very difficult to establish who was at fault, and that it might cost considerable money. Secondly, the case had been dragging out for a long time, and finally having satisfied themselves that there was no claim against the contractor, the deputy minister ended up by saying that the settlement proposed by the Canadian National Railways should be accepted. That was the recommendation.

The department in turn acted on that advice of the law officer and made a submission to the Treasury Board for the authorization to pay, and on the 31st day of March last year the Treasury Board authorized payment as a charge to vote 304.

Q. I have sometimes heard of a government being responsible for icy conditions of sidewalks but I do not recall any provincial government ever being held liable for the condition of highways and for accidents resulting therefrom. I wonder! Does the Auditor General think it is a fairly common assumption that whoever owns a highway can be held responsible?—A. I have no opinion about the law. I am bringing it up because it is the only case I have known. That is why it is before you. It is an unusual case.

By Mr. Mitchell (London) :

Q. Is it common practice in the various departments to accept the advice of the justice department rather than to have the merits tested before the courts?—A. On a question of law the department of justice act provides that the department should take the advice of the law officers. Not being an officer of the executive government I am free to express a little doubt sometimes. Therefore I am not bound by the justice opinion.

Q. You have found that departments in many cases accept the advice of the law officer rather than proceed to have the matter tested in court?—A. Oh, yes.

The CHAIRMAN: I think it is the normal procedure to follow the advice of the law officer.

The WITNESS: You usually do not get into trouble if you follow the advice of your lawyer. That is the general rule or maxim.

Mr. BOISVERT: Thank you.

By Mr. Argue:

Q. Are the law officers those of the department of transport?—A. No, the department of justice.

Q. You say:

The law officers being of opinion that evidence was not available to establish whether the cause of the accident was negligence of the bus driver or a faulty road condition, payment was made as a charge to vote 304.

If there was any doubt, why then did they pay it under vote 304?—A. They recommended settlement.

The CHAIRMAN: I think they were in doubt as to the division of responsibility. They were not in doubt as to the responsibility existing; it was as to the division of that responsibility between the Canadian National Railways and the Crown, I think. That is why they decided to settle it on a fifty-fifty basis, probably.

By Mr. Regier:

Q. Does Mr. Sellar regard vote 304 as including authority for the payment of a claim of this sort?—A. Yes sir. It is the general vote.

The CHAIRMAN: Now, paragraph 38 of the Auditor General's report.

By Mr. Harkness:

Q. Where does this particular contract appear in the public accounts? I have looked at pages W-39, W-40, and W-41, but I cannot see it.—A. You will find it on page W-85; that is my note.

The CHAIRMAN: You say page W-85?

The WITNESS: Yes sir. If you will look under the heading of "Fort Qu'Appelle" Saskatchewan, about half way down the page.

By Mr. Harkness:

Q. That is the item of \$2,588?—A. No, the next one. Notice the note also a little further down under Regina, where you will see a similar note.

By Mr. Argue:

Q. The crown lost \$21,438 in your opinion unnecessarily, or \$37,000, which is it?—A. I have that feeling here. There were three contracts, we took a loss on one, and there was a surplus on the other two. We should have taken the three accounts together and made a settlement after that. But the department felt—and I do not say they were wrong; I am just expressing my own opinion—that each contract stood on its own feet.

Q. Is that a normal attitude for them to take?—A. Oh yes, there is no exception in the practice but this was the first time I had noticed it, and as pointed out, I am referring to it because there was considerable discussion in the house of commons at the time over this, and I thought that the members might like to know that the matter was all settled.

By Mr. Thomas:

Q. Your opinion is that they should have taken the \$21,000 odd off the surplus and made a distribution?—A. Yes, that was my idea, but I do not say that I am right.

By Mr. Argue:

Q. Have you any idea as to the claims of the sub-contractors and what proportion \$37,000 was?—A. Oh, they were licked. In one case there were \$86,000 of claims for which they got nothing.

By Mr. Harkness:

Q. This was the actual clean-up of these Lunam contracts which we discussed at considerable length in the house?—A. Yes.

Q. And eventually the sub-contractors got partial payment in the amount of \$37,163?

Mr. MITCHELL (*London*): It amounted to a cost-ratio payment?

The WITNESS: You might say yes, and I might say no. But I think the department would say no, that it was part of the deal.

Mr. HARKNESS: The department felt that it had the responsibility to pay those sub-contractors?

The WITNESS: As related to each contract.

Mr. CAMERON (*High Park*): On this project the contractors with other workmen on the job would get less money.

The WITNESS: I suppose they got nothing.

By Mr. Harkness:

Q. The department did not accept general responsibility for those sub-contracts?—A. No, they did not.

Q. But in this particular case they accepted partial responsibility?—A. They had a residue left over, and they distributed it to the sub-contractors and suppliers in connection with that particular contract; but in another contract where there was no surplus, there was, as I say, \$86,000 of debts, and those people got nothing.

The CHAIRMAN: If the government had not absorbed the \$21,000 the sub-contractors would have gotten less than they did get?

The WITNESS: That is right.

By Mr. Harkness;

Q. What authority exists for treating contracts in this way?—A. It is in the contract and it is also, I think, in the wages liability act. I think it is to be found in both places.

Q. The point in this case was that the department of public works cancelled the contract with Lunam, did it not?—A. Yes.

Q. And it took over the work itself?—A. Lunam had an accident and was unable to direct his construction projects. He notified the department of that accident, coupled with the fact that he was having trouble furnishing the financing for the contracts and asked to be relieved. Whether you could say that he asked as a request, or whether it was a department decision, that is something you would have to settle with the department; but we took over the contracts and everything else.

The CHAIRMAN: And there was a clause in the contract providing for it?

The WITNESS: Yes sir.

By Mr. Harkness:

Q. I wonder whether this money was properly paid over, or whether it should have been voted.—A. No. That did not worry me. The only point that worried me was when we had three claims against one contractor, whether we should not have consolidated them, and satisfied ourselves first.

Mr. MONTIETH: The sub-contractors got something out of it in addition to what they otherwise would have got?

Mr. HARKNESS: Certain contractors got preferential treatment as compared to others.

The WITNESS: No, the sub-contractors on each project were treated alike in two cases. They shared proportionately in the surplus; but in the third case there being no surplus they got nothing; but they were not the same people.

By the Chairman:

Q. Each contract was settled upon its own merits as an individual case. I think that in law that was probably a good decision.

The WITNESS: I am not arguing it from the point of view of law. I bring it to your notice as an unusual situation, that is all.

The CHAIRMAN: Thank you.

Mr. REGIER: There was a pooling of two.

The WITNESS: No. Each one was treated separately.

Mr. REGIER: This \$37,000 is the sum of two separate items?

The WITNESS: Yes sir.

The CHAIRMAN: Now paragraph 39.

By Mr. Nowlan:

Q. On what page are the details of this item to be found?—A. W-29, I think.

Q. You say that parliament gave approval in 1949 and that there was an item in the estimates?—A. Yes, to buy the site and to proceed.

Q. What was the amount of that item? Have you the particulars?—A. I have not got the figure before me but my recollection is that it would be possibly, \$25,000 or \$50,000.

Q. For the site?—A. Yes; it was the usual starting item.

Q. In the last line you say "compensating of the contractor for the delay"; just what do you mean by that?—A. The contractor moved on to the site and brought his equipment on to the site; he started work, and then they stopped him.

Q. Was this contract a cost-plus one?—A. No, it was a bid price, and he was the lowest bidder. They stopped his work because the city of Granby said "you are violating the by-laws of Granby by building too close to the street line".

By Mr. Harkness:

Q. You say that the plans and specifications had been completed by a private architect. Was that private architect hired by the contractor or by the government?—A. By the government.

Q. Who was at fault in this matter? I presume the architect hired by the government was at fault, but were any other engineers at fault in locating the building in that exact spot?—A. That is getting outside of my responsibility. You might say that the architect who had been engaged for it had the responsibility and you might also say that the resident architect in that area had a responsibility. Anyway the department of public works, when this developed, was very annoyed, naturally, and they issued pretty stiff instructions

to all their field officers and to any architects that they engage that they must satisfy themselves as to the municipal by-laws and everything else which might be applicable to the construction.

By Mr. Applewhaite:

Q. Didn't they, in the first place, get a permit from the city, and then have it revoked later on?—A. They got the permit but they did not examine the by-law first.

The CHAIRMAN: You might say that the city was also at fault because they granted a permit which was against their own by-law and then repealed it.

The WITNESS: Yes.

Mr. APPLEWHAITE: Following that, I think this is a fair question. When one applies for a local permit, is it the duty of the applicant, having got that permit, to make certain that the issuer of it has not violated its own by-laws?

The CHAIRMAN: I wonder if that is a fair question to ask Mr. Sellar. He is not here to give legal opinions.

The WITNESS: I think I could answer it. We expect architects to satisfy themselves on such matters.

Mr. APPLEWHAITE: You expect them to go behind municipal permits?

The WITNESS: Possibly not, but they should see that everything is in order.

The CHAIRMAN: Paragraph 40.

Mr. BALCOM: Would it not be the duty of the treasury board to see that the land in this case was clear and that they had sufficient property rights?

The CHAIRMAN: Are you dealing with paragraph 39 now?

Mr. BALCOM: No. Paragraph 40. The treasury board granted the money before the land was clear.

The WITNESS: Mr. Chairman, the situation is this; it is a little unusual. This land was originally British Admiralty land at the entrance to the harbour of St. John's, Newfoundland, and during the war the government of Canada had the use of that land. We had some installations on that particular land and as a matter of fact paid a couple of people for the use of the land. Then after the war, the department decided they wanted to construct certain works in this area and among other things there was the matter of a breakwater. The Department of National Defence asked the Department of Public Works to handle it and everyone proceeded on the assumption that it was going to be a very easy matter to get hold of this land. However, it was then found that the people on the land were squatters and had been there a great many years and the British Admiralty had transferred all its rights prior to 1921 to the Newfoundland government. In turn, the Newfoundland government had transferred certain of its rights to the city of St. John's. Then, to make the thing more complicated, legislation was adopted a few years ago permitting those people holding, what I think they call building leases, to acquire title to the land. That was the situation. Everybody thought it was a simple transaction and we were going to deal with certain people, but when we dealt with them we found they could not give us title. It was most unusual. The project for the time being was dropped. I thought I should bring this to your notice.

Mr. NOWLAN: Did they find it out in 1952?

The WITNESS: No, the following year.

Mr. BALCOM: We still have some equity there?

The WITNESS: They got some of the land since but not all and because they did not have it all they did not proceed with the construction.

By Mr. Nowlan:

Q. They have not proceeded?—A. No. The contractor has been paid off.

Q. When did the contractor move on to the property?—A. I am sorry I do not have the date; but it was almost a year after the first awarding of the contract.

Q. That would be in 1953 sometime?—A. Yes, sometime in 1953.

Q. How long before the election?

The CHAIRMAN: Mr. Sellar said he did not have the date.

By Mr. Nowlan:

Q. You said this was an unusual item. I wonder if it applied just before the election?—A. I am not a politician, but I know this contractor was not a local contractor.

Q. Can you find out when he did move on?—A. Yes.

Mr. THOMAS: The cost to the federal government has been this \$83,000 plus \$140,000, about \$223,000.

The CHAIRMAN: The total was \$140,000. Is that not right, Mr. Sellar?

The WITNESS: Yes.

Mr. CAMERON (*High Park*): We still have some value from that \$140,000?

The WITNESS: Yes. A very substantial part of that is land.

Mr. CAMERON (*High Park*): So the loss is much less?

Mr. NOWLAN: You say that \$83,000 had been paid under the contract. You mean paid to the contractor for services performed?

The WITNESS: Yes, and for materials and supplies moved on. There was certain pontoon work, or something of that nature, carried out but it never was used.

The CHAIRMAN: That \$83,000 is included in the \$140,323 mentioned before.

The WITNESS: Yes.

Mr. MITCHELL (*London*): The ultimate value of the land would be, at its maximum, something in the nature of \$50,000 or \$60,000.

The WITNESS: Yes, sir.

Mr. REGIER: Did any of the \$83,000 represent payment for termination of the contract?

The WITNESS: I do not think so. My recollection is "no", but I would have to check it.

Mr. NOWLAN: The work must have been progressing for quite a little while to go to \$83,000?

The WITNESS: I will not try to answer that. I do not have the knowledge. I have made a couple of biffs before and I am not going to add to them.

Mr. HARKNESS: The general position is that there is a loss of between \$83,000 and \$140,000 due to inefficiency on the part of somebody?

The WITNESS: Yes, or on the other hand when that work goes on some of that work performed may be able to be used subsequently.

Mr. MONTEITH: Were they still trying to get these titles straightened away in order to continue purchasing the property until the end of last year?

The WITNESS: Yes. What the situation is today I do not know.

Mr. HENDERSON: You cannot say that this \$83,000 is a dead loss?

The WITNESS: I am not prepared to say that, no.

The CHAIRMAN: Paragraph 41.

By Mr. Harkness:

Q. This paragraph deals with defence force coal transactions and you say here "reports indicated that quite a number of deliveries were challengeable". Are they challengeable solely from the viewpoint of quality of coal delivered, or also challengeable from the point of view of amounts?—A. Quality, sir, mainly moisture content; moisture and sulphur content.

Q. Have you any estimate of the amount of loss as a result of this?—A. It is not large. It would be less than \$10,000.

Mr. THOMAS: Could we find out, Mr. Sellar, where the investigations were made, at what plants or at what bases did you carry out your investigations?

The WITNESS: We followed it up on the basis of reports that were before us, plus some observations when we were at bases; but it was mainly based on the written reports which came in. The testing is done by mines Branch people here in Ottawa.

By Mr. Harkness:

Q. Did you conduct any investigation as to how it was affecting the quantities delivered, as to whether there was any discrepancy there?—A. That is part of the stores routine audit. That is taken in its stride. Of course that does happen sometimes.

Q. There was some question in the estimates in connection with this particular method of delivery of coal I think last year.—A. It is not infrequently, I am sorry to say, that there are lawsuits and criminal proceedings on coal deliveries, not only for national defence; it is what goes into the bins and what is diverted before it hits the bins. But, I do not think the service forces have any more serious problem than any other big user of coal.

Mr. BALCOM: Would it not be more frequent in isolated places and it couldn't take place in the city where they have registered weighers?

The WITNESS: I am sorry to say it has happened in cities. Collusion can be an awful thing.

By the Chairman:

Q. This paragraph of itself does not deal with shortages in deliveries?—A. No, sir.

Q. And you draw the attention of the committee to the fact that the matter was drawn to the notice of the department and a review of the regulations and practices applied in taking samples was at once undertaken.—A. Yes, sir.

Q. In order to correct the situation. That is mentioned in that paragraph.—A. Yes. What the department has done is this: It has tried to make its regulations, and application of its regulations, to take such form that if it is established as a result of the test that the coal has not been up to standard that they have an enforceable claim against the contractor. One of the big weaknesses was that the contracts provided that the contractor or his representative shall be present when the samples are taken and in some places that was not done. The contractor had a grievance that he did not see those samples taken and did not know whether they were fairly taken. Another was that they would ship in coal samples possibly in barrels or something like that and it would be dumped. The complaint was that there was too much moisture in it but it was sometimes dumped on a cement floor where there was some heat and the moisture would drain off. There is no crookedness there. This is just a tightening up of practical procedures.

The CHAIRMAN: Thank you.

Paragraph 42.

Mr. BALCOM: Mr. Chairman, could I suggest that the procedure which has been taken in here is just a carry-over from that during the war when the commonwealth air forces were training?

The WITNESS: Yes. The sole trouble here is that one government used a fluorescent test system while we used the standard chest X-ray film. The result was some of these people passed their tests and when we put them through our usual X-ray test they fell down. The government concerned adopted our machine last fall and that has ended.

By Mr. Harkness:

Q. Whose responsibility is it to test these people, the Canadian military services or their own country?—A. It arises out of NATO. The tests are made by the government which has the airmen. I felt, from the viewpoint of the taxpayer of Canada the Canadian government should test these fellows as soon as they arrive and if they had anything wrong with them the cost should be borne by the other government. That may not be good diplomacy, but I was thinking in terms of the taxpayer. The sensible view is to improve the system of examination and that has been done.

The CHAIRMAN: Paragraph 43.

By Mr. Monteith:

Q. You say this is charged against national defence. On what page do the details of this item appear?—A. They are spread throughout the items. I do not think that they are identified by any particular item.

Q. You say they are charged up against different items in the Department of National Defence?—A. Yes.

Q. You say that \$290,000 may be recovered. From what source would that be recovered?—A. From the countries involved in southeast Asia; and, I use the word "may" deliberately.

Q. There is no agreement with those countries?—A. There is an agreement, but can you enforce it?

Q. There is an agreement?—A. I take it for granted that when you put in a truce team that the government concerned undertakes to pay for it. Whether they put it in writing or not I do not know.

Q. How do you arrive at a figure of \$290,000 as the portion of the expenses which may be recoverable?—A. Those relate to the personnel attached to the international secretariat and are mainly for travel.

Mr. BALCOM: Mr. Chairman, did this \$290,000 occur in other years? There was no backlog in that?

The WITNESS: It would only be one year, because we only came into the picture about two years ago.

Mr. BALCOM: That would be repeated probably this year?

The WITNESS: It is going on.

Mr. NOWLAN: Is there any agreement with the government of France in respect to this?

The WITNESS: I do not think so.

By Mr. Harkness:

Q. These amounts, \$290,000 for the Department of National Defence and \$91,000 for the Department of External Affairs, are shown as collectable items in their accounts?—A. They are credited as collectable items, yes, but you would have to ask external affairs what is the precise situation today.

Q. We have the situation then that the money is repayable and the departmental accounts show credits of this amount?—A. Yes. It is one of those payments we make as a nation of the world in trying to promote peace. Whether we get the money back or not is a question.

The CHAIRMAN: Paragraph 44.

By Mr. Monteith:

Q. I wonder if Mr. Sellar could tell us if there are any other Maple Leaf services which are not subject to parliamentary audit?—A. Oh, yes.

Q. Are they not under the National Defence Act?—A. Under the National Defence Act and what they call non-government property, army messes, canteens and so on.

Q. How are the books of the Maple Leaf services audited? Can you tell us that?—A. I do not have the slightest idea. The act says that the Financial Administration Act shall not apply to that type of account and that the Minister of National Defence shall decide how and in what form audits shall be performed.

By Mr. Harkness:

Q. The point you are making here is that this \$50,000 should be charged to the Maple Leaf Services Corporation?—A. Yes.

Q. And that money should be paid by them to the Department of National Defence to pay for the services of these officers?—A. Yes, sir. The last conversation I had on the subject was last December when the plan still was to repay that amount to the government of Canada.

Q. Why haven't they repaid it?—A. They were starting out; until they had sales and got going they did not have the money.

Q. They were waiting until they had enough profit to pay this?—A. We are providing working capital at the outset in a small way.

The CHAIRMAN: So, do you think the complete expenses in this amount will be reimbursed eventually?

The WITNESS: I am hopeful, sir.

The CHAIRMAN: Paragraph 45.

By Mr. Harkness:

Q. Your position, I take it, is that an amendment to the Northwest Territories Act is necessary in order to correct an anomalous situation?—A. I would say it is desirable to protect the position of the four members of the council who were elected by the people at large. As it is now they are in a minority to the five appointed members and I think it is in the public interest that the four men should be protected. Remember, they are not being abused now, but they should be protected. At some time when the act is open suitable provisions should be inserted.

The CHAIRMAN: That they get a minimum?

The WITNESS: These gentlemen are not necessarily well-to-do men. I think one is a trapper and to travel all the way from the North Pole down to Ottawa for a meeting is an expensive proposition for the man and he should have an advance. Our act does not say so. They are doing it under the territorial fund, which is all right, and I am not complaining about that, but if the territorial people—and I am speaking now of the government representatives—wanted to become dictatorial they could say we will not apply this regulation and not give any advance.

Mr. HARKNESS: Or if there was somebody they did not want present at the meeting they just would not give him an advance.

The WITNESS: It is a hypothetical situation, but I thought they should be protected.

The CHAIRMAN: Paragraph 46.

By Mr. Argue:

Q. I am interested in paragraph 46. Could you give the committee some idea of the amount of overpayment in family allowances and the amount in old age security pensions? Is the payment much greater one to the other?—A. Well, sir, our tests were basically a comparison of the manifests of shipping companies having sailings out of Montreal and the maritimes to Europe. Therefore, it was the old age security people that, in the main, we would get. We found that quite a number of people reflected in the manifests as being over 70 years of age had not given notice to discontinue their old age security. They had relatively few children with them and therefore it is an unfair comparison, also you have to bear in mind in those cases that a substantial number of people who would be sailing to Europe for a considerable period intending to return to Canada might not be of Canadian origin. The chances are either they, or their parents, came from Europe. It is quite natural that those people would be scared that if they ever gave any notice they were going abroad that their old age security would be discontinued and never renewed. There would be that latent fear in the back of the minds of a great many people. Therefore the test we made was not of course fair in an over-all sense.

Q. What is the amount of money that might be involved?—A. It all depends whether it is by month or year. It was not bad. About \$30,000 was what we discovered, taking it collectively. The big thing is, if there is a leak, it is not in that sort of traffic but in the traffic to the south by automobile, aeroplane and train, where there is no possible way of identifying a person by age. On a ship manifest they have to put down ages but going south there is no obligation to give age.

Q. But surely the overpayment of family allowances has practically nothing to do with the parents leaving the country?—A. Oh, yes. When people go down south in the winter.

Q. I know, but I have figures of overpayments as they are distributed in various parts of Canada and it seems to me quite evident from looking at that picture that the proportion of the overpayment that would result from that field is a very small part of the overpayment that has in fact been made?—A. I would agree with you there.

Q. So that your whole reference in paragraph 46 to overpayment of family allowances, headed up by this first sentence, cannot be tied to that first sentence at all. It is something else?—A. I didn't intend to read as much into it as you have.

The CHAIRMAN: There is one point. You mentioned \$30,000, and before that you said that the figure would depend on whether we wanted the monthly or the annual figure. Which is that figure of \$30,000?

The WITNESS: The annual figure.

By Mr. Harkness:

Q. That is as a result of people going abroad solely?—A. Yes.

Q. What is the total amount of overpayments for both of these?—A. Well, the total amount of overpayments as reported by the Department of National Health and Welfare, I think, on the old age security is in the nature of \$22,000 in that year, and on family allowances in the neighbourhood of \$65,000.

Mr. NOWLAN: What is the nature of the overpayment of family allowances? Is it children being paid past the age of 15?

The WITNESS: Children not going to school, children not being supported by parents and so on. The department has a very good record in that respect, and I do not regard this \$65,000 as being unreasonable.

By Mr. Argue:

Q. What progress, in fact, is the department making to reduce the overpayment of family allowances? I notice in the annual report they say there has been a net reduction of approximately \$30,000 in the amount outstanding, but I also noticed \$25,000 of that was a write-off by order in council and that only \$5,000 was a net reduction.—A. If you were wanting specific information on this subject you would have to call someone from the department, but my belief is that the policing—if that is an appropriate word to use—should be by trying to educate the public not to abuse the act and when a situation develops to notify that the person is no longer eligible. It is a very difficult act to administer.

The CHAIRMAN: In view of the large amounts paid out the overpayments are really small?

The WITNESS: They are not a sensational item at all.

By Mr. Nowlan:

Q. What is meant when it says the child is absent from the province? Is it when the parents go outside the province on a vacation and that child is disqualified?—A. Outside the country. If they go out it is suspended and if they return in a certain period it is revived. It quite often arises through grandparents taking a mother and grandchild down south for the winter. That is quite often how it arises.

Q. If they are absent more than 30 days?—A. Yes, the act provides for suspension.

Q. I had a letter from a very irate person who was away for five weeks and was served with a notice that he was absent from the province. It seems to me that absence from a province on a vacation hardly comes under that.—A. There is a regulation.

The CHAIRMAN: Paragraph 47.

By Mr. Harkness:

Q. There are a certain number employed by the Department of National Defence who would not come under the Civil Service Act. In these payments of \$350,000, how many persons are involved?—A. I do not have the number. I have only the employers. I do not have the number of employees. It would vary of course. Some would be for short periods and some have a whole year, and in some cases they have several years. I do not have the number.

Q. You have this one particular case?—A. Yes.

Q. Where the person has been employed for some years, at a rate of \$400 salary, and \$200 a month living expenses?—A. Yes.

Q. What would be the cost of a comparable civil servant? What I was trying to get at was whether this is costing the country more money than it should?—A. In my opinion it is; but, if you were to put that question to the department, the department might reply that it would gladly take a civil servant with the necessary qualifications if they could get one; but they can't, and therefore have to get a man as best they can. In this case they wanted a specialist in connection with shipping construction, they went to a shipping construction company and asked them for a man. That I think would be their reply.

Q. As far as my specific question is concerned, what would be the cost if this man were a civil servant?—A. It would be less.

Q. It would be considerably less, would it not?—A. I cannot tell you how the Civil Service Commission would grade the job.

The CHAIRMAN: Paragraph 48.

By Mr. Applewhaite:

Q. On paragraphs 48 and 49, taking them together, I have read those two paragraphs two or three times and they worry me a bit. One deals with service forces and the other with sick mariners. The last sentence in paragraph 48 is:

The existence of statutory authority is not questioned, but the reason for discharge being what it is, one may wonder if the statute should not include a provision that, in suitable circumstances, balances be subject to forfeit.

Towards the end of paragraph 49 the Auditor General says:

It seems appropriate and also a protection to the crews on government vessels that their care, during incapacitation, should be under the same supervision as that applicable to other mariners.

My question in both instances is, is the Auditor General there recommending a change in government policy or a change in accounting practice?—A. In paragraph 48 I am recommending a change in legislative policy. I am recommending an amendment to the act that when a fellow goes a.w.o.l. we should not run all over the country trying to find him to hand him any little balance which may be owing to him. That is the substance of 48.

On 49, the act says—and I am now talking about the Canada Shipping Act—that every boat entering and leaving ports in Canada shall periodically pay sick mariner dues, but the act exempts from that levy shipping of the government of Canada. For many years the government of Canada paid shipping dues and we have had the benefit of the act. Actually the hospitalization costs always exceed our payment of dues, and the Department of National Health and Welfare were naturally complaining that the other departments should have borne more of the cost; but the whole question has arisen whether or not the government should officially come within that provision. It was decided they would inquire into it. But, pending a decision, the departments would continue to get the benefits without paying any dues at all. Everything is as broad as it is long, but in this case the commercial shipper could be regarded as being a little discriminated against because somebody might pick up the figure and say that the sick mariners' fund is losing money and that rates should be increased. I submit it might be government shipping which in part is responsible for that. Actually it is the smaller vessels that are responsible for the real losses. My feeling is that, again it is a small thing, when you make an arrangement of this nature parliament should be asked to agree—just to keep it within parliamentary control.

Q. Would that be a vote, or removal or exclusion of government vessels from the Canada Shipping Act?—A. There is a matter of law, whether the government vessels should be excluded. I do not want to go into policy. I would say by a vote.

Q. As far as this is concerned, what would you put in the vote, an assessment of what it would be or an estimate of the cost of caring for government employees?—A. I would put it in as a vote. Last year the total was roughly \$77,000, of which \$50,000 was in connection with the Department of Transport. I would put in a little separate vote covering the whole thing.

Q. Is this a fair question, that the type of work done by government vessels, buoy tenders, light-house tenders, and so on would produce a higher rate of injury than in normal shipping?—A. On the record of last year, yes.

The CHAIRMAN: Are there any other questions on paragraph 49?

By Mr. Harkness:

Q. On paragraph 48 I take it that the present situation is that a deserter who deserts and never comes back is better off than a fellow who is a.w.o.l. and comes back and takes his punishment, because a man who does come back is given a sentence of so many days' loss of pay and so many days in the guardhouse and so forth, whereas the fellow who never comes back gets paid for what he has done?—A. He doesn't get paid for it all, but he will have little credits.

Q. I say that the bad person who is a deserter is better off than the fellow who comes back and takes his punishment.—A. I will give you a record of a few cases. There were six cheques totalling \$325 cashed with three forged endorsements; three cheques were returned by post office as undelivered; four outstanding. Of these thirteen cheques we know that only three reached the person. The rest never reached them. Some fellow just pulled them out of the rooming house slot and cashed them. The service people agreed with us that this was a silly arrangement and cut it off. On the other hand, the type of fellow involved is no good and they don't want him anyway. They are happy to be rid of him. I just want to get it tidied up.

Q. I was thinking of service discipline in the forces and the present punitive measures as far as a.w.o.l. people are concerned. It would appear, as I said before, that the fellow who deserts and never comes back is better off than the fellow who does.—A. It is small stuff that he gets. The department is sympathetic to our view, but it is not a thing in which you need rush legislation.

By Mr. Cameron (High Park):

Q. Is he credited with his pay while absent, or is it the balance when he leaves which he can claim for? Is it the balance owed to him at the date he deserts he can claim or a larger balance by adding on pay after he deserted?—A. It is his credits which he hadn't received, credits and superannuation account.

Q. So he is not being treated better than the man who returns?—A. No.

Q. What about the forged cheques? Does the government assume responsibility or the banks?—A. Almost invariably we hold the bank responsible. I think it is unfair.

Q. It is in the Bank Act.—A. I know, but it is unfair sometimes.

The CHAIRMAN: Paragraph 49.

Mr. CAMERON (*High Park*): I have no other questions on 49 and I think we might adjourn.

The CHAIRMAN: I was wondering whether it would be the desire of the committee to have two meetings on Tuesday; one on Tuesday morning and one on Tuesday afternoon, so as to get on with this report?

Agreed.

We will adjourn until Tuesday morning at 11 o'clock and perhaps have a meeting on Tuesday afternoon at 3 o'clock.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MARCH 27, 1956

WITNESS

Mr. Watson Sellar, Auditor General of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

STANDING COMMITTEE

On

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,

and Messrs.

Anderson	Hanna	Mitchell (<i>London</i>)
Applewhaite	Harkness	Mitchell (<i>Sudbury</i>)
Argue	Henderson	Monteith
Ashbourne	Hollingworth	Noseworthy
Balcer	Holowach	Nowlan
Balcom	Houck	Pommer
Beaudry	Kickham	Poulin
Boisvert	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>)
Breton	<i>Guysborough</i>)	Proudfoot
Bruneau	Lafamme	Regier
Cavers	Leduc (<i>Jacques-Cartier-</i>	Rowe
Cloutier	<i>Lasalle</i>)	Schneider
Denis	Maltais	Thomas
Fulton	McGregor	Tucker
Goode	McLeod	Van Horne
Hamilton (<i>Notre-Dame-</i>	McWilliam	Weaver
<i>de-Grâce</i>)	Menard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 27, 1956.

(5)

The standing Committee on Public Accounts met this day at eleven o'clock. Mr. Charles A. Cannon, chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Balcom, Boisvert, Breton, Cameron (*High Park*), Cavers, Hanna, Harkness, Henderson, Holowach, Kickham, Laflamme, Leduc (*Jacques-Cartier-Lasalle*), McGregor, McWilliam, Menard, Monteith, Pommer, Thomas and Zaplitny. (22)

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

On a question of privilege, the Chairman read a statement in respect of a Canadian Press Report of March 22 last, referring to procedure in Committee (*cf. this day's evidence*).

Mr. Watson Sellar was called and further examined.

He gave answers not readily available at the last meeting.

At 12.55 o'clock, Mr. Sellar's examination still continuing, the Committee adjourned until 4 o'clock this day.

AFTERNOON MEETING

(6)

The Standing Committee on Public Accounts resumed at four o'clock this day. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Anderson, Ashbourne, Boisvert, Cameron (*High Park*), Cavers, Hanna, Harkness, Henderson, Hollingworth, Holowach, Houck, Kickham, Laflamme, McWilliam, Menard, Monteith, Pommer, Regier, Thomas and Zaplitny. (21)

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

Mr. Watson Sellar was called. He completed and amplified answers to questions asked at the morning sitting.

On paragraph 96

In answer to a question, the witness referred to cash and securities held by certain crown corporations. The list of such corporations was incorporated in the record. (*cf. this afternoon's evidence*).

The Committee concluded its study of the Auditor General's Report as contained in the Public Accounts (1955).

The Chairman expressed the Committee's appreciation to the witness and he was retired.

At 5.20 p.m. the Committee adjourned to the call of the Chair.

Antonio Plouffe

Assistant Chief Clerk of Committees.

ERRATUM

Delete the following words "*Including First Report to the House*" which appear on the cover page of No. 3 Minutes of Proceedings and evidence.

The First Report is printed in No. 1.

EVIDENCE

MARCH 27, 1956

The CHAIRMAN: I see a quorum, gentlemen, and I suggest we start. I have a statement to make.

In a Canadian Press dispatch dated March 22, 1956, from Ottawa, it is stated that committee chairman Charles A. Cannon ordered Auditor General Watson Sellar not to disclose the name of the Canadian contractor for 62 millions worth of naval guns. Further on in the report it is said that Mr. Cannon maintained that giving the contractor's name would serve no useful purpose.

The typewritten stenographic report of the proceedings of the Public Accounts Committee on March 22, 1956, shows at page 6 that that I made the following ruling:

The CHAIRMAN: It is just a matter of procedure. I am of the opinion that this is not the time to mention the name of the contractor when we are dealing with the Auditor General's report in a general way. Later on, if the committee wants to assign somebody from the department, or through some official of the department get the name of the contractor, if it is the opinion of the committee we should hear the contractor, then we could hear him at that time. He would be here and would be able to answer any questions. I rule, as a matter of procedure, that this is not the time to mention the name of the contractor now.

I also said at page 10:

I rule that Mr. Sellar is not to answer that question at this time. It will serve no useful purpose and it is a matter for the department. If you want to assign the minister or any employee from the department at a later date that will be your privilege; but, at this time I rule Mr. Sellar is not to answer the question.

This report shows that I did not simply order Mr. Sellar not to disclose the name. I ruled that as a matter of procedure it was not the time to mention the name of the contractor while the committee was dealing with the Auditor General's report in a general way.

Also if my statement that it would serve no useful purpose to divulge the name is not taken out of its context, it is clear that I ruled that it would serve no useful purpose "at this time".

At page 24 of the typewritten report I said, still dealing with the name of the contractor,

That is not the way to proceed in this committee. Later on when we come to examine the transactions in detail and the public accounts in detail we can go into that; but, this is not the time to go into it now on the Auditor General's report.

As can be seen the Canadian Press report is incomplete and indicates that I gave an absolute order that the name was not to be divulged by the Auditor General and that I ruled in an unqualified manner that no useful purpose would be gained by giving the name to the committee, while in reality I ruled as a matter of procedure that the name should not be given to the committee at this time, and I also ruled that no useful purpose would be served at this time by giving the name to the committee.

I would be obliged if the Canadian Press and the newspapers who used the Canadian Press report would complete for the benefit of their readers the report of the proceedings of the Public Accounts Committee on March 22nd last.

I may say at this time that the reason for these rulings is not that the Department of Defence Production objects to giving the name of the contractor. They have no objection at all. The reason is that the Auditor General's report is always impersonal; he mentions no names and it has always been the rule that when the Auditor General is giving evidence on his report, he should follow the same rule and not mention the names of contractors or persons affected by the report.

This committee is one of the most important committees of the house and I am sure that we can count on the cooperation of the press so that their reports will be as accurate and complete as possible.

Mr. Watson Sellar, Auditor General of Canada, called.

The CHAIRMAN: Mr. Sellar, have you anything to add to the evidence that you gave the other day?

The WITNESS: Yes sir. I was asked a few questions and here is the information with regard to them: on paragraph 36 with which you have been dealing, I was asked what was the size of the guns. They are three-inch 50 calibre guns.

Mr. HARKNESS: Three-inch?

The WITNESS: Yes, three-inch, 50 calibre. On paragraph 37 I was asked where the \$61,017 charged on pages R-5 and R-6 of the public accounts could be found. On page R-5 the first statement is the primary distribution of the vote. The \$61,000 is included under "Sundries," the last item under that tabulation, and in the second statement which follows immediately below the amount is shown as charged to Jasper Park, the second item on page six. Finally it is also shown in the short statement below under the heading "Alberta".

On paragraph 40 which deals with a contract for works in Newfoundland I was asked when the contract was awarded. It was awarded on August 21, 1952. I was also asked when the work started. I am not sure of the exact date but it was about October 1, 1952. It was stopped in December of 1952 and the contract formally terminated on September 15, 1954. It is before you in the present accounts because the final payment of \$8,900 was made in 1954-55.

By the Chairman:

Q. In other words, the contract would be begun and ended in 1952?—A. Yes sir.

Q. That is—to answer one of the questions you were asked the other day—well before the election?—A. Yes, the election was in 1953.

The CHAIRMAN: Now we will go on to paragraph 50 of Mr. Sellar's report. Are there any questions on paragraph 50?

By Mr. Harkness:

Q. Yes. The only thing that occurs to me with regard to this paragraph is that the process referred to in the last sentence could go on for years. It says nothing will be taken from this guarantee fund to cover defalcations "until there is no reasonable probability of making any collection on them within a reasonable period of time." That "reasonable period" might be years.

—A. That could happen, sir, and that is why we are noting it. We think it is desirable that any cases should be drawn to the attention of the House of Commons within a short time because the act says the Department of Finance is to make an annual report of all defalcations. There are, however, two sides to everything, and I have sometime appeared to argue against myself so that you gentlemen are fully informed. The post office might have a prosecution in progress in connection with a defalcation during the year—a case on which no final decision has been reached. A man is not considered guilty until he is proved guilty, so, until the final word, the matter has to stay in suspense. But where defalcation is established, I say it should be reported promptly.

Mr. CAVERS: What limitation would you suggest for the period?

The WITNESS: A reasonable time for dealing with this would be, possibly, within 12 months. However, there might be exceptional cases where it is not possible to establish who was responsible

By Mr. Monteith:

Q. I suppose, Mr. Sellar, that payments are made out of this public officers' guarantee account to cover defalcations and other fraudulent acts, and that there is also a guarantee fund in the Post Office Department for the same purpose. Could you tell the committee exactly how that is set up? Are these defalcations repaid out of these two funds, and how do the funds get their money?—A. The post office fund was established a great many years ago by levies on post office employees as provided in the act. I think you will find it was set up in the days of Sir William Mulock—that is how far back it goes. In time enough money was on hand for the fund to carry itself so they discontinued the levy. The fund today stands in the region of \$408,000, and that would originally be contributed by post office employees virtually none of whom are now in post office employment.

Q. Before we turn to the other fund, do I understand that this fund which has been contributed to by post office employees in the past is carrying itself at the present moment by interest and so on?—A. Yes, sir.

Q. In other words the original fund was conceived on the basis of the idea that all employees would help to build up a fund to pay for the defalcation of one employee?—A. They had no option, sir. It was an order; it was deducted from their pay.

Q. So the fund continues its existence, and it is still customary to make use of it to cover postal defalcations?—A. The hon. member should bear in mind that in the days before this fund post office men were bonded and they would have to pay premiums. Later, to get away from bonding, the fund was created and public servants being on the whole honest, the fund quickly developed a surplus.

The other account was established by parliament in the first place with working capital provided by means of a small appropriation; then, all departments which bonded officials paid the Department of Finance a certain sum for each \$100 of bonding. Thus, by charges to appropriations, that fund grew to a substantial sum and is now more than adequate to meet its needs.

The CHAIRMAN: Paragraph 51.

Mr. POMMER: I notice with regard to the agricultural prices support account that disposals of butter at less than cost resulted in a loss of \$1,506,000. That, I imagine, is due to the selling of butter to public institutions?

The WITNESS: I cannot tell you sir because it is an amalgamated account. I would have to find that out for you.

The CHAIRMAN: Paragraph 52?

By Mr. Harkness:

Q. I take it from the first part of this paragraph, as far as the Prince Edward Island agreement was concerned, that the Dominion has paid this amount of \$330,000 above what the original agreement called for, because they paid processing, carrying and selling costs whereas the agreement related to transportation costs?—A. Not necessarily sir. The Agricultural Cooperative Marketing Act provides that:

The minister may, with respect to any agreement under this act and with the approval of the governor in council, prescribe

(b) the maximum amount that may be allowed under the agreement for processing, carrying or selling costs with respect to the marketing of an agricultural product.

That is the statutory authority. Then, when the agreement was made, it included this paragraph:

For the purposes of this agreement processing, carrying and selling costs shall include transportation, storage, handling, packaging, interest and financial charges, shrinkage (which shall not exceed the maximum specified in section 6 hereto), insurance, accounting, commissions and other processing and marketing costs and all other expenditures properly included in an operating account, the total of which shall not exceed 25 cents per bushel.

It happens that the construction given to "transportation" resulted in the costs exceeding 25 cents a bushel. There were roughly 8 million bushels of potatoes marketed under this plan—actually the figure was a little higher than that—and that resulted in about \$2,089,000 being available for these costs. What happened was that it was subsequently ruled that transportation costs should not be regarded as including prepaid freight to Charlottetown, Halifax or Boston as the case might be, these being assembly points. That was treated as part of the cost of production. As a result \$330,000 over and above what the agreement provides was absorbed by the Dominion government. I am bringing it to the notice of the committee because the act says that the minister may only with the approval of the governor in council, prescribe the maximum amount that may be allowed under the agreement; but it was subsequently ruled departmentally that a narrower interpretation be given to "transportation".

Q. However, under the Agricultural Products Cooperative Marketing Act a payment of this sort was quite proper. It was just that the agreement of 25 cents a bushel made in this particular case was not sufficient to cover that?—

A. That is correct sir. That is the point.

Q. So far as the other matter mentioned here is concerned—the case of the New Brunswick potato marketing board—what is the amount still involved with respect to which settlements have not been made?—A. Speaking from memory I would say a couple of hundred thousand dollars.

Q. It is not a large amount—A. No sir, but I am speaking from memory.

The CHAIRMAN: Are there any further questions?

By Mr. Zaplitny:

Q. I notice it states in paragraph 52 that a final settlement has not yet been made as treasury investigations indicate falsifications of some inspection and delivery records. Can we take it from that that the \$330,000 mentioned earlier in the paragraph is not involved in the controversy referred to in the last sentence?—A.—Yes sir. The latter part of the paragraph refers to the sum of \$2,200,000. The amount in controversy is \$216,000, that is the exact figure. It is the latter figure which is regarded as being somewhat in doubt.

Q. Would that falsification of the accounts referred to involve only part of that sum of \$216,000, or the whole of it?—A. These transactions involved claims for settlement on carloads of potatoes, presumably for the ordinary market, which may have gone into the starch factories. There was no price fixed for such deliveries under the agreement, therefore dealings with the starch factories were not recognized for the purpose of the agreement.

Q. That would mean the whole of this sum of \$216,000 would probably not be paid?—A. I know that the Department of Agriculture generally, and the Department of Finance, have been examining this matter with a great deal of care and there was some discussion of the matter in the house last week. I believe, though, that a settlement has not yet been made, nor have I any idea how close they may be to a settlement.

The CHAIRMAN: If you have finished with paragraph 52 we shall go on to paragraph 53.

By Mr. Monteith:

Q. The main point that appears here is that there has been no government direction with respect to costs that may be incurred by a crown corporation for a governmental purpose before an appropriation is granted for the purpose. In other words, this money was spent before there was an appropriation?—A. That is it, sir.

Q. Would that mean that these amounts would be charged to votes numbers 558, 103 and 584 respectively although there had actually been no appropriation in those votes?—A. The whole purchase was made out of the funds of the Canadian Commercial Corporation, and then, subsequently, votes were obtained to reimburse the corporation.

Q. The payment was made in advance?—A. Yes sir.

By Mr. Harkness:

Q. In other words, the thing should not have been done that way, properly speaking?—A. That is my feeling. Others may have different views.

Q. You feel there should be something in the Financial Administration Act, or somewhere, to authorize it?—A. That all depends, sir, on how far you want parliamentary control to go. If you want parliamentary control to cover it there must be a vote before they start anything like this; putting something in statutory form might weaken your control.

The CHAIRMAN: Is it not the case that these amounts were spent for the relief of people in Greece and Korea, and that if we had waited for parliament to meet and vote the amount many people might have died in the meantime?

The WITNESS: That is quite true, sir. I am not arguing this question on humanitarian grounds; it is entirely a question of principle.

Mr. HARKNESS: The only point I had in mind was whether this could be covered by means of an amendment to the Financial Administration Act so that actions of this sort in future could be taken under that act.

The WITNESS: Frankly, I think there is a section in the Financial Administration Act which they could have used, but they did not.

Mr. HARKNESS: I see.

By Mr. Monteith:

Q. What was the original purpose of the Canadian Commercial Corporation's capital? What is it being used for?—A. For purposes of the corporation it is provided with a working capital of \$10 million by the act.

Q. But the act does not provide that it can be used for an advance purchase of this nature?—A. I say they should not do this, but others could take a different view.

The CHAIRMAN: You might say that as it was an emergency the government borrowed the money—to a certain extent—from the Canadian Commercial Corporation and then reimbursed it through votes in the House of Commons at a later date.

The WITNESS: In effect that is what happened.

Mr. HARKNESS: What is the provision in the Financial Administration Act that might have been used in this procedure?

The WITNESS: The Governor General's warrant.

Mr. HARKNESS: I see.

The CHAIRMAN: Are there any questions on paragraph 54?

Mr. ZAPLITNY: Would it not be possible, assuming that this type of corporation would be an appropriate or suitable agency for this kind of purpose, to authorize a nominal vote of, say, one dollar a year so that funds might be available to meet a situation of this kind? Adjustments could be made later by means of a supplementary estimate.

The WITNESS: Actually, sir, the Fisheries Price Support Act is broad enough to cover that purpose; but for reasons of which I am unaware, they did not use the machinery of the act, but used another means.

By Mr. Harkness:

Q. The general effect of this would be that the statement of liabilities would not show the true position; it would be short of this amount which is probably, \$647,000.—A. That is right, sir. Since then Parliament has voted the money; the money was voted last week. The problem was a simple one: it was decided that the government of Canada should assist in supporting the price. Before the government of Canada acted, the province of Newfoundland decided it also would support the price, and it paid out a larger sum than this. In these circumstances it was agreed that two authorities should not pay for the same thing, there should be a sharing of the cost. The difficulty was to get a satisfactory accounting, from the province, of the disbursements it had made. That took a long time because the payments were made through various employees of the Department of Fisheries of Newfoundland. But I understand that situation has been dealt with and the accounting is in order.

Q. Is this process going on again at the present time?—A. To my knowledge, no.

Q. What is involved here is just this one payment on the 1953 catch?—A. To the best of my knowledge.

The CHAIRMAN: Are there any questions on paragraph 55?

By Mr. Harkness:

Q. You state here that collectively the account lost approximately \$80,000 in interest. That would be a bookkeeping entry would it not? It would not be interest on actual securities?—A. The matter of concern is the effect on the actuarial value, or state, of the fund.

Q. This appropriation of \$1,316,000—was it, in fact, made but not paid over by March 31?—A. No sir. The vote was exhausted. The act, unlike other superannuation acts, does not provide for contributions by the government of Canada. It provides for payments by service people and payment of interest on the account. But, as I say, no provision is made for any contribution by the government of Canada. I do not know the reason for this. I would assume it was not known what the amount should be, because of the

earlier retirement age of service people. Experience was required. Therefore, by order in council, it was decided that the government would make a contribution of 166 per cent of the contributors' contributions, the order in council to have effect of course, through a vote. Accordingly the House of Commons votes a sum of money each year in respect of this contribution. As of March 31 last, that vote was spent right to the last dollar, and there was still this amount to be paid.

By Mr. Monteith:

Q. So this deficit will have to be made up in this years' vote?—A. As soon as they got the new vote. What the situation is as of March 31 this year I do not yet know.

Q. Because of the lack of this payment, however, the fund has suffered a loss of \$80,000?—A. It is suffering the loss of interest.

Mr. HARKNESS: Does it mean that this amount will have to be borne subsequently?

The WITNESS: Unless the vote for this present year is big enough to pick it up. I do not know.

Mr. MONTEITH: I take it that that \$80,000 interest which was not received as the result of the money not having been paid may be dealt with separately; you do not reaccrete it, or anything like that?

The WITNESS: No.

The CHAIRMAN: Paragraph 56?

By Mr. Harkness:

Q. What is the point here, Mr. Sellar?—A. Simply that when this bill was before the house there was quite a lot of controversy about it and I thought you might like to know how it is worked out. Approximately 16 per cent of the civil servants contracted out of the bill. This paragraph is intended just for your information.

Q. This is the particular measure over which there has been some difficulty with regard to people not being able to secure the benefit—A. No. In the house it was suggested that the legislation should be modified to the end that people be given an opportunity to contract out. They were given that opportunity and 16 per cent did contract out. Oddly enough, the same percentage is applicable to the service people, although that was an entirely different proposition. As I say, I have reported this purely for information because the matter was discussed in the house.

Q. In other words, about 84 per cent did take advantage of the bill?—A. Yes sir.

The CHAIRMAN: Paragraph 57?

The WITNESS: This is also included purely for information. There is no point in it otherwise.

By Mr. Harkness:

Q. With regard to the matter referred to in sub-paragraph (a)—the loans made in 1951—this may be of some considerable interest in view of the loan scheme which was put through this year. The act, then, apparently gave the government a claim on moneys in the hands of the Canadian Wheat Board. Under what circumstances was the government able to exercise that right to claim from the wheat board which, apparently, they had only with regard to a portion of the loan?—A. I have not a copy of the act in front of me, but, under this legislation, only when a bank's losses collectively amounted to a certain percentage could they make a claim for it, whereupon the government

was given certain rights by the statute to any balances owing by the wheat board to the debtor. The banks did not have that right, but the government was given a claim to any residual amount due to the debtor by the wheat board, and the government got a few dollars that way.

Q. I was really wondering what was the liability of the wheat board with regard to these loans?—A. They did not guarantee.

Q. Apparently the government has claims on the wheat board for losses.—A. I think the simple way to describe it would be to say that we were, in effect, given the right to “garnishee” the wheat board for any balance it might owe to a particular debtor.

Mr. APPLEWHAITE: Would it be correct to say that the only claim against the wheat board is against any money it may hold in trust for a defaulting borrower?

The WITNESS: That is correct.

The CHAIRMAN: Are there any further questions?

By Mr. Harkness:

Q. With reference to the Veterans Business and Professional Loans Act mentioned in paragraph (b)—I take it that the loans made in respect of this are now uncollectable? The cases involved here would mostly be those of veterans who started small businesses; the businesses folded up and as a result all the security that existed disappeared, with the result that the losses would be uncollectable in most cases.—A. I think that would be the case, but the department must regard these accounts as collectable until parliament gives authority for them to be written off.

Q. That is the point I had in mind—whether there was any authority to write off these amounts. I think, myself, that they come into a class of debts which should be written off.—A. Yes, but there is legislation in force which states that parliamentary sanction is required to the formal write-off.

Q. As things stand, there is no authority to write them off?—A. No sir, they have to stay in the books.

By Mr. Applewhaite:

Q. As I said, I think these are among the items which should be written off because they complicate the accounts more or less uselessly, and lead to the expenditure of more money in printing, making entries and so on. If these accounts were written off without reference to parliament, the matter would never come to our attention at all, is that so?—A. Yes, that is the reason—so that there shall be no partiality shown towards any debtor. We have to disclose our hand to parliament whenever we want to write-off a debt. I think that policy is sound. It may add a little to the bookkeeping but I do think that, in principle, parliament should be fully informed on these things.

Mr. HARKNESS: What your thinking would amount to, then, is that authority should be secured from parliament to enable these things to be written off?

The WITNESS: The Act now stipulates that deletions may be made at the end of a certain period of time—five years in respect of amounts less than five hundred dollars and ten years for sums exceeding a thousand dollars.

The CHAIRMAN: Are there any further questions on paragraph 57?

Mr. POMMER: I would like to make one observation in connection with the Farm Improvement Loans Act. I think the number of loans made, and the small amount which has been required to reimburse banks, shows that this has been a very fine operation. The figures show that those concerned have been doing good work and rendering a great service. I note with

pleasure the very small size of the deficit on account of repayments. That is the only observation I want to make, Mr. Chairman. I am very impressed by this section 57 (c).

The CHAIRMAN: Now, Mr. Sellar, the next paragraphs from number 58 to 70 come under the heading Statement of Assets and Liabilities. Would you like to make a general statement to the committee with regard to that section of your report?

The WITNESS: Yes sir, I think that would be a good idea.

You have already indicated that you intend having the Deputy Minister of Finance before you, and this gives me the opportunity to show what cooperation we have obtained from the department. Paragraph 58 is, virtually speaking, what they have done and what we agree with. In paragraph 59 we make some suggestions that they might consider. In subsection (a) we suggest they should show the Veterans Land Act account separately because it now amounts to the large sum of \$188 million. They agree with us, and in next years' accounts that will be done.

In the liability suspense accounts there are some items that should not belong there. There are some "holdbacks" in connection with the Emergency Gold Mining Assistance provisions, for example, totalling over \$3 million which really should be listed under Trust and Deposit Accounts. The Department of Finance agrees with us and is going to transfer these,

With respect to the inactive balances, they are not sure what they will do. I have a feeling they should do something with regard to them. To take one item as an illustration: in the accounts you will find under the heading "accounts owing by reason of the victory loans 1917, 1918 and 1919," the sum of \$1,621 for canvassers. But that was 40 years ago, and common sense tells us that there is no hope on God's green earth of any canvasser coming along now and asking for a few dollars. That was a patriotic gesture made many years ago and they have forgotten all about it.

Mr. POMMER: In other words, those amounts have not been claimed?

The WITNESS: No. They will never be claimed. I think these little items should be taken out.

With regard to subparagraph (d), the province debt accounts, these are just memorandum accounts and have no place at all in the present statement. The finance department has agreed that they should come out. That illustrates what has been done in that field.

Paragraph 58 is simply a statistical statement of what composes assets and liabilities.

By Mr. Monteith:

Q. May I ask a question here, Mr. Sellar? Would the total of the small suspense accounts you have mentioned in paragraph (b) be very large?
—A. There are so many of them, that is the trouble. They might run into several hundred thousand dollars, though I doubt if the total would be so high.

Q. Actually, the net debt picture would not be altered to any appreciable extent?—A. No, it would have no real effect there, sir. As I say, in paragraph 60 I am simply summarizing the assets and liabilities. In paragraph 61 a point arises on which you might possibly ask me some questions, namely this \$100,000 on deposit in a bank in New York. I do not know why that account was ever opened, because the Minister of Finance and the deputy minister of finance of those days are no longer in office; but since this matter was drawn to the attention of the department the present minister and deputy minister decided that the account should be closed, and it has been closed and the money moved into a more active government account.

Paragraph 62 I regard as a matter of substance. I do not expect that you, gentlemen, will specifically decide what should be done, but I am hopeful that you would be disposed to suggest that the government consider this general question. What worries me, Mr. Chairman, is that some financial statements of corporations showing debts to the government are for greater amounts than our public accounts show as owing to the government, the margin of difference in some cases being very considerable. I would like to see a situation where the public accounts and the statements of the corporation were as closely as possible reconcilable.

I think, also, that something should be done about the Bank of Canada. We show the Bank of Canada as representing an investment of \$5,900,000. The Bank of Canada has a reserve fund of \$25 million and it surrendered profit of last year totalled over \$40 million. Our investment in the Bank of Canada represents in my view more than \$5,900,000 for assets purposes. I do not know what the amount should be, but I do think that in a case of this kind the department should be encouraged to put down a more realistic figure. On the other hand, there is a very large item of six million no-par-value shares of the Canadian National Railways which are not shown in the government's account at all, though the railway shows it in its accounts as a liability to the government of Canada for \$396 million. That is in accordance with the legislation of a few years ago. The Canadian National Railways is also required by that legislation to put a footnote after this sum of \$396 million to show that it is part of the net debt of Canada. Items of this sort stretch throughout the accounts—cases of corporations having very substantial assets in addition to what we show. I am a believer in the crown corporation financing method, but I also believe that our accounting technique is not as good as it should be. That is why, if and when you have the deputy minister of finance here, I hope you may be disposed to ask some questions as to the department's policy in valuing investment in these crown corporations.

By Mr. Applewhaite:

Q. Is the problem that you have outlined, and to which you refer in paragraph 62, of the same nature as the problem to which you are directing our attention in paragraph 96?—A. It is an allied problem. In paragraph 96 I am dealing with the cash assets and the securities held. Let us take, for example, the National Harbours Board. In cash and securities—and I mean by that securities which they bought in the market—they have approximately \$47,500,000. That is a nice sum that the board has accumulated, and they should be congratulated on it.

By Mr. Cavers:

Q. Does that represent profit on their operations?—A. It is, in part, their replacement account. Annually they take out of their operation revenues so much for a replacement account, rather than a depreciation account, and they invest that money in securities. The public accounts show an investment in the National Harbours Board of \$107 million. On the other hand, the National Harbours Board shows its liability to the government as \$356 million. Some members of the committee will see that paragraph 62 and 96 are co-related to an extent.

By Mr. Applewhaite:

Q. There was one other question that I wanted to ask, but it might be dangerous. I wanted to know whether it is the Auditor General's opinion that some crown corporations have in actual cash or liquid assets more than

they should be retaining, and whether he thinks that more of the liquid assets in the hands of certain crown corporations should be transferred to the government of Canada as the owner of the corporations?

The CHAIRMAN: Is that not a question of government policy?

Mr. APPLEWHAITE: As I say, it might be a dangerous question. On the other hand—

The CHAIRMAN: I would not say "dangerous" I would just say it is not appropriate.

Mr. APPLEWHAITE: Well, if you say it is not appropriate I am not going to pursue the matter, but my own thought was that it might be a fair question on which an opinion could be expressed.

The CHAIRMAN: I will leave it to Mr. Sellar. If Mr. Sellar thinks it is a fair question and wishes to answer it, he may do so.

The WITNESS: I am willing to answer the question, Mr. Chairman, but I do not want to be thought critical of the corporation which I am going to name because it is well run. I refer to the Crown Assets Disposal Corporation, which is efficiently managed and operated. The legislation provides that the Crown Assets Disposal Corporation shall receive a commission on sales with the commission rate fixed by the governor in council from time to time. Currently it is allowed 10 per cent. In its own report the corporation states that its cost of operation last year was in the neighbourhood of between seven and eight per cent, if my memory serves me right. They have accumulated a surplus of well over a million dollars, and in a set-up such as this I find it difficult to satisfy myself that there is a need for the corporation to hold so large a surplus. The reason I mention the Crown Assets Disposal Corporation is this: since its report was prepared, the Department of Finance and the Minister of Defence Production reviewed the situation and have transferred to the consolidated revenue fund part of this surplus held by the corporation. That, sir, is why I am quite prepared to refer to one specific corporation.

The CHAIRMAN: That is another example of cooperation between the auditor general and the Department of Finance.

The WITNESS: Well, I would not say cooperation only because we always get splendid support from the Department of Finance.

By Mr. Harkness:

Q. Are we going to have any questions on these paragraphs now? I thought Mr. Sellar was going to make a statement on them all?

The CHAIRMAN: I think it would be better to deal with them in that way.

The WITNESS: I think the committee should forget about paragraph 64 because last week parliament made an appropriation which alters the situation set out in that paragraph, and I have yet to see the accounting; so I would say you could ignore paragraph 64 when you come to it.

Paragraph 65 is purely informative.

The department is considering action along the lines we suggest in paragraph 66.

Paragraph 67 is of some concern to you, gentlemen. We have suggested there that the computation for amortizing loans be changed so as to use the optional date rather than the final maturity date. The finance department has often exercised the option call date in recent years. They have agreed that our suggestion is a better procedure and they are putting that into effect.

We also suggested that they should consider a different system in handling the amortization of the cost of issues of savings bonds, because while the

average loan period is 12 years in respect of these, very substantial redemptions take place. The department is now putting into effect a plan whereby it will amortize these costs over a five year period rather than over a 12 year period, and we think they have reached a sound conclusion.

Discussion of paragraph 69 opens a very broad question, Mr. Chairman, and I do not know whether you wish me to take it up now or later, when we reach it.

The CHAIRMAN: If you like we will wait until we come to that.

The WITNESS: Very well. The following paragraph, paragraph 70, contains information, and that, Mr. Chairman, concludes the outline of these particular items.

By Mr. Harkness:

Q. With regard to this item 58 (c)—balances regarded as uncollectable or otherwise of no asset value, previously included in asset items, but now written off or included in the new item inactive Loans and Investments, would you tell the committee how much is involved in this?—A. I have not got the figure before me, but there is the Greek loan, the Rumanian loan, and items of that kind. That would be, I imagine, in the region of \$30 million. It is still in the account, but under a different heading.

By Mr. Applewhaite:

Q. I was just going to ask a question about those loans on paragraph 63. Have the Greek and Rumanian loans both been written off?—A. They have not been written off, because the department has to come to parliament for authority to do that; moreover, technically speaking, neither has fully matured.

Q. Have they been transferred to the list of inactive accounts?—A. They have been transferred to a suspense account.

By Mr. Cavers:

Q. With regard to the suspense account mentioned in paragraph 59 subsection (b). I wonder whether in this government held suspense account provision has been made for dealing with war savings certificates that have not been cashed? There are, I imagine, a great number of those still in circulation—certificates which have never been presented for payment. The seven year period is long past, so that no interest is payable; but any person presenting a certificate would be guaranteed payment and the money would have to come from somewhere. Where would it come from?—A. The public debt, sir, in the same way as all other bonds that have not matured. They are still all under Public Debt items.

By Mr. Harkness:

Q. With regard to paragraph 58 (c)—all these things transferred to inactive Loans and Investments—I take it that essentially that is all covered by the Rumanian and Greek loans and that the loan to Nationalist China is not included among the items that have been transferred to this category?—A. I would like you to ask the Deputy Minister of Finance how he made up that item. I did not go into detail with regard to it. I could find out, but you could get better information from him.

By Mr. Monteith:

Q. In paragraph 60 you mention the unamortized costs of these loans, and so on. Where would they appear among the assets?—A. Under the heading Deferred Charge—Unamortized Loans Flotation Costs.

Q. I see. I notice with regard to the third item, Sinking Fund and Other Investments Held for the Retirement of Unmatured Debt, that bond issues of recent years have all been on an instalment basis and there has been no sinking fund.—A. The sinking fund is in connection with the Newfoundland loans that we took over at the time of union. Canada took over the loans they had in the London market; there was a sinking fund associated with them plus an agreement saying that proceeds of certain codfish sales on the continent of Europe should also be kept for the purpose of the repayment of that loan.

Q. The liability appears under Unmatured Debt, and shows whatever is in the sinking fund?—A. Yes.

Q. In the Provincial Debt account arising out of Confederation—I notice there has been no change for two years; has there been any change for the last few years?—A. Not since 1867, sir, but there will be this coming year. It is going to be dropped. It does not mean a thing.

By Mr. Harkness:

Q. I have a question with regard to paragraph 59 (a) which deals with the Veterans Land Act. How much of these advances have now been put in as a separate item?—A. My recollection is \$240 million with \$61 million in reserve.

Q. My next question is: what is this related reserve, and how is it built up?—A. Let me correct my figure. On page 96 of the Public Accounts you will find: Veterans Land Act, Advances, \$221 millions, less a reserve of \$59 million. This reserve, sir, is provided by legislation. If a borrower meets his obligation on time, performs his contract, and so on, parliament has provided that at the end of ten years he is entitled to certain credits.

Q. That is the additional grant?—A. Yes, and that is what the sum in the reserve represents.

Q. I see. I thought the amount of this additional grant had been recovered by the Veterans Land Act itself—in other words that the money had been voted for this purpose. What happens, actually, is that money is paid in by the treasury department to build up this reserve to look after the situation. Is that the process?—A. No sir. The department, having regard to the likelihood that most of the men concerned will qualify for this benefit, annually, it is adjusting its own valuation of the debt owed by the veterans to the government by crediting this reserve, and subtracting the amount from the total debt. This should avoid the need for the sudden appearance of a big adjusting item in the balance sheet. It should be borne in mind that most of these loans were made in the period between 1946 and 1948.

Q. What would be the amount of these uncollectable balances referred to in subparagraph (c)?—A. As I said before, sir, you will find under that heading a large number of items, both assets and liabilities. I would not like to venture an estimate as to the total figure, although they are small items individually, collectively they might represent a fair sum—on paper. I repeat—not in money but on paper.

By Mr. Monteith:

Q. I wonder, Mr. Sellar, if you would detail how you arrive at the net debt figure. Is that simply a balancing figure between all the moneys owed and whatever moneys we may have on the books?—A. Yes sir.

Q. And that net debt figure actually increased by \$148 million in the fiscal period ended March 31, 1955. A deficit, as I recall it of somewhere in the neighbourhood of \$40 million for this year was announced in the house—or am I wrong in saying that?—A. It would be some figure, but it would not

be the one the minister used in his 1955 budget speech. He envisaged a deficit of \$160 million in his budget speech a year ago, and the final figure was somewhat less.

Q. Yes. It was two years before—for the year 1954-55—I think there had been forecast a comparatively small surplus which actually turned into a deficit. Was that not the case?—A. I do not think so, no. That is the amount you have before you.

Q. That is this sum of \$148 million?—A. Yes.

The CHAIRMAN: Paragraph 60? Paragraph 61? Paragraph 62? Paragraph 63.

By Mr. Harkness:

Q. In connection with paragraph 63, when were these three loans made and what was the purpose of each?—A. The loan to Nationalist China of \$49 million originally was a larger sum and was made under the authority of legislation. Around 1945, you will remember, the governor in council was given power to lend up to \$750 million before the end of 1947 to countries who had been allied to us during the war, in order to assist them in rehabilitation and so on. The loan to Nationalist China was made under this provision.

The \$24 million loan to Rumania is a residue of advances made to that country in 1918-19, a loan which goes back to the time of the first world war, and the same applies with regard to Greece.

Q. Has this loan been repudiated so far as Rumania is concerned?—A. No, none of them has ever been repudiated by any government, but they have not paid anything for a great many years. The Greek loan has been in default, I know, since 1930, and I imagine the Rumanian loan fell into default at about the same time. However, the securities we hold have not all matured yet. They could have a change of heart, but we are rather doubtful.

By Mr. Applewhaite:

Q. Are those loans interest-bearing, and if so is the figure given here—principal plus accumulated interest?—A. The figures relate to the principal only.

Q. Were they interest-bearing loans?—A. Yes sir.

Q. Where would the Public Accounts show the accrued interest?—A. It would not be shown in the Public Accounts at all.

Mr. MONTEITH: We only show interest when received?

The WITNESS: Yes, that is right.

By Mr. Harkness:

Q. The interest does not appear as an uncollectable asset, then?—A. It is not written up at all.

Q. What is the reason for that?—A. Well, we would be putting something into the revenue statement as if we had actually received it, and in our system of accounting that would not be correct. The record relates, of course, to cash. That is why this interest is not reflected in the revenue statement, nor in the balance sheet.

By Mr. Monteith:

Q. On that matter of cash financing, Mr. Sellar, when a coupon becomes due on a certain bond issue is there a bookkeeping entry setting that total amount up as a liability?—A. The Bank of Canada services the public debt. The Bank of Canada indicates to the Department of Finance the amount of

money it expects it requires in order to pay interest on the next interest-bearing debt. The Department of Finance transfers to the Bank of Canada the necessary amount, and periodically the Bank of Canada and the Department of Finance reconcile their accounts. If the Bank of Canada has more money on hand than it requires for operating purposes then the amount paid over by the Department of Finance is reduced proportionately.

Q. Then the government account here would not necessarily show the full liability of possible coupons outstanding?—A. No, it might not.

The CHAIRMAN: Paragraph 64?
Paragraph 65.

By Mr. Harkness:

Q. Would these amounts we see in connection with the Canadian deposit with the International Monetary Fund make any difference in the national accounts?—A. No sir.

Q. We have no further obligation to put more money into the account than we have already, if it were to happen that our dollar went down in relation to the United States dollar?—A. When we have to put in more money we get compensated by an item on the other side. On balance it does not affect the debt position to any material extent.

Q. But it might affect the cash position. If our dollar went down to, let us say, a 20 per cent discount compared with American funds we would be required to put a considerable amount into the monetary fund.—A. Yes, but that can stay with the Bank of Canada, if it is in the form of gold. The Bank of Canada is a custodian for the monetary fund.

Q. They just put a different ticket on the gold bars?—A. Precisely.

The CHAIRMAN: With regard to paragraph 66 I think you said that the action you suggested has been taken?

The WITNESS: Yes sir—or is being taken.

The CHAIRMAN: If there are no more questions we will go on to paragraph 67.

Mr. APPLEWHAITE: With regard to paragraph 67, did Mr. Sellar say that the optional call date is going to be used?

The WITNESS: Yes sir. The suggestion is being adopted. There is no necessity to make any recommendation on that.

The CHAIRMAN: Paragraph 68?
Paragraph 69.

Mr. HARKNESS: This is the paragraph on which Mr. Sellar was going to make a statement to us.

The CHAIRMAN: Oh yes.

The WITNESS: This is a subject, sir, with regard to which, if my point is right, I can be criticized for not drawing your attention long ago. I hope, therefore, that the committee will not regard me as criticizing the Department of Finance any more than I would be criticizing myself.

It seems to me that the Minister of Finance is putting up as a liability something that is not a liability in the true sense of the word. The facts are: under the legislation, if we transfer to a NATO country let us say a million dollars worth of munitions out of the stocks of the Department of National Defence, that sum is reflected as an expenditure charged against an appropriation of National Defence for that year. Simultaneously a credit of one million dollar is set up, and out of that credit the Department of National Defence may, with the consent of the governor in council, buy new equipment to replace the million dollars worth that went out. That credit account is the liabilities item.

My view is that for a liability there must be a creditor and a debtor; the Department of National Defence is simply a division of the government therefore it cannot be regarded as a creditor of either the government of Canada or the Minister of Finance. The amounts set up are really for memorandum account purposes to keep the record and fix the limit to which the department must adhere when procuring equipment as a change to the account. The amount is now very large, therefore I would not suggest any drastic action because that would tend to create the impression that the minister was adjusting his accounts in order to show a big surplus, which would be the last thing he would have in mind.

What is also of concern is the fact that there are several other accounts of similar nature, although some, I think, should be recognized as a liability. There is the railway grade crossing fund for example which has around \$2,700,000 to its credit. It is true that is all in the government's hands but since the distribution of this money is made by the Board of Transport Commissioners, which is a court, the government has not the same control over it as it has over the defence replacement fund.

The Colombo Plan is an instance of a somewhat similar account. There is about \$50 million in it, and in that case there are international understandings between the government of Canada and various countries in Asia. I do not therefore regard it in the same way as I would regard the first account I mentioned.

Parliament provides that two and a half million dollars a year for the national capital fund, to take another example, but not one cent of it can be spent until the governor in council authorizes a particular project. This is set up as a liability but I question that.

I hope members of the committee will feel disposed, when you have the Deputy Minister of Finance before you, to have him explain the principles on which he is relying in setting up these accounts. My own view can be summarized by reference to a comparatively recent decision of the Appeal Court in England. The court was dealing with an estate matter and had to decide what were the liabilities and the contingent liabilities of a company, because that had become important for the purpose of interpreting a will. I would like to quote a few words from the judgment of the Master of the Rolls. He was discussing the word "liabilities" of a company when he said:

Taking the construction of these words, I find it impossible to give them a meaning extending beyond what is always ascertainable without any doubt whatsoever, namely, an existing legal liability actually existing in laws at the relevant date. The words cannot be stretched so as to cover something which in a business sense is morally certain and for which every businessman ought to make a provision but which in law does not become a liability until a subsequent date.

That, sir, is my view. If you want me to narrow it down to a straight comparison I will say this: we set up in the statement of liabilities, the public debt. We do not set up the interest we have promised to pay over the next ten or fifteen years. Therefore I have the feeling that the Minister of Finance is worrying a little too much in assuming that certain things are liabilities when in fact they are not. That is my view, sir. Should you feel so disposed I would appreciate it if you ask the Deputy Minister of Finance to give his views on the subject.

By Mr. Applewhaite:

Q. Mr. Chairman, I was following Mr. Sellar's remarks but I think I lost him somewhere because I had gathered that the NATO situation is entirely different. Is not the NATO fund a revolving fund; where these physical assets

are transferred, is not a corresponding cash amount paid back into the fund so that the amount remains constant until the money has been spent the second time?—A. There is no money involved. This is all bookkeeping. The NATO country never pays anything. The government of Canada first of all debits its vote with an amount—let us say one million dollars for munitions and credits the replacement account. Subsequently the Department may, with the consent of the governor in council, buy new supplies and charge them against this million dollar credit. In a way you are right, Mr. Applewhaite, in saying that this is a revolving fund but I am more inclined to regard it as just a memorandum account. There is no actual cash money involved.

The CHAIRMAN: There is no actual cash money but the National Defence vote has included this million dollars. That is why you think that if it has already been voted it should not be considered a liability?

The WITNESS: Yes. We are overdoing it.

By Mr. Monteith:

Q. About this million dollar item you mentioned—what other way would you suggest we could use to handle this? It is true that the procedure being followed at the moment is probably not quite correct, because this has not been a new expenditure for supplies sent out.—A. Not at the time.

Q. I was just wondering how you would handle it. You would want to keep some memorandum?—A. Oh yes. This plan is in the act; therefore, as an officer of parliament I cannot criticize the wisdom of parliament. But, if parliament had asked my view of the subject I would have advised making this a deferred expenditure and charging it in the year when the goods were actually purchased. As it is now, I would continue to make the charge in the year during which you have, in effect, lost one million dollars worth of supplies, but I would not put it up as a liability but rather record it in a memorandum account and control it by means of that account,—not through the liabilities statement. There would, of course, be a statement included in the public accounts informing parliament of what purchases had been made in the year.

Q. Yes, because supposing the vote covered \$1,175,000,000 or a figure of that kind, the one million dollars being charged up against that is not actually a cash outlay, and as a consequence it could reduce the amount of cash outlay that could be made.—A. That could happen.

Mr. APPLEWHAITE: Or it might increase the amount of cash outlay. If you give away a million dollars worth of obsolete stores you would have another million free which you could spend in cash.

By Mr. Monteith:

Q. Under the present method; but we are probably spending \$1,700,000,000 in any one year on new supplies—am I right in saying that that is a fact?—A. Yes.

Q. Well, if you give away a million dollars and charge that million dollars to the vote you only have \$1,774,000,000 left to spend in cash.

Mr. APPLEWHAITE: But the minute you give it away it becomes available in cash as I understand it—the minute you give it away to a NATO country the department is able to draw on consolidated revenue again for another million in cash.

Mr. MONTEITH: That million dollars in cash is charged to credit.

Mr. APPLEWHAITE: So my impression that it is a revolving fund was not far wrong.

The WITNESS: I am worrying about the liabilities side.

By Mr. Harkness:

Q. Is not this what is happening? Say \$200 million of equipment is sent to NATO countries and the total vote is \$1,700 million. In that particular year, the Department of National Defence can actually spend \$1,900 million?—A. With the consent of the governor in council.

Q. In other words they have \$200 million more to spend in that year, and that is actually what has been happening. That \$200 million is not charged against the \$1,700,000,000.—A. Over a series of years it has been charged somewhere.

Q. It might have been a charge on the vote prior to 1939?—A. No, this came in in 1950 or 1951.

Q. Yes, but the equipment they give away might have been equipment secured prior to 1939.—A. Oh yes, I see your point. It could be.

The CHAIRMAN: From the practical point of view the army would be exchanging old equipment for new—they give away the old and get money with which they can replace it by new material.

Mr. HARKNESS: It is not charged against their current appropriation.

The CHAIRMAN: That is an interesting point which we shall take up with the deputy minister.

I think you said that paragraph 70 was just information?

The WITNESS: That is right.

The CHAIRMAN: Would you care to indicate to us which of the paragraphs in the section crown corporations might be of interest to the committee?

The WITNESS: In connection with the crown corporations, I have made an effort, somewhere or other, to name every corporation I audit so that if the committee should wish to summon any corporation before it for any purpose they can turn to the particular paragraph as a reason for doing so.

I only qualified one audit certificate for a crown corporation and that was in connection with the Northwest Territories Power Commission. Some physical inventories related to construction work were not properly accounted for, and I had to qualify my certificate. Since that date the corporation has carried out a proper stock taking and everything is now in order. That is the only case where I qualified a certificate, and the committee need not worry about that. Therefore, sir, the only suggestions I make are those contained in the last two paragraphs, paragraphs 95 and 96.

Paragraph 95 deals with a question of policy and, in my opinion, executive policy; but this committee might be disposed to suggest that the government should give the matter a little consideration. It deals with the question of fire insurance. There is inconsistency in practice with regard to this—sometimes a corporation is self-insured, sometimes it is insured with a commercial company, and so on. For example, Canadian Arsenals has in its custody buildings which cost \$36 million, in addition to about \$56 million worth of machinery and equipment, materials, work in progress and so on up to a total of about \$60 million,—which is a lot of money. It does not carry any insurance on this at all, because all property is technically regarded as being government, not corporate, property.

Polymer, on the other hand, an organization that holds buildings and equipment at a depreciated value in excess of \$30 million in addition to inventories of about \$10 million, insures in the ordinary way with commercial insurance companies. If Canadian Arsenals for example were to have a bad fire and it was supplying somebody other than the government of Canada, the parliament of Canada would have to find quite a lot of money to make good

that loss. It is a matter of policy whether or not the government should consider giving formal guidance as to when crown corporations should insure against risks of fire, and so on.

I do not expect this committee to decide the matter but I hope you would be disposed to ask Mr. Taylor about it, and probably make some suggestion.

By Mr. McGregor:

Q. What would the cost of insurance be?—A. I have no idea. I was looking at the matter from the point of view of principle.

The CHAIRMAN: Have you anything to add, on paragraph 96, to what you have already said?

The WITNESS: No, I think that in the earlier discussion on paragraph 62 I covered what I had in mind on paragraph 96, but of course I cannot say what the interest of the committee may be.

The CHAIRMAN: Have hon. members any questions to ask on this section on crown corporations?

By Mr. Harkness:

Q. Can you give us any idea what difference it makes whether a crown corporation is a departmental agency or proprietary from a practical point of view?—A. "Departmental" means a corporation defined by the Financial Administration Act. The big difference between an agency corporation and a proprietary corporation is that an agency corporation must submit both operating and capital budgets, while the proprietary corporation needs submit only its capital budget. Secondly, the proprietary corporation is subject to income tax, while the agency corporation is not.

Q. Then this transfer of the Northwest Territories Transport Commission from the proprietary classification to the agency classification would remove them from liability for income tax.—A. Yes sir, and I think that is right. Ontario Hydro, for example, is not subject to income tax. I was very glad when I saw they had transferred that corporation.

Q. I take that to be sound, because they are supplying power for the development of the territory.—A. The trouble is the act provides that if at the end of the year they have a surplus, that may go back as credits to the consumers. I think the change that has been made was quite desirable.

Q. Is there a general rule by which it can be determined whether these crown corporations will be departmental agencies or proprietary agencies, or is it at the discretion of the government to change their status as they like?—A. In the first place they are listed under the Finance Administration Act, but the governor in council enjoys a discretion to vary. Parliament, in the first instance, made the broad classification, and the government always has regard to the statutory classification in trying to establish the category in which a new corporation belongs.

Q. What was to be the general characteristics of a proprietary company?—A. A company in commercial business performing commercial services with an expected reasonable income.

Q. In other words, companies like Eldorado and Northern Transportation?—A. Northern Transportation, Polymer and so on. Of course, unfortunately at the moment it is rather hard to say where the C.B.C. belongs, but it is in there.

Q. It is proprietary?—A. It is proprietary, sir.

Q. That seems rather hard to explain, in view of the fact that the corporation is financed out of specific taxes assigned to it.—A. Yes sir, but that is where parliament put it.

The CHAIRMAN: Paragraph 72.

By Mr. Applewhaite:

Q. The paragraph states that the "departmental" group consists of those corporations financed in the same manner as departments, with expenditures and revenues detailed in the public accounts. That would mean they are financed by an appropriation in the estimates or in some cases, perhaps, by statute, and if this is correct are there any other ways in which departmental corporations are financed?—A. No. Would you like me to give you a list?

Q. I was really interested in finding out what are the possible sources of revenue for the departmental group—whether they are all financed by appropriation or by statute or whether there are other sources of revenue.—A. Take the Director of the Veterans Land Act as an example—he gets certain income, which you might call revenue from the public; but on the whole they rely entirely for their spending money on appropriations from parliament.

Mr. HARKNESS: You have a list of both the agencies and proprietary corporations here but there is no list of the departmental corporations. Would it not be of advantage for us to have that list?

The WITNESS: The Agricultural Prices Support Board; the Atomic Energy Control Board, the Canadian Maritime Commission; the Director of Soldier Settlement; the Director, the Veterans' Land Act; the Dominion Coal Board; the Fisheries Prices Support Board; the National Gallery of Canada; the National Research Council; the Unemployment Insurance Commission.

Mr. APPLEWHAITE: What is the position of the R.C.M.P.? Do you regard that as an agency or as a department of government?

The WITNESS: As a department of government sir.

The CHAIRMAN: Paragraph 73?

Paragraph 74.

By Mr. Harkness:

Q. What is the point of this paragraph? Is it just to show that in the case of the National Harbours Board this is an expense?—A. No, it is just to show you will get more detailed information if you will go beyond the financial statement to the corporate reports.

By Mr. Monteith:

Q. How many proprietary corporations or agencies are audited by outside auditors?—A. There is the Canadian National Railways and its affiliates, The Central Mortgage and Housing Corporation, and the Bank of Canada and its affiliates. I think those are the three.

Q. Those are the three?—A. Those are the big three—those, and the Canadian Wheat Board, which I forgot to mention.

Q. Does that outside audit arise because of the scope of their activities, or what?—A. By act of parliament in the first instance, and for one reason or another it was decided to leave them that way. We always feel we can tackle any audit job that is wanted, but we are not looking for work.

The CHAIRMAN: Paragraph 74?

Paragraph 75—it is a list of companies—

By Mr. Harkness:

Q. As far as paragraph 75 is concerned I notice there the National Battlefields Commission—where would they get any revenue apart from votes?—A. They have very little revenue, but they do have some in the same way as the Federal District Commission has a little revenue. They might rent some of their equipment, or do some work for the city of Quebec, or something like that.

Q. I was wondering why they were an agency, rather than part of the department—A. The National Battlefields Commission Act is designed to have the representations of the government of Canada, the province of Quebec and the province of Ontario. The commission is a very well run little show.

The CHAIRMAN: Paragraph 76? Paragraph 77?
Paragraph 78.

By Mr. Applewhaite:

Q. On paragraph 78 I would like to know just how that income of \$46,000 is derived and where it is going to end eventually.—A. The Canadian Commercial Corporation is provided with a working capital of \$10 million. It can act for the government of Canada and for anybody in Canada; it has acted for the United States government in construction work in Canada, for the United Nations, for international organizations and for other governments. For these services it charges a commission, and the commission may vary. It may be one half of one per cent or three quarters of one per cent as the case may be. It tries to keep down its operating costs and has done this very successfully. From this commission, derived from acting as custodians and procurement agents in Canada, it earned a surplus of \$46,000 last year. That is shown in this account as its surplus—it is one of those little surpluses which the government of Canada could take away if it wanted to.

The CHAIRMAN: Would it not be better to leave it there in case there should be a small deficit in future years?

The WITNESS: The amount is not sufficiently important to worry about—that would be the easiest way to answer the question.

By Mr. Applewhaite:

Q. Just as a matter of principle, they have the right to spend it in a subsequent year?—A. Oh yes. One of the problems of the Canadian Commercial Corporation is this: the act says they may be advanced \$10 million for working capital and they have been advanced the \$10 million; but lawyers have ruled that if they return some of that \$10 million to the government of Canada they could not get it back again, and therefore they have to hold on to it. That is one of the problems.

The CHAIRMAN: Paragraph 79.

By Mr. Applewhaite:

Q. This figure of \$51,000 is, I take it, from proceeds of royalties on patents and so on. Is all that money the absolute property of Canadian Patents and Development Limited, or is it collected and held only in trust for public servants, or do others have a financial interest in this?—A. On account of the legislation the last few years, I would not like to be specific in my answer. I am not sure what the status of it is now; but this company represents the National Research Council; that is really what it is. It is the National Research Council, and the Research Council Act permits them to organize a corporation to manage certain of its affairs. They turned patents over to the corporation as being more convenient. I think you would regard it as being in trust for the National Research Council and for the inventors. There is a special section in the Research Council Act with which I am not too familiar.

Q. Would it be asking too much, whether it should be of the Auditor General or of the department, to find out what should be done on the accounting and paying side to look after the moneys which the inventor, who is a civil servant, has an interest in?—A. I will go into that and file a memorandum.

The CHAIRMAN: Paragraph 80.

By Mr. Applewhaite:

Q. I have a somewhat similar question to ask with respect to this paragraph as to paragraph 78. First of all, what other receipts does Crown Assets Disposal Corporation have which run into nearly \$100,000 here, and where does their final excess of income over expenses end up? Is that a working fund?—A. The Crown Assets Disposal Corporation has income from sales of course. This 10 per cent you mention, which I referred to also, includes collections on agreements for sale. Remember, years ago we sold ships; we have also sold various crown plants over a series of years by agreements, therefore there are interest as well as capital payments coming in.

Q. Those are not shown as proceeds from sales?—A. Not necessarily. Then, they have about \$13,000 worth of bank interest from bank balances, which they hold. Again, the problem is: the act stipulates the corporation is to get a certain commission, if the surplus should be turned over to the government; there is no provision for a return to the corporation if it ran into a bad year.

Q. Is the greater proportion of that \$485,000 either bank interest or interest on sales?—A. \$454,000 was from sales.

Q. In one sense it was a proceed of sales. That was my point.—A. Yes; taken out of receipts from sales.

Mr. HARKNESS: You said a short time ago that part of the money in the hands of this corporation now has been turned over to the consolidated revenue fund?

The WITNESS: Yes, sir.

Mr. HARKNESS: So that their income from bank interest will be materially reduced?

The WITNESS: Yes, sir.

The CHAIRMAN: We are now on paragraph 81.

By Mr. Applewhaite:

Q. As I read this, is it a fact that if we carried out the suggestion made by the Auditor General we would lose track, as a separate item, of the moneys spent on these three buildings on Parliament Hill and they would be merged in with the general Federal District Commission payments?—A. Not necessarily. What I am suggesting is that we get away from the obligation of keeping separate accounts. The statute now requires a separate account, to be set up for each special grant with the result that you have a very cluttered financial statement for the Federal District Commission. No, the objection you would have in mind could be avoided. You would be given the figures as to cost, and I think more accurately than now.

Q. We would continue to show Parliament Hill as Parliament Hill?—A. Yes, you would get that information. As a matter of fact, in view of a Capital Area Committee being set up I have been asked to prepare an observation on this particular section for that committee.

Q. I would definitely be against an accounting result which would leave us without being able to see exactly what Parliament Hill as such was costing us.

By Mr. Harkness:

Q. Since the commission receives a fixed statutory grant of \$300,000 for the purposes of the Federal District Commission Act, and also annual votes not within the ambit of the statutory grant, what is the ambit of the statutory grant, and what would that be used for?—A. Parks and activities of the commission as laid down by the Federal District Commission Act,

it activities now go far beyond that. They are acting as administrator of the national capital fund. They are in activities that are wholly outside their Act.

Q. Would the administrative costs be included in this \$300,000?—A. Certain of their administrative costs, but not all.

Q. In other words, a considerable amount of their administrative costs would have to be made up by these annual votes?—A. Yes. There is \$100,000 worth of administrative costs voted annually under the heading National Capital Planning Committee.

Q. Is part of the administrative cost met by the rent of all these buildings which they have taken over?—A. Yes. They are getting rental now in the nature of \$350,000 a year; that includes buildings and farms.

Q. There was a general announcement in the paper, following these fires, that they might get rid of all this housing because it is of a slum type and that would much reduce their income, and the fund would have to go up to cover their cost. Is that the situation?—A. I have no knowledge of that. I have read it; some of this housing is sub-standard, really cottages and so on, in the outskirts of the city. What they represent in total I have no idea.

Q. But it would appear that will likely be the situation?—A. Yes. The normal expectancy is this rental income should go down.

Q. And therefore the fund will have to go up?—A. Either the grant or drawings on the national capital fund would go up.

Q. Otherwise they would have to reduce their activities?—A. Yes.

By Mr. Holowach:

Q. From this I gather that the Federal District Commission work in two votes, its activities are overlapping. Your recommendation is that there be an annual appropriation rather than simple grants and statutory votes. In addition to bookkeeping efficiency, do you feel that your proposition would also involve a money-saving scheme?—A. I am approaching it purely from a bookkeeping standpoint, better accounting and clearer reports to parliament. However, the Federal District Commission has different views than I have as to what is the best financial setup for the Commission, and they are submitting that to the new committee. They take an entirely different approach to what I have. I only started to read it before I came in here this morning so will not try to state what it is, but the chairman outlined to me recently a different approach to mine. It is somewhat academic for us to consider it now. I think it would be better to defer until you have a specific proposition by the Federal District Commission to the National Capital Committee.

The CHAIRMAN: I suggest that we meet tomorrow morning if it suits the wishes of the committee. We will be able to finish this report probably in about an hour at most.

Mr. HARKNESS: There are some party caucuses on tomorrow morning which would make it very awkward.

The CHAIRMAN: We might sit this afternoon at 4 o'clock.

We will adjourn now until 4 o'clock this afternoon.

AFTERNOON SESSION

March 27, 1956.

The CHAIRMAN: We have a quorum gentlemen.

Mr. Sellar will answer some of the questions which were left in abeyance this morning.

The WITNESS: On paragraph 51 I was asked whether the losses as a result of price support of butter amounting to \$1,506,000 were due to sales to institutions. The answer is, virtually, that they were not. The sale to institutions was authorized in February 1955 and actual sales in March were only \$35,000, so sales to institutions were not the reason for the loss.

On paragraph 58 I was asked the amount of uncollectable balances written off and included in the new item in active loans and investments—I did not have the amount. The item authorizing the write-off was item 579 of the supplementary estimates of last year, and was in respect of \$1,010,000. Details are given in schedule (i) on page 97.

On paragraph 59 I was asked a question about uncashed coupons and I think I may have given a muddled or an inaccurate reply.

The CHAIRMAN: You are hard on yourself, Mr. Sellar.

The WITNESS: That is all right. My job is to make myself clear to this committee. There is a liability item set up for the \$54,200,000 and it will be found in schedule (j) on page 99.

By Mr. Monteith:

Q. May I ask a further question on that, Mr. Sellar? The government—as they remit to the Bank of Canada—is that amount also set up in the books of the Bank of Canada as uncashed?—A. We follow an unusual course in recording interest, inasmuch as interest is accrued from month to month and we credit the accrual account each month. Every six months cash is actually paid out. I am sorry I was not clear this morning on that matter. The accrual cash issues questions confused me.

Then, on paragraph 78 I was asked for the income of the Canadian Commercial Corporation. In giving this information I would like to correct a mistake I made when I said I was under the impression that the commission charges were either one-half or three-quarters of one per cent. The commission charge is either one-quarter or one-half of one per cent. The sum of \$162,000 was received by way of commissions and in buying and selling operations the corporation made \$78,000; it also earned \$72,000 by interest on investments and bank accounts, giving a total of \$312,000. As stated on page 14 of the little book containing the corporation accounts, the most important items of expenditure are salaries and allied expenses of about \$225,000.

Not having a transcript, I am not quite certain as to the question Mr. Applewhite asked me in connection with paragraph 79, but believe he asked whether there had been legislation in recent years amending the law with regard to inventions made by civil servants.

The act concerned is the Public Servants Inventions Act of 1954. That act repealed section 14 of the Research Council Act but section 14 of the Council Act was in harmony with the present Public Servants Inventions Act, therefore there was no change in policy so far as the Research Council is concerned. Payments to inventors during the year amounted to \$154,582 out of a collection of \$270,992.

Then, I was asked if the civil servants or inventors had any claim on the \$51,000 of net income. I would say the answer to that is yes, because it is permissive in the regulations of the new act to pay bonuses. Whether they will ever pay them out is a question of policy about which I know nothing.

Finally, I was asked in connection with paragraph 80, which deals with the Crown Assets Disposal Corporation, what was the make-up of the agencies account receipts of \$485,000. That is the account held on behalf of the government of Canada. Some \$439,000 was interest earned on long term agree-

ments for sale. Then, in addition, certain property was rented and it produced \$44,000, that is to say, \$483,000 in all, a figure which I had rounded into \$485,000.

I think, sir, that that is the information I was asked for.

The CHAIRMAN: Thank you very much.

By Mr. Holowach:

Q. In respect to the answer given on the subject of paragraph 51. I understand that the loss sustained as a consequence of selling butter—\$1,500,000—was not the result of sale to Canadian institutions?—A. No sir.

Q. Is that loss connected with the sale of butter to East Germany?—A. I cannot tell you that, sir, because the question specifically directed to me referred to Canadian institutions and I only had a couple of hours in which to make inquiries. I may say this, however; the butter involved cost \$20,187,000 and produced \$19,164,000. In other words, there was a loss between purchase and sale price of \$1,023,000. The balance of the amount is made up of freight and other charges of \$119,000, and storage and handling charges of \$364,000. Where these sales were directed, however, I cannot tell you. I will ascertain it for you but I cannot do so at the moment.

The CHAIRMAN: We have reached paragraph 82 dealing with the National Harbour Board. Are there any questions on paragraph 82?

By Mr. Harkness:

Q. I take it in that case that the profits from the operation of the Port Colborne and Prescott elevators during the past few years have been considerable and that it is going in there as ordinary revenue of the Harbour Board though in your opinion it should really go into the consolidated revenue fund?—A. No sir. If you look at the big book, on page Z-97 you will see there an entry for ordinary revenue of \$644,000 as profits from Prescott and \$281,000 from Port Colborne. The Port Colborne receipts were really \$28,000 more, but it owed \$28,000 on a certificate of indebtedness so the net amount is shown.

My feeling is this—that as the two elevators are getting old they will ultimately have to be replaced, and the National Harbour Board should be encouraged to accumulate funds so that it can replace them if and when necessary. As it is now, the profits are being lost in public revenue.

Q. I took it from this paragraph that these two elevators should not be operated by the Harbour Board at all but put into the same position as Churchill and certain other elevators.—A. No, no. Churchill is operated by the National Harbours Board.

Q. It is?—A. Yes sir. It made a small profit last year.

By the Chairman:

Q. Your opinion, if I understand it accurately is that these two elevators should be turned over to the National Harbours Board?—A. For accounting purposes. I do not know what the view of the department is. The department concerned is the Department of Transport, nor I do not know what, specifically, is the view of the National Harbours Board, it has administered these projects for 20 years I would say it should be wholly responsible for their future.

Q. As it is, so far as you know, no depreciation fund is being set up to carry the cost of obsolescence?—A. No sir. You see, the government does not do that.

The CHAIRMAN: Are there any questions on paragraph 83?

By Mr. Harkness:

Q. What is this contingent reserve fund for? They have a regular reserve fund, I notice, and in addition this contingent reserve fund.—A. They have set it up because they are afraid on account of their location that they may suddenly be faced with some catastrophe or disaster in connection with their lines or power plant and they want some cushion against such an eventuality.

Q. In other words, it is an extra reserve?—A. Yes, but at the moment it is not sufficient to amount to anything.

Paragraph 84? This is just a list.

Paragraph 85?

Paragraph 86?

Mr. HOLOWACH: If I may refer for a moment to paragraph 84, it says here, Mr. Chairman, that proprietary corporations are subject to income tax but an exception was made in the case of the C.B.C. and the Export Credits Insurance Corporation. By what authority were those exceptions made?

The WITNESS: There was no exception made. They did not have taxable income.

Mr. HOLOWACH: In the case of the C.B.C. did they not have a net income at the end of the fiscal year?

The WITNESS: Yes, but they got it all from the government. They got \$6 million odd, I think—parliament authorized up to \$25 million for four years I believe. In addition they get the tax on radio tubes, television sets and so on. A question was whether that should constitute income for the purposes of the Income Act or whether it should not.

Mr. MONTEITH: And it was decided it should not?

The WITNESS: So far as I know they were not assessed.

The CHAIRMAN: In other words, there was no profit to assess?

The WITNESS: It would be rather silly, sir, to assess them on that income if they got it from the government for a particular purpose.

The CHAIRMAN: Paragraph 87.

By Mr. Harkness:

Q. I can see that the St. Lawrence seaway have not been in operation long enough to pay income tax, but you said this other corporation had to pay no tax—this export credits insurance under section 91—I take it there was an income in that case?—A. I do not want to go too far because I think discussions are going on at the present time between the income tax authorities and export credit officials as to whether or not its reserve is taxable.

By Mr. Holowach:

Q. In paragraph 81, Mr. Sellar, you make recommendations that there be one appropriation made to simplify bookkeeping with respect to the activities of the Federal District Commission and the national capital fund. In view of the similar circumstances, and namely that the Canadian Broadcasting Corporation has been recently authorized grants and appropriations, would not the same recommendations apply in order to simplify bookkeeping in that case?—A. No, sir, because the situation there is different. The receipts to the broadcasting corporation are really from one source, that is to say the act of parliament saying we shall receive that special grant for a limited number of years plus the annual income derived from the customs duties, the taxes on television and radio machines and so on. The situation is not identical. They have, of course, their commercial income in addition. In the case of the federal government, there are distinct activities. They have to care for the government

grounds, they are responsible also for the care of the parkways and the development of the national capital. It is on the expenditure side there, that I am concerned. However, there is no difficulty in the expenditure of the broadcasting corporation unless you want to consider as distinct the international shortwave service which is handled by an appropriation. That is distinct.

But I would like to keep an open mind on the whole subject until the royal commission now considering these matters goes into them in great detail, because the real problem is this: how are you going to finance the corporation in the future?

Q. It seems to me from the standpoint of bookkeeping instead of having these various grants and so forth, that it might be wise to just have one appropriation for them annually from parliament. Surely from the bookkeeping standpoint it would ensure a more careful scrutiny?—A. That may be so, but when discussing the Federal District Commission may I note that it is in its act that any grants over and above the \$300,000 it receives shall be kept in special accounts and reported on separately. That is not so with the broadcasting corporation; you can follow the accounts of the broadcasting corporation without trouble. You can get a headache trying to follow through the Federal District Commission's expenditures.

The CHAIRMAN: 88 is just a statement of the result of operations.

By Mr. Harkness:

Q. What is the rate of interest which the Canadian Farm Loan Board pays to the Receiver General on loans, and what is the rate they charge to borrowers?—A. It is about fifty-fifty; on part of it it is 3 and $\frac{3}{4}$ per cent and on others $3\frac{1}{2}$ per cent.

Q. That is what they pay the Receiver General?—A. Yes.

Q. And they loan that out at $5\frac{1}{2}$ per cent?—A. On first mortgages at 5 per cent and on second mortgages at $5\frac{1}{2}$ per cent.

Q. So they have a spread of 2 per cent?

The CHAIRMAN: For their administration costs.

Mr. HARKNESS: Yes.

Mr. MONTEITH: Am I thinking of some other corporation when I say there is several million dollars of capital stock on an original loan from the government of 3 per cent?

The WITNESS: Are you referring to the Farm Loan Board?

Mr. MONTEITH: Yes, or am I thinking of some other board?

The WITNESS: I think you will find you are right. In the legislation of 1927 or 1928 it may have been provided for at the 3 per cent rate on the initial capital. I am not sure, I would have to check it.

Mr. HARKNESS: What happens to these net earnings in a company like this?

The WITNESS: They retain them, but of course the government has the right to take the money from them under the Financial Administration Act. Up to the present they put it in a reserve against possible future losses.

The CHAIRMAN: Are there any questions on paragraph 89? It is just a statement of operations?

Paragraph 90.

By Mr. Harkness:

Q. This Eldorado Mining and Refining Limited has a large profit of over \$5 million, and looking over their balance sheet, this small book at page 91, I see that they have had a constantly increasing surplus which now amounts to \$28,905,000. What is the purpose of retaining that surplus?—A. You would

have to ask the corporation or the minister the answer to that. Actually, the situation has been that there has been an exceptionally good management and it has been a constantly expanding activity. They had some hard luck because of a bad fire a few years ago, but they have rebuilt. Then you also have to bear in mind it is one of these businesses where your asset is diminishing. The accumulation of surplus is something you would have to ask someone else about as to what they have in mind.

The CHAIRMAN: Evidently the government made a good investment when they bought it.

By Mr. Harkness:

Q. We have the general situation in this particular company where the assets have been all very well depreciated?—A. Oh yes.

Q. You have this large surplus so that you have in that case really an asset which is much greater than appears in the statement of assets and liabilities.—A. Tremendously in excess.

Q. It seemed to me perhaps in this committee we should go into the affairs of that company and learn more fully, possibly with some of the officials from the company, as to whether it is desirable for them to just keep mounting up that surplus, or whether it should be turned over to the consolidated revenue fund, or used for some purpose. It seems there is a large amount there which is a public fund sitting idle.—A. This is not my business, but may I interject that if you do go into Eldorado Mining and Refining we are hopeful that before this weekend we will be able to sign off the financial statements for the year ending 1955 and I would suggest you get your reference amended so that you can take this year's as well as last year's figures; both are good, but it is just so that you are not dealing with old stuff but are up to date.

Q. I am interested in the subsidiary, Northern Transportation, which you have down with a net profit of \$160,000 after providing for income tax and so forth; but they have also provided for—on page 99—a large amount of assets in the form of equipment and so forth which are now depreciated down to a very small amount. The reason for my interest in the matter is that everybody I know of who has dealings in the north country raises complaints on the rate charged by Northern Transportation. They maintain that the development of the north is being held up as a result of these high freight rates that are being charged, and that the one single factor which would do more to assist in the development of the north than any other is the reduction in freight rates. Transportation costs generally include the cost of flying people in, which does not come into this. Therefore, I would think that we might perhaps be well advised to look into this situation. We were going to do it some four or five years ago, and perhaps you will remember I raised the matter at that time. The session, as it happened, came to an end just about that period and we did not find time to go into it although we had actually called witnesses.—A. You have to bear in mind that rates for the Northern Transportation Company are those fixed by the Board of Transport Commissioners. They cannot charge more than the Board of Transport Commissioners authorizes. Secondly, it just occurred to me, that a little while ago when the house was setting up the Atomic Energy committee, the Minister of Trade and Commerce suggested that the committee review the activities of Northern Transportation.

Q. I also see that the other subsidiary, Eldorado Aviation Limited had expenses of \$470,000 in the year of which about \$445,000 was apportioned to the parent company and the balance to Northern Transportation. Has it any income apart from that derived from flying for these two companies?—A. No.

It has no real income otherwise; you must bear in mind they are frozen up in the north country for a very substantial portion of the year and it is really operating for the convenience of Eldorado.

Q. In other words, it is a crown company to take over the flying operations for Eldorado?—A. Yes. It is a subsidiary of Eldorado.

Q. Or is Northern Transportation a subsidiary which takes what you might call business out of the general public?—A. Yes. Northern Transportation of course existed before the government acquired Eldorado. Eldorado Aviation was created after the acquisition.

Q. It is in quite a different position then to the Northern Transportation?—A. Yes.

The CHAIRMAN: 91?

By Mr. Harkness:

Q. You were mentioning this before. What are the assets of this company?—A. The big assets are the \$10 million that the government has given it for capital.

Q. In addition to that the only other question is this reserve of \$2½ million?—A. Which they have accumulated, yes.

Q. That is why you say it is doubtful whether they should be charged income tax because there is a question of whether the excess of income over expenses should legitimately be looked upon as profit?—A. That is the point. In discussions on corporate tax between crown corporations and the income tax department, I am neutral, because I am auditing both. Therefore I am not well informed on the subject. I do not want it to be suggested that I am supporting one side or the other.

The CHAIRMAN: Paragraph 92.

By Mr. Harkness:

Q. This is another corporation which appears to have made large profits, has depreciated its assets to a very material state, and there is an asset which really does not show in the public accounts generally we might say.—A. It is not as bad as Eldorado. It is shown in public accounts as \$30 million; Eldorado is shown at something like \$8 million.

The CHAIRMAN: Paragraph 93.

Paragraph 94.

By Mr. Harkness:

Q. Did you audit these accounts this year?—A. The government of Canada now has no financial interest in this.

Q. That is why I was wondering whether you did audit them or not?—A. The act says all expenditures by the board shall be subject to the audit of the Auditor General—"shall be subject to the audit". The audit is being performed by the provincial auditor of Alberta. What I plan to do is simply examine his working papers and conclusions and so avoid a duplicate effort. I do not regard it as, strictly speaking, obeying the law, but it would seem to be the sensible thing.

Q. The dominion government has no interest in it?—A. No. If you were to open up the act you would delete that direction.

Q. Therefore you would not be bothered with it?—A. I do not think the taxpayers of Canada should have to pay twice by having someone go out to do that work.

By Mr. Kickham:

Q. As far as the St. Lawrence Seaway is concerned, the government loans the money and they have the obligation of paying interest on capital amortized over a period of years?—A. Yes. Last year they were just starting.

Q. But they are still obligated to pay interest?—A. Yes. They would not have it in that particular year because they just got going.

Q. Am I correct in that the amount of the loan to the board is \$215 million as the federal government's share?—A. I think your ultimate figure is right, but I have not any data with me here.

Q. What would be the amount of interest that the board would pay the government?—A. I do not have that with me.

By Mr. Hollingworth:

Q. Is it customary to pay about 3 per cent on an item like that, somewhat similar to the Canadian Farm Loan Board?—A. It varies. In the case of Central Mortgage and Housing Corporation, which is a big borrower, it is in the act that the rate approximate the going rate of government bonds being traded in the market. I think, rates to corporations fluctuate a little, there is no uniformity across the board as to the interest rates corporations will pay. The National Harbours Board pays one rate, the Farm Loan Board another rate, and the Central Mortgage and Housing Corporation another rate, and so on.

Q. Is it a matter simply of bookkeeping, and that the government makes available those funds out of the consolidated revenue fund?—A. Oh, no. The big advantage to a company is that it does not have to go out and float an issue and perhaps pay a higher price, because experience has always been that a guaranteed issue always has to carry a higher coupon than a straight government issue.

The CHAIRMAN: Paragraph 95.

By Mr. Holowach:

Q. We appreciated the explanation Mr. Sellar gave us before. Would he care to amplify it and give us a little more information. Are there any figures available with respect to the amount lost and sustained by the crown corporations who had no fire insurance coverage? Are there any figures available for that?—A. I cannot recall any. The record is good. There have not been any serious fires as far as I recall. Eldorado had insurance when it had a mill burn down. National Harbours Board has fire insurance and periodically a shed burns.

By Mr. Monteith:

Q. Is it just a matter of lack of uniformity?—A. Not that entirely because uniformity is not in itself the best thing in the world; but, what worries me is if there was a big loss, say in Canadian Arsenals and it became necessary to find the money all at once it would show up as a big item of expenditure in the public accounts because Canadian Arsenals has no resources other than what the government has provided. It seems to me there should be some plan whereby we can protect ourselves. You cannot treat everything the same. You might say in respect to the National Gallery, which is strictly speaking a corporation, that there would not be much sense in insuring the pictures. You would have to go and buy different ones. I regard it as a matter of executive policy rather than legislative.

Q. I think your observation is very sound, but it seems to me it is very good business to have coverage. What is the reason they do not take out fire insurance coverage?—A. The government has always taken the view, I think,

established by Sir John A. Macdonald, that because the government's risk are spread all over Canada we have the same diversion of risk as has an insurance company and therefore we can self-insure.

The CHAIRMAN: Paragraph 96.

By Mr. Harkness:

Q. Is there a list any place, and if so where can it be found, as to the company's holdings of cash or securities which make up this \$67 million in cash and \$96 million in government of Canada securities?—A. I have it here.

Q. Could you give it to us?—A. It is a fairly long one.

Q. Perhaps it might be put into the record?—A. Yes. I will give you the two largest amounts. The Canadian National Railways had \$46 million, National Harbours Board \$46½ million. The schedule now given totals more than the amounts stated in paragraph 96 because a further review increased "cash". As certain corporation accounts are audited by others, figures stated may be subject to adjustments:

Atomic Energy of Canada	\$ 3,443,000		\$ 3,443,000
Canadian Arsenals	12,785,000		12,785,000
Canadian Broadcasting	5,754,000	\$ 9,532,000	15,286,000
Canadian Commercial Corporation	9,325,000	189,000	9,514,000
Canadian Farm Loan Board	377,000		377,000
Canadian National Railways	18,036,000	27,972,000	46,008,000
Canadian National (West Indies)			
Steamships	540,000		540,000
Canadian Overseas Tele-			
Communication	310,000		310,000
Canadian Patents and Development	78,000	102,000	180,000
Central Mortgage and Housing	3,389,000	3,104,000	6,493,000
Crown Assets Disposal	1,971,000		1,971,000
Defence Construction	272,000		272,000
Eldorado Aviation	15,000		15,000
Eldorado Mining and Refining	5,160,000		5,160,000
Export Credits Insurance	416,000	12,053,000	12,469,000
Federal District Commission	816,000		816,000
National Battlefields Commission	27,000	5,000	32,000
National Harbours Board	5,505,000	40,908,000	46,413,000
Northern Transportation	2,446,000		2,446,000
Northwest Territories Power			
Commission	274,000	251,000	525,000
Park Steamship	1,000		1,000
Polymer	3,060,000	1,941,000	5,001,000
St. Lawrence Seaway Authority	407,000		407,000
Trans-Canada Air Lines	1,056,000		1,056,000
	75,463,000	96,057,000	171,520,000

Q. Those are securities?—A. Securities and cash.

By Mr. Holowach:

Q. What happens to surpluses held by corporations? Are they deposited to the credit of the corporation in the bank or where?—A. It is held by the corporation, sir, and sometimes invested in securities and sometimes just put in the bank account. They need a certain amount for working balances.

The CHAIRMAN: We now have before us paragraphs 92-100 inclusive but they are just acknowledgments. I suppose there are no questions on these.

Before you go, Mr. Sellar, Mr. Applewhaite who is not here this afternoon left a question that he requested me to ask you. It is this:

Would it not be possible for the Auditor General when preparing his report to include in each paragraph referring to a specific transaction a cross-reference to the vote and/or the page of the public accounts where the item could be found?

The WITNESS: Mr. Chairman, the same question was asked several years ago by Mr. Brown, then member for St. John's, Newfoundland. I pointed out to him then, and my reply must be the same now, that I would be very pleased to meet this wish if it were practicable to do so. The trouble is that I do not see this big volume of public accounts until it is tabled in the House of Commons. This is a printing job that is not finished as a rule until after the house meets. To help out the Queen's printer I send my report down to him in the month of September and the small pamphlet which members of the committee have is printed and in my office not later than the 1st of November. If I were to do what Mr. Applewhaite wishes I am afraid I would be holding back publication of the public accounts.

An alternative that occurs to me would be this: that after the committee is constituted I could deliver to the secretary or to the chairman of the committee a listing of the various paragraphs in my report with cross-reference to where items in the public accounts could be referred to. If that would be of any assistance I would be glad to do that and it could be done quite easily.

The CHAIRMAN: I think that would probably be very useful and it would help us in following these paragraphs in your report.

Mr. THOMAS: Would it not be better if a copy of such a cross-reference were made available to all members of parliament rather than to just the members of this committee?

The CHAIRMAN: That would be a matter for the house. We are just dealing with the committee today.

The WITNESS: An alternative would be to deliver a supply of several hundred copies to the Minister of Finance and leave it to him to distribute as he thinks proper.

Mr. THOMAS: Yes, it would be better to do that than to confine them to members of the committee. By turning them over to the Minister of Finance they could be made available to the members of the house and to the members of the committee before the committee is set up. The committee would thus have a better opportunity to check your recommendations with the public accounts.

The WITNESS: I can do that very easily, sir. Of course, the alternative would be to have the Department of Finance consider the question of the size of this present volume and whether they have more stuff in it than they really need—whether its very size is conducive to confusion.

The CHAIRMAN: That is a different matter.

By Mr. Monteith:

Q. Before Mr. Sellar leaves the committee I would like to say that I am a little interested in what they call revolving funds. Have you any idea, roughly how many such funds there are in the financial set-up?—
A. No sir.

Q. Are there quite a number?—A. Oh yes. The number is growing every year.

Q. I am inclined to feel that the use of these funds tends to make it more difficult to discover the exact expenditures made by the government in any particular year. One revolving fund I am thinking of is the purchase account in the National Gallery. Take that as an example—there is an amount of \$800,000 put in there this year. That comes from the estimates and there is nothing wrong with that, but the amount need not necessarily be spent by the National Gallery in one particular year. As a consequence a true picture of the actual spending by all the various departments where these revolving funds are in existence is not easy to obtain. Am I right in this contention?—A. I would not call the National Gallery account a revolving account because all of it goes out and nothing comes back. If you take the Department of Transport stores account, which has about \$4 million in it for the procurement of stores, that is a different matter. When the department makes an issue of stores out of that account an appropriation is charged and the money goes back into the account. That is a revolving account. The really big one is the Department of Defence Production.

Q. When you say money goes back in, just how does that particular fund work? Do they get so much money to operate on?—A. I will take \$4 million as a figure—I may be out a few hundred thousand one way or another. The department is allowed at the end of the year to have inventories of stores purchased by means of the revolving fund up to a total of \$4 million, but not a cent more.

Q. Either that, or cash totalling \$4 million.—A. \$4 million is the maximum they can ever charge to that account and therefore if, at the end of the year, they have an excess of stores, that would be written off as expenditure, charged through an appropriation of stores issued. For that reason they keep their purchases within the \$4 million mark. That is a true revolving fund.

The real purpose of the National Gallery account is to avoid an appropriation expiring on March 31, because it may have to accumulate money before it can make a purchase. But as I say I do not regard that fund as a true revolving fund.

Q. To take this other fund—the 4 million—is there a vote originally, by parliament, to set up that fund?—A. In the case of the Department of Transport stores there is an act of parliament, but more often they are set up by a vote in the estimates.

Q. Is this \$4 million we are talking about an actual charge in the estimates for the year in which the fund was instituted?—A. No sir. It will be enacted when the Department of Transport can set up a stores account. And for the purpose of that account the Minister of Finance may provide from time to time a sum not exceeding \$4 million. It is really an advance not an expenditure. The expenditure is when stores are sold out of that account through an appropriation.

Q. Is that the same form as the R.C.M.P. account?—A. In principle they are of the same type. The R.C.M.P. account is set up by a vote in the estimates and controlled by the Financial Administration Act.

Q. All right. The sum of \$1 million in the R.C.M.P. account is actually the amount in the estimates in one year?—A. Yes sir.

Q. I see that they have to pay for supplies and so on. There is no income accruing to the R.C.M.P. at all?—A. Every time a section of the R.C.M.P., let us say, buys something from this fund the vote is charged with the amount of that purchase and the amount credited to the fund.

Q. The vote is charged?—A. Oh yes. Take the R.C.M.P. fund you have been referring to. If you look at page 93 of the public accounts you will see under schedule "B" it stands at \$202,000 at the end of the year.

Q. Yes. It stands at \$798,000?—A. No sir. That was the amount in the way of inventories at that time.

Q. Their actual money going into a separate fund and the minister only paying it out when they buy the inventory?—A. Yes sir, and the minister cannot advance any more than \$1 million.

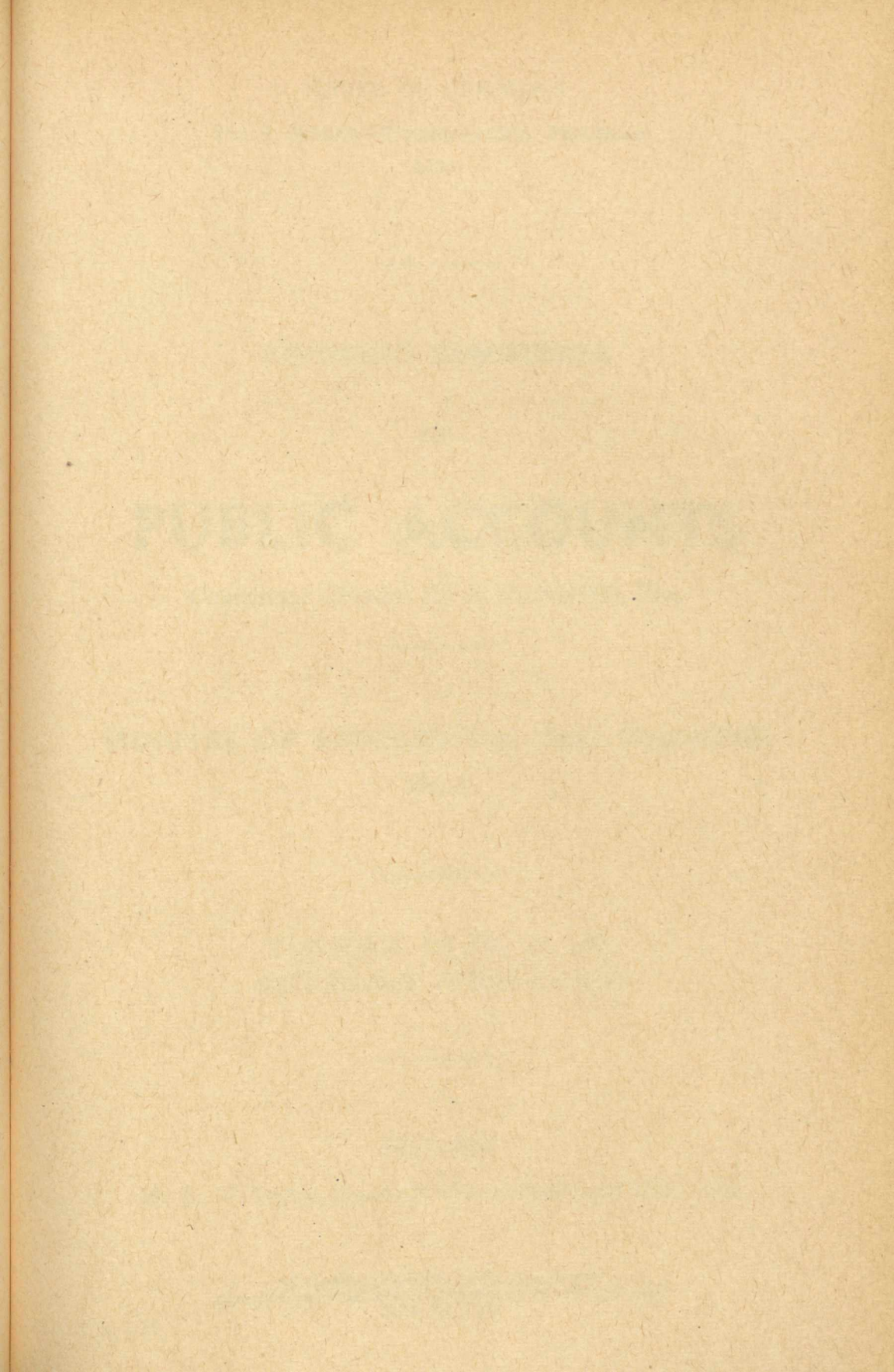
Q. He cannot advance more than \$1 million at any time?—A. Not at any one time.

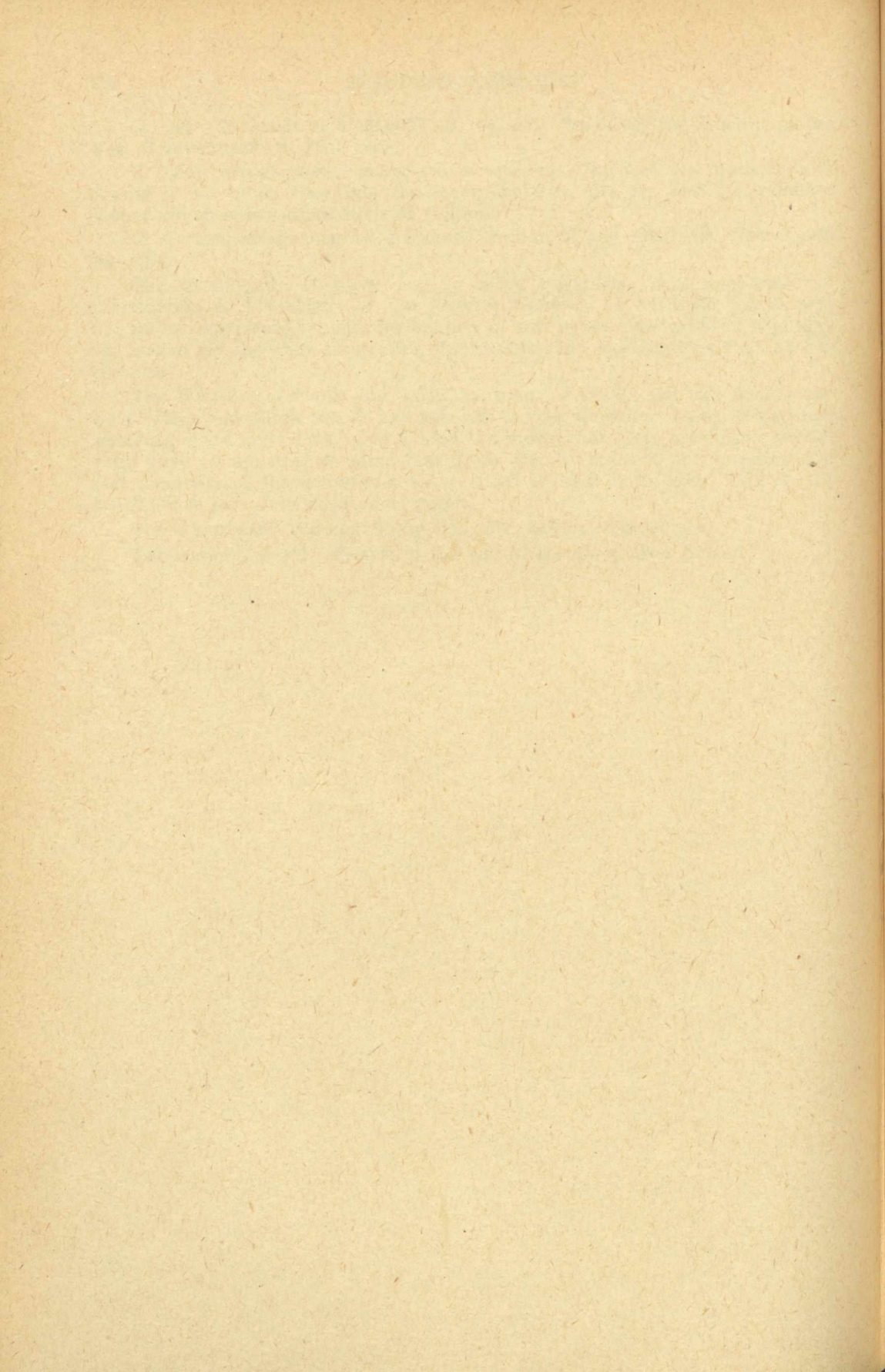
The CHAIRMAN: If there are no more questions, that completes the examination of the report of the Auditor General. I am sure, gentlemen, I shall be expressing the sincere opinion of the whole committee in thanking Mr. Sellar for the very interesting information and explanations that he has given us.

The WITNESS: I thank you, Mr. Chairman. I would just like to add one word. You may think that in my answers to your questions I was, sometimes, watering down my views. I still hold the views that I set out in my report, but I have always kept in mind that there are two sides to any question and that members of the committee are entitled to hear both sides. We in the Audit Office just want good government.

The CHAIRMAN: We appreciate that, Mr. Sellar. Thank you.

The committee will adjourn to the call of the chair after Easter.





HOUSE OF COMMONS
Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 5

TUESDAY, APRIL 17, 1956
THURSDAY, APRIL 19, 1956

WITNESS

Mr. K. W. Taylor, Deputy Minister, Department of Finance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
and Messrs.

Anderson	Harkness	Monteith
Applewhaite	Henderson	Nowlan
Argue	Hollingworth	Pommer
Ashbourne	Hollowach	Poulin
Balcer	Houck	Power (<i>St. John's West</i>)
Beaudry	Kickham	Proudfoot
Boisvert	Kirk (<i>Antigonish-</i>	Regier
Breton	<i>Guysborough</i>)	Rowe
Bruneau	Laflamme	Schneider
Buchanan (1)	Leduc (<i>Jacques Cartier-</i>	Stewart (<i>Winnipeg</i>
Cavers	<i>Lasalle</i>)	<i>North</i>) (2)
Cloutier	Maltais	Thomas
Denis	McGregor	Tucker
Fulton	McLeod	Van Horne
Goode	McWilliam	Weaver
Hamilton (<i>Notre-Dame-</i>	Menard	Zaplitny
<i>de-Grâce</i>)	Mitchell (<i>London</i>)	
Hanna	Mitchell (<i>Sudbury</i>)	

Antonio Plouffe,
Clerk of the Committee.

(1) To replace Mr. Balcom as of April 13.

(2) To replace Mr. Noseworthy deceased on March 31.

ORDERS OF REFERENCE

FRIDAY, April 13, 1956.

Ordered,—That the name of Mr. Buchanan be substituted for that of Mr. Balcom on the said Committee.

WEDNESDAY, April 18, 1956.

Ordered,—That the name of Mr. Stewart (*Winnipeg North*) be substituted for that of Mr. Noseworthy on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, April 17, 1956.

(7)

The Standing Committee on Public Accounts met this day at eleven o'clock.

The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Cameron (*High Park*), Cavers, Cloutier, Hamilton (*Notre-Dame-de-Grâce*), Harkness, Holowach, Laflamme, Leduc (*Jacques-Cartier-Lasalle*), McGregor, McLeod, McWilliam, Ménard, Mitchell (*London*), Mitchell (*Sudbury*), Pommer, Poulin, Proudfoot, Regier, and Schneider.—(20)

In attendance: Mr. K. W. Taylor, Deputy Minister, Mr. H. R. Balls, Director of Financial Administration and Accounting Policy, Department of Finance.

The Chairman welcomed Mr. Buchanan who has replaced Mr. Balcom on the Committee.

The Chairman then referred to the decease on March 31st of one of the members of the Committee in the person of Mr. J. W. Noseworthy, member for Toronto (*York South*).

On motion of Mr. Cameron (*High Park*), seconded by Mr. Harkness,

Resolved,—That an expression of sympathy be forwarded to the members of Mr. Noseworthy's immediate family.

The Committee resumed consideration of the Auditor General's Report on Public Accounts (1955), more particularly paragraphs 4, 5, 8, 9, 10, 58(c), and 69 thereof, which had been referred to the Department of Finance.

Mr. K. W. Taylor, Deputy Minister of Finance, was called and questioned. He was assisted by Mr. H. R. Balls.

At 12.40 o'clock, Mr. Taylor's examination still continuing, the Committee adjourned until Thursday, April 19 at eleven o'clock.

THURSDAY, April 19, 1956.

(8)

The Standing Committee on Public Accounts met this day at eleven o'clock. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Applewhaite, Ashbourne, Boisvert, Breton, Buchanan, Cavers, Fulton, Harkness, Henderson, Hollingworth, Laflamme, Leduc (*Jacques-Cartier-Lasalle*), McGregor, McLeod, McWilliam, Ménard, Mitchell (*Sudbury*), Poulin, Power (*St. John's West*), Hon. Mr. Rowe, Schneider, Weaver, and Zaplitny.—(24)

Also present: Mr. W. Benidickson, Parliamentary Assistant to the Minister of Finance.

In attendance: Mr. K. W. Taylor, Deputy Minister, Mr. H. R. Balls, Director of Financial Administration and Accounting Policy, Department of Finance.

The Committee continued its study of the Auditor General's Report on Public Accounts (1955), in particular paragraphs 95 and 96 thereof.

Mr. K. W. Taylor was called and questioned. He was assisted by Mr. H. R. Balls who answered specific questions referred to him.

Mr. Taylor's examination was concluded and he was retired.

The Chairman asked the members of the Sub-committee on Agenda and Procedure to kindly remain for a scheduled meeting immediately following adjournment.

At 12.15 o'clock, the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

CORRIGENDUM

In Minutes of Proceedings and Evidence, No. 4, page 111, the following headings should appear at the top of the table showing Crown Companies' holdings of cash and securities:

CASH—SECURITIES—TOTAL

EVIDENCE

APRIL 17, 1956.

The CHAIRMAN: Gentlemen, we have a quorum. Since our last meeting we have had to deplore the loss of our colleague and member of the public accounts committee, Mr. Noseworthy. He was a valuable and hard working member of the committee and we shall certainly miss him in our deliberations.

Might I have a motion for a resolution of sympathy to be sent to his family? Mr. Cameron, will you move that?

Mr. CAMERON (*High Park*): Yes, I am very glad to.

Mr. HARKNESS: I will second it.

The CHAIRMAN: Seconded by Mr. Harkness.

Motion agreed to.

The CHAIRMAN: Mr. Balcom, who is absent, has been replaced by Mr. Buchanan on the committee. We welcome Mr. Buchanan and look forward to working with him here.

We have with us this morning, gentlemen, Mr. K. W. Taylor, the Deputy Minister of Finance, and Mr. Balls, the director of the financial administration and accounting policy division of the Department of Finance.

As you will recall, while we were hearing Mr. Sellar the Auditor General, when answering several of the questions, he suggested that we had better ask them of the Deputy Minister of Finance.

Mr. Taylor and his assistant are here this morning for the purpose of giving these answers.

Mr. Taylor, on page 14 of the official report of the proceedings of this committee we find a question by Mr. Hamilton concerning paragraph 4 of Mr. Sellar's report. Mr. Hamilton's question specifically deals with the \$3.2 million which are listed as miscellaneous income. Have you any answer to give us on that, Mr. Taylor.

Mr. K. W. Taylor, Deputy Minister of Finance, called:

The WITNESS: Yes, Mr. Chairman. In any tabulation there will almost inevitably be a miscellaneous category. On page 25 of Public Accounts, to which Mr. Sellar referred there are listed \$3.2 million of miscellaneous non-tax revenues. Later, on page 85, that same \$3.2 million is broken down by departments.

I have still further detail on those departmental totals which are scattered through various pages in Part II of the Public Accounts. For example, taking the first item on page 85, there is roughly \$49,000 of miscellaneous in the Department of Agriculture. The detail of that is on page A-49 of the Public Accounts; and it shows that the bulk of that is made up of miscellaneous fines and forfeitures, about \$3,000, refund of gasoline tax, \$17,000, a small excess of revenue over expenditure in operating a boarding house at the Swift Current experimental farm, \$8,000 and so on.

Details for each department are available at some place in the latter part of the accounts.

I just mention the larger items; that is those over \$100,000. For example in the Department of Finance there is \$207,000 of unclaimed bank balances

received from the Bank of Canada. As you know, after a certain time, I think it is 10 years, unclaimed balances are transferred to the Bank of Canada from chartered banks, and after another period of years, if they are still unclaimed, they are transferred to the Receiver General.

Then, there is nearly \$1,400,000 in national revenue. Almost all of that is customs and excise seizures, fines, forfeitures, and recovery of law costs.

In trade and commerce there is \$234,000 received from the Export Credits Insurance Corporation in regard to export credits which are handled under section 21 of the act. That is where the government guarantees the account. Through all these miscellaneous items, fines, forfeitures, and seizures add up to a substantial amount. And as I said before, the refund of provincial gasoline taxes used in government vehicles, and that sort of thing.

The CHAIRMAN: Are there any further questions?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Have you broken down the \$439,000 of National Defence, Mr. Taylor?

The WITNESS: Yes, sir. N-82 is the page number. \$312,000 of special pension contributions made under Parts 1 to 4 of the Defence Services Pension Act. That is on page N-82 of the big volume.

Payment for damages to barrack, camp and hospital equipment, \$17,500.

Mr. HARKNESS: This would be recovered from soldiers for breakages?

The WITNESS: I presume so, yes.

The purchase of discharge, \$8,000.

The pension contributions under these different parts of Defence Services Pension Act, \$312,000.

Premiums on foreign exchange transactions, \$36,000.

And sundries, \$58,000 which I cannot break down further, but which can be obtained from the detailed books of account.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In other words, while the consolidated statement lumps these amounts, if you dig, in sufficient detail, into the accounts of the government departments, you will normally find them there?—A. Yes. At the end of each of these alphabetically numbered sections of departments, at the end of revenue you will always find the detail of the miscellaneous revenue.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Thank you.

The CHAIRMAN: The next item is, on page 21 of the printed minutes of the proceedings, and concerns paragraph 8 of Mr. Sellar's report.

Mr. LEDUC (*Jaques-Cartier-Lasalle*): What page?

The CHAIRMAN: Page 21 of the printed minutes of the proceedings.

Paragraph 8 of Mr. Sellar's report is concerned with the setting up of a reserve.

Can we hear you on that, Mr. Taylor?

The WITNESS: Yes, Mr. Chairman.

This is a general reserve for possible losses on the ultimate realization of active assets. It is not a reserve for bad debts in the sense that the department, or the minister, have gone through all the amounts owing to the government and made a list of those that are of doubtful value, or unlikely to be collected. In other words, it is not a reserve for bad debts, against accounts receivable. It is more analogous to the general reserve which corporations frequently set up, general reserve against fluctuations in value of inventory, or general reserves against possible future fluctuations in the value of investment holdings, and that sort of thing.

Among our active assets, you realize, we have a great many loans to national and provincial governments. We have loans to other organizations, advances

to crown companies and so on. The amount that will ultimately be realized may depend upon a great variety of circumstances. Some of these debts are from time to time subject to negotiation.

We do transfer in any given year to the list of inactive assets those debts that are not being serviced by the debtor. You will see, for example, we have transferred the loans to the three governments which, at the present time, are not paying the interest or principal. That is, the moneys we had loaned to Greece, Rumania and China have been transferred to the inactive account. That does not mean, of course, that they have been written off, or that we regard them as bad debts.

The Greek government has not paid any interest or principal on this debt of some \$6 millions odd since about 1930. The Rumanian government continued to service its debt to us, with some interruptions, up until October, 1939, but we have had no payment from Rumania since then. In other words, there are in the government's list of assets a number of accounts where we are not sure that we will collect in full.

The Minister of Finance has a duty under legislation to give as true and accurate a picture of the government's assets as possible, and in the last 10 years it has become the practice to set up from time to time certain reserves which are not against particular assets, but are against the whole corpus of the government's assets.

I think Mr. Sellar covered pretty well the history of the build-up of this reserve.

It was started in 1940, and over a period of 15 years \$675,000,000 has been credited to this reserve for possible losses on the ultimate realization of assets. In the same period of years there has been charged some \$178,000,000, always, of course, with parliamentary authorization—to this reserve, leaving a balance now in the reserve of \$496,000,000.

By Mr. Harkness:

Q. At what point, Mr. Taylor, would this \$178,000,000 be charged against this reserve?—A. For instance, in 1946-1947 parliament authorized the writing off of certain advances made during the war to various defence plants totalling \$21,000,000. Some of these were crown companies; I think they were all defence plants; in some cases they were disposed of for less than the investment which we put into them; in some cases they were crown companies which were wound up, and the net loss was written off in this way.

In 1947-1948 there was a general settlement with the four western provinces covering their treasury bill indebtedness which was built up during the difficult years of the 1930's, and a total sum of \$55 million was written off as follows: \$5½ million to Manitoba; \$36 million to Saskatchewan; \$5¼ million to Alberta; and \$8½ million to British Columbia, making a total of \$55 million written off for indebtedness which was then cancelled.

The only other major item was in 1953-1954 when parliament directed that the deficit in the old age security fund should in that year be charged to this reserve against the active assets, to a matter of \$99 million. But since that time as you know, the deficit in the old age security fund has been taken into the expenditures in each succeeding year.

Q. Is there any definite basis upon which the amount of this fund, or the amount which it put into this fund is used to determine what the amount should be?—A. There is no mathematical formula. In the first seven years we put in \$25 million a year; and after the war when we were making very large advances for a considerable variety of purposes to foreign governments, the amount was stepped up to \$75 million a year for the next six years. Then,

in 1953-1954, a further \$50 million was added, making a total of \$675 million. The appropriate amount is a matter of judgment.

I think the ministers—there have been three ministers involved, the Hon. Mr. Ilesley, the Hon. Mr. Abbott, and the Hon. Mr. Harris, have set up what in their general judgment, has been an appropriate figure. The total amount now runs just under 7 per cent of our active assets, and that is felt to be an adequate reserve. All these things are completely incommensurable. Just after the war it was a matter of judgment as to how many of the European governments would get back on their feet and be able to service these loans. Actually all of them have. You will recall that for a couple of years Czechoslovakia was in default on the loan we made them, but after two years they resumed servicing and are now up to date again in the payment of interest and principal on these loans.

Q. This seems to be a fund in which money is put more or less when there is a surplus and if there is no surplus then nothing is put in.—A. Actually from 1941 to 1946 inclusive—when we had a deficit there were six years when we put in a total of \$150 million.

Q. On the other hand \$25 million a year was being put in.—A. Yes.

Q. That was being put in, in the anticipation that there would be losses, and this was set up to cover them.—A. Yes.

Q. And since that period it has worked much on that basis?—A. It was stepped up to \$75 million at a time when we were making very large advances to various foreign governments.

Q. Then, on the other hand the fund has been used to cover deficits on things like the old age pensions. Is that a proper use, do you think of a fund, or a proper use to make of a fund of this kind?—A. The old age deficit, under the statute, was covered by a loan from the Minister of Finance to the old age security fund; and in the first two years there was some uncertainty as to the way in which the fund would work out.

A deficit of some \$99½ million was accumulated. The Minister of Finance in his budget speech of that year announced that in the future he would recommend to parliament each year that the deficit for the year would be charged to the expenditures for the succeeding year. In the meantime he thought it appropriate to recommend to parliament that the accumulated deficit be written off. From a bookkeeping point of view it did not make very much difference whether it was charged to expenditures in that year or whether it was written off against the reserve against active assets.

Q. The general effect of these reserves is to put the Minister of Finance in a position where he can take a certain amount out of it, if he happens to be short for a particular purpose such as the old age pensions in one case, or on the other hand he can put money into it if he wishes to reduce what would otherwise look like an unwieldy surplus, too large a surplus.—A. He can only take money out by means of a formal act of parliament. It actually appears in the supplementary estimates, and it appears in the appropriation act. The sums placed in the reserves have always been reported to parliament, but it does not require a formal act of parliament to increase the reserves; but they have always been referred to in the budget speech and have always appeared in the public accounts. The general policy has been to build up these reserves to a level which is a matter of judgement, and which seems to be not an unreasonable amount against a very varied list of assets.

By the Chairman:

Q. Is it not a fact that under section 63 of the Financial Administration Act (Chapter 116 R.S.C. 1952) the minister, subject to the regulations of the Treasury Board, may establish such reserves with respect to assets and liabilities as in his opinion are required to give a true and fair view of the financial position

of Canada?—A. Yes sir, that is in section 63 of the act. And the Minister of Finance would not be giving a true picture of our assets and liabilities if he had no reserves at all. Experience has shown that we have had losses on ultimate realization; for instance, the western treasury bills; and in the matter of the Greek-Roumanian loans, the amounts on our books now are not the same as the amounts originally loaned, because there were a number of compromises made in the 1920's by way of settlement by means of negotiations between Canada and the Roumanian government.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In that connection has the department ever made any attempt to assess its own expectancies of repayment of these outstanding loans and advances to foreign governments?—A. In one sense we expect to realize in full. On the other hand we can well expect that political and international conditions may arise which may make it impossible to collect. In connection with the Roumanian loan, for example, we have had no communications with the Roumanian government for obvious reasons in the last fifteen years; and in connection with the Greek loan, we have had conversations within the last two years reminding the Greek government of their obligations which they admit. They do not deny their obligation, but the Greek government has informed us that they are not in a position to pay at this time.

In international and inter-governmental relationships the re-writing of a loan is sometimes a matter for political and economic negotiation, and this reserve is an attempt to indicate in a general way that we could have losses.

The reserve is of some importance I might say, on those occasions when we have borrowed funds in New York. We have not borrowed funds in New York in any volume in recent years; but after the war we did place a number of loans in New York, and I think that the investment houses there would have expressed some concern at the carrying of all these items as assets with no reserves at all.

Q. You say it is about 7 per cent?—A. Of our active assets.

Q. Does that indicate the department's expectation or the minister's expectation that about 7 per cent of these assets across the board eventually will turn out to be non-collectable or poor?—A. No. It is purely a general reserve to give a conservative and prudent view of our assets.

Q. Is this rather unusual feature defined in federal government accounting? I do not mean Canadian government accounting, but generally federal government accounting?—A. Perhaps Mr. Balls will answer your question.

Mr. H. R. BALLS (*Director of the Financial Administration and Accounting Policy Division, Department of Finance*): Mr. Chairman, I think we could say that the whole concept of the government having a statement of assets and liabilities is rather unusual. Very few governments do publish as complete a statement of assets and liabilities as the government of Canada; but we have tried to show on our statement the assets and liabilities, our financial assets; and as Mr. Taylor has said, since 1940 we have had in association with the statement of those assets, a reserve making some provision for possible losses on those assets.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): How long have we had a statement or almost a balance sheet of the government?

Mr. H. R. BALLS: I think there has been a statement of assets and liabilities since Confederation. But the statement in its present form dates essentially from about 1920, when I think the idea of setting up a statement of gross liabilities which includes our unmatured debt, our current or demand liabilities and the other liabilities we have in connection with insurance pension and guarantee accounts were shown offset by these assets which were in the form

of cash or which could be readily converted into cash. In other words, loans and advances we could expect to realize on.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. So the statement in its present form came into existence in 1920?

Mr. TAYLOR: It was in Sir Henry Drayton's budget.

Q. This provision of reserves came along about twenty years later in 1940?

Mr. H. R. BALLS: Yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. For the information of the committee I was trying to make a calculation. Perhaps you could help me with it. In the years in which we have deposited, how much was added to the reserves for the overall deficit, and in the years in which we have had a surplus, how much was added? It seems to me roughly that there was around \$100 million to \$150 million added in the deficit years, and about \$500 million in the surplus years.

Mr. TAYLOR: That is correct. There was about \$150 million added in the deficit years, and \$525 million added in the surplus years.

Q. So while there might be some measure of difference of opinion as to why it was done, one could say that the surplus in most of the past ten years has been substantially reduced through the operations of that need for a credit—not a need for a credit, because obviously on the basis of operations so far there was no need for such credits; but that the surplus has been substantially reduced as a result of the government's decision to make credits to this reserve.—A. Yes. In this case the Minister of Finance in each budget speech—and I think I have gone through all of them in the last couple of weeks—has always in his budget speech referred to the fact that he was adding \$25 million or \$50 million or \$75 million to the reserves against the active assets, and that of course has reduced the surplus or increased the deficit for the year by the amount so appropriated.

By the Chairman:

Q. Mr. Taylor, is it not good financial practice for any organization, whether it be a private company or a government, to add more to reserves of this kind in good years than in bad years?—A. It is very common in financial companies to set up reserves against possible fluctuations in the future value of their investment portfolio. That does not mean that they believe that their bonds are going to go down, but it is an attempt to prevent either a sudden increase or sudden decrease in the value of their whole portfolio distorting the profit and loss statement for that particular year.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. To return to the Chairman's observations and question for a moment: is it actually prudent practice, or sound business practice to have credits to reserves such as this fluctuate in relation to the financial picture in a good year? The Chairman indicated that he felt that it was sound business practice. But speaking from my own perhaps limited experience in business accounting, it seems to me that the reserves and credits thereto are expected to bear some relationship to something, and that "something" is not the financial position of the company at a given year, but what its expectation is of bad debts and what it is going to have to pay.

The CHAIRMAN: Do you not think that the financial position of a company in any given year is at least a factor to be taken into consideration in establishing these reserves?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, not in any corporation with which I have been concerned. It has definitely not been the way.

The CHAIRMAN: We have had different experiences.

The WITNESS: These are not reserves for bad debts. These are reserves against possible fluctuations in value. The government may not sustain an ultimate loss in our active assets. The amount of course has been in round figures. They are not the result of a complicated mathematical calculation. The \$25 million was built up each year at the time when we advanced quite substantial sums to defence plants and crown corporations and we stepped it up specifically when we were making very large loans, well over \$2 billion to various external governments such as the United Kingdom and a variety of European and Asiatic governments. But in recent years we have been making no such advances, or negligible advances, and when we got up to around the 7 or 8 per cent level, as a matter of judgment the minister took the view that it was no longer necessary to add to these reserves, and that we had adequate reserves here to give a reasonably true and accurate picture of the net position of the government's assets and liabilities.

By Mr. Harkness:

Q. The fact that there is no definite basis on which funds are put into this account, and no really very definite basis on which they are taken out—they may be taken out for various reasons, losses by crown corporations, let us say, or of assets which are sold at less than cost or the old age pension, it would appear that funds might be taken from this account for any purpose. Therefore you have two great uncertainties in connection with it: first, the matter of how much is put in, and second, what it is taken out for; and as a result it seems to me that the existence of this fund and the purpose of the way in which things are put into it, and in which things are paid out leaves you in a position that it is difficult to keep up a true picture of the financial position of the country.

As Mr. Sellar when giving his evidence at page 22:

(Mr. Sellar) We have to be fair to the Minister of Finance. He says: "I cannot disclose in print particulars of the assets which I regard as perhaps doubtful accounts." He said that he cannot particularize and he has a point there. But I do think, inside this room or by letter, he should tell me how he calculates it so that when I am certifying the financial statement I do not need to automatically qualify as I am now.

Then I went on to ask him:

(*By Mr. Harkness question*) In other words if there were more information you could give a truer picture of what the contracts actually are?—A. Yes, whether it is fair or not.

In other words, the way in which this thing has been run has put the Auditor General in a position where he says that he just automatically qualifies it because he does not know what the situation is.—A. We have had no such discussions in recent years with the Auditor General's office on this account. I know I am right when I say it has not been raised formally with me since I became Deputy Minister. There were discussions between Mr. Sellar and Dr. Clark back in the war years and just after the war, and the views which Dr. Clark then expressed were those which I have expressed to the committee this morning, that this was a matter of judgment, an attempt to give a more accurate statement of the values of the government's active assets.

In reply to Mr. Hamilton's earlier question, Mr. Balls who is our expert in accounting tells me that it is rather unusual for a company in a year in which it is making a loss to set up a general reserve against possible losses arising from fluctuations in the value of inventories or portfolio investments,

but that it is not uncommon when a company has had a good year to establish a round figure of reserves against possible fluctuations in the value of its portfolio.

In the case of bad debts, that is a matter where the accountants and officers of the company go over the whole list of accounts receivable and make various estimates of items which are of doubtful value.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. Could this be called an appreciation reserve, appreciation of assets, to appreciate the probable losses, and you would make your recommendation to the Finance Department and the minister will state what amount he should put in his budget?—A. If we had no reserves, and we finally came to an actual realization of loss of let us say \$50 million or \$75 million, or any other figure, then to show correctly our position we would have to charge that to that year's accounts. That would not be quite accurate, because that loss might have been building up over the previous three, four, or ten years. A loss of that sort would be charged to this reserve rather than to an expenditure, and that would, I think give a more accurate picture of the financial operations and position of the government.

Mr. HARKNESS: I agree there should be a reserve. What I tried to get at originally was, on what basis the reserve was calculated, and there does not seem to be any definite basis. I wonder whether the Department of Finance privately has a base point and makes some sort of calculation as to how many of the various debts they are likely to be unable to collect, what amount of loss there is likely to be in crown companies, and what amount of loss there may be in certain other ways?

The WITNESS: No, I do not think so. I have to go back beyond my own knowledge, because I joined the department only in 1947. At one time we had no reserve; then the reserve was built up in moderate amounts. As we extended our volume of active assets through our large post-war loans, we accelerated the building up of those reserves, and when it reached a figure of around 7 or 8 per cent, I recall Dr. Clark taking the view that that was now probably an adequate reserve. It is a matter of judgment.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): Are we in a better position to state what would be the percentage than the finance minister, or the officials of the department?

The WITNESS: Far be it from me to pass judgment on the members of this committee.

Mr. HARKNESS: No, I do not think we are in any position at all to say what it should be.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. We will have to take your word for it.—A. I want to make it quite clear that every single move of this reserve account has been a matter of public record, a statement in the budget speech and a statement in the Public accounts. For charges against the reserve there have been formal appropriations placed before parliament, and adopted in committee and passed.

Q. You will know later on if the percentage is right?—A. Yes.

Q. You cannot tell right offhand if the percentage is right?—A. No.

Q. We will know later?—A. Take an extraordinary case; if the whole of western Europe was overrun from the east, we would have to write off more than \$400 millions; but that is an event that we do not contemplate.

By Mr. Harkness:

Q. What I think is rather peculiar about the account, is that it seems to be sort of a grab-bag against which you can write off anything.

This old age pension deficit we have written off against this would not seem to me to be a very good general method of government financing.—A. It was carried as an active asset.

Q. Why was it carried as an asset when it was a deficit?—A. Because it was—in accounting terms—something that was owed to the Minister of Finance by the old age pension fund.

Mr. CAMERON (*High Park*): And, perfectly proper to charge it against this reserve that had been set up. I have been listening for some time, and I think, on the record, that Mr. Harkness is putting in innuendos which are entirely unfair, that this is a sort of grab-bag. He has mentioned that this is something that the minister can play fast and loose with.

The old age pension moneys have been paid by the Minister of Finance—was a debt owing to him. It was carried as an asset, and he decided that it was not an asset that should be carried, and he wrote it off. Then, in future years he decided it would be paid out of cash revenues of the country. It meant, in that particular year that he wrote it off, that there was a greater surplus, probably, than there otherwise would have been, because if he had written it off as an expenditure the revenue would have been much less.

I think it is rather an unfair innuendo, and I do not think Mr. Harkness really wants to put it on the record.

I am asking him now to remove any innuendo of such kind, because I think it is entirely improper.

Mr. HARKNESS: I see no innuendo in it at all. What I am trying to do is, get at what the reasons for this account are.

Mr. CAMERON (*High Park*): Well, the innuendo is this—

Mr. HARKNESS: And what it can be properly used for.

Mr. CAMERON (*High Park*): You said on several occasions that this is something that can be taken in and out at the pleasure of the minister. It is nothing of the sort.

You go into a business proposition, you invest a certain amount of money, and then as a businessman you sit down and say, "Well, a reasonable reserve against this amount of money is so much," and you set it up, so that if you do happen to have a loss, or the value of your assets depreciates in the future years, then you can say, "We will take that from this reserve. We will not need to show a terribly bad year. We will not need to show that because we have written this off as current expense".

It is something that has been built up as the deputy minister, Dr. Taylor, has said, over the years, and should be charged off in that way. I think it is perfectly proper, and I for one in expressing my own opinion resent the sort of atmosphere that you are creating about it.

Mr. HARKNESS: I do not think I am creating any atmosphere about it. I think you are creating the atmosphere in your own mind in mentioning it.

Mr. CAMERON (*High Park*): I am just taking your own words.

Mr. HARKNESS: No, it seems to me that it puts the Public Accounts in this position; if there happens to be a deficit in this particular case—it was in the old age pension amounts—if there happened to be a deficit in some other way, it might be through the Prairie Farm Assistance Act, or something like this, then the Minister of Finance, in order to balance his budget when he presents it can just take so much out of this fund and use it to cover what would otherwise be shown—

The CHAIRMAN: That is an innuendo, Mr. Harkness.

Mr. HARKNESS: —what would otherwise show in his budget as a deficit.

The CHAIRMAN: Mr. Harkness, that is an innuendo and is not fair.

Mr. HARKNESS: No, it is not an innuendo.

The CHAIRMAN: You are making innuendos.

Mr. HARKNESS: It is a straight statement of fact.

The CHAIRMAN: It has been explained by the deputy minister several times that the amount of this reserve is a matter of judgment. As Mr. Leduc outlined a few minutes ago, we cannot be sure that the amount that is set aside is exactly the right amount, but the future will inform us of that. It is the same as any reserve that is set up by any company. You cannot be sure that the amount you have set up is absolutely correct to the last cent. You use your own judgment; and the events will eventually show whether the judgment you used was good or not. I think that is the situation.

Mr. HARKNESS: Well, it is a situation that appears to me to be such that it can be put in whenever, in the judgment of the Minister of Finance, he thinks it is desirable to put it in, and it can be taken out, apparently, or used for almost any purpose.

The WITNESS: May I comment on that? It can be used for any purpose which parliament directs. But, it would be a little peculiar, shall I say, for the minister to recommend to parliament that it be used for any purpose. Its use will be recommended when we experience an actual loss on something we are now carrying in our books as an active asset.

The CHAIRMAN: That is what reserves are set up for, after all, are they not Mr. Taylor?

The WITNESS: Yes.

By Mr. Regier:

Q. Mr. Chairman, I would like to ask Mr. Taylor, is the balance sheet ever subject to the survey of parliament? I mean, does parliament ever make any decision in regard to the balance sheet, or how it is made up, in any way, shape, or form? I thought that we dealt only with revenues and expenditures in the house?—A. Well, sir, the government can make no loans and advances without authority from parliament, and the government cannot write off any debt owing to government without the authority of parliament.

Q. I understand that.—A. The balance sheet is the report by the Minister of Finance on the financial status of the federal government. In that report he lists all the assets—he does not list them all, because, as you know we do not carry as an asset any of our federal buildings or public works. They are always written off as an expenditure at the time that it is incurred. That has always been the case. We list the assets, and we list all the known liabilities that we have.

In this case, the Minister of Finance says, “Well, I have active assets of \$7 or \$8 billion. I cannot say any of them are bad. But, after all, there may be some losses, and we have set up this reserve against the active assets”.

Q. A few sessions ago there was a good deal of publicity in the newspapers given to some things that were said in this committee. As I understood it, the newspapers were completely in error, in that no actual expenditure is made for these reserves. It says here, right in section 8, “because no actual cash outlay takes place.” Therefore I feel that any hint, even, that a surplus in the government, or a deficit in the government has anything to do with the reserves, is completely misleading.

Now, am I right in that construction? I understand Mr. Sellar to say that this was a bookkeeping figure used only in the striking of the balance sheet, and it had nothing whatever to do with the revenues or expenditures. There-

fore, a surplus or a deficit in a year's operation has nothing whatsoever to do with this?—A. That is correct, sir. There is no cash expenditure here. It is what Mr. Sellar described as a purely bookkeeping entry.

Q. It is merely an adding on to our liabilities. Call it arbitrary if you like. Is that not correct, an adding on to, when we make our balance sheet?—A. The amount we put in there is charged to expenditure in that year. It is a charge to expenditure, and it increases our net liabilities by decreasing our net assets.

Q. Where does that expenditure appear in our estimates?—A. It appears—

Q. As an item as such?—A. No, it does not appear in the estimates. It is a statutory charge under section 63(2) where the minister has power to set up such reserves as he thinks are desirable to reflect the true value of government assets.

The CHAIRMAN: That is 63(2) of the Financial Administration Act?

By Mr. Regier:

Q. Then there is actually an outlay authorized by parliament?—A. It is authorized by parliament in these general terms that the Minister of Finance is empowered, or directed to set up such reserves as he thinks are appropriate to reflect the true value of the government assets.

Q. Those newspapers were right in that there could be a reduction of the actual surplus?—A. Oh, yes. If there had been no reserve set up at all for example, in 1954, when we showed a surplus of \$46 millions on the year's operations, after charging \$50 million to this reserve, there would have been a surplus of \$96 million in that year. There was no transfer of cash, it was just a bookkeeping entry.

The CHAIRMAN: No actual expenditure of money, simply a transfer from one account to another?

The WITNESS: Yes.

By Mr. McLeod:

Q. Mr. Chairman, in connection with the statement of assets and liabilities, some of our assets, of course, are in crown companies; some of these companies have built up quite large cash reserves. At what point, or at what stage are these reserves going to be turned back to the government? Is there any regulation governing that?—A. Yes.

The CHAIRMAN: That matter will be dealt with under another question that we have in reserve for Mr. Taylor a little further on.

Now, do you want to ask a question?

By Mr. Mitchell (London):

Q. I was going to ask the question, what is the history of this particular fund in so far as the crown corporations are concerned? We have been talking about international dealings, but we have not mentioned specifically the losses, if any, that have been paid out to cover crown corporation deficits.—A. If a crown company incurs a loss, such as the C.N.R. did a year ago, we actually pay out the deficit. That is an appropriation by parliament and has nothing to do with this amount at all. That is a current deficit of that year and it is paid to the C.N.R.—some \$25 millions, I believe it was in round figures a year ago. What is charged to this account, or has been charged to this account are losses on investments we have made in crown companies when the companies were finally wound up, or when there was a reconstitution of the capital structure.

In fact there have only been two crown companies as such in that category. There was Melbourne Merchandising, which was born during the

war. It was a corporation set up to buy raw wool for defence purposes. When it was finally wound up, there was a loss of about \$700,000. The company was dissolved, the charter was surrendered, and when we took over their remaining assets, they were \$700,000 short of the advances we had made to them. As you know, we bought wool at world prices and we sold the wool to the manufacturers at prices consistent with the price ceiling.

The other one was in 1947. At the end of the war, there was a reorganization of the Polymer Corporation. In that reorganization, \$1,043,000 was written off the government investment in Polymer at that time.

Q. Those are the only two cases?—A. They are the only two cases of crown companies.

There were \$20 millions written off from time to time on advances made to corporations for defence works, or defence capital expenditures which, at the end of the war, were found to have a sale value of considerably less than the government put into them. There was about \$22 million or \$23 million written off by act of parliament in 1946-1947-1948.

Q. So, in other words, the only amounts dealt with by this fund, as far as either crown corporations are concerned, or these war plants, totalled approximately \$25,000,000?—A. Yes.

By Mr. Holowach:

Q. There are one or two things that are not clear to my mind, and I would just like to get the picture straight.

Am I right in assuming that the allocation to reserves is simply a non-cash transaction; is that correct?—A. Yes, that is correct.

Q. Now, there does not appear to be any formula used in the building up of these reserves, is that correct?—A. There is no precise, mathematical formula.

Q. Now, during the year 1954-1955 Mr. Harris made no allocation to reserves?—A. Correct.

Q. What explanation do you give for that? Is there any particular reason for that one particular year being without an allocation allotted to the reserves?—A. There was none that year, and there was none this year either. The reason being that the reserves now are at roughly 7 per cent. They are deemed to be adequate. We have not increased our assets in this field. We have been making no significant loans or advances to either companies or provincial governments, or foreign governments. Therefore, since the total is not going up, it does not seem necessary to provide a further reserve.

By Mr. Regier:

Q. Is the consent of parliament necessary to write off any reserves against assets which are considered to be obsolete?—A. Oh, absolutely. Nothing can be written off our assets without the consent of parliament.

Q. In other words, that money goes to parliament twice, is that right? In the first place, when it is put into the reserve, and again when it is taken out of the reserve?—A. Yes. I do not want to be misleading. When it goes into the reserve, there is no specific action of parliament. It is done by the minister under the general powers of the Financial Administration Act. When it comes out there has to be a specific vote, correct to the last dollar, as to the amount that is being taken out.

By Mr. Holowach:

Q. On the basis of your explanation, I would gather that reserves can be used to hide embarrassingly large surpluses, is that correct?—A. Well, I have no right to resent anything here, Mr. Chairman, but the word "hide"

is not correct, in the sense that the minister has always stated explicitly in his budget speech the amount that he is proposing to appropriate to this general reserve, and it is specifically set out in the Public Accounts for the year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It would be correct, Mr. Chairman, and perhaps the witness can confirm this, to say that use of credits to the reserve would automatically result in the reduction of a surplus?

The CHAIRMAN: The witness already said that.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In any one given year?—A. Oh, yes.

Q. It is purely whether we like the word "hide" or not, which seems to be at issue. I can understand that that would be a point of issue.

The CHAIRMAN: What did you say about the word "hide"?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I said it seemed to be purely the use of the word "hide" which is at issue here. I can quite easily understand why it would be an issue.

The CHAIRMAN: I do not think it is an issue. I think it is an entirely improper word. As it has been explained by the deputy minister, everything is done aboveboard. The minister in his budget speech says exactly how much he is going to put into this reserve, and there is no hiding at all. There is no issue as to the word "hide", and it is wholly improper.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I think it is a proper word, and that makes it an issue, Mr. Chairman. Perhaps we can just let it rest at that.

Having said that, and looking at this reserve, as I see it, there are two factors to it which have caused some comment in the committee. The first is the rather indefinite way in which the amounts seem to be arrived at, to be credited to it. There is no formula, no set method. They bear no relationship to anything which the witness has brought forward, to my knowledge, in any one given year. They do seem, however, to bear some relationship to the current financial position of the government at the end of the given year.

The second thing, and that is what I would like to comment on and direct the witness to, Mr. Chairman, is the use of the amounts in the reserve. Now, Dr. Taylor has made the remark that they can be used against anything carried as an active asset. I think that was approximately the intent of your remarks?

The CHAIRMAN: With the consent of parliament.

The WITNESS: On the instruction of parliament.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Oh yes, with the consent of parliament they can be used against anything carried as an active asset. We have had much discussion about the losses to foreign governments and things like that, and I think myself, at least I would be prepared to admit, that that is quite a legitimate use of this reserve. But I would like to ask Dr. Taylor whether he feels it is equally legitimate to use this reserve against active assets which arise as a result of the miscalculation perhaps, on the part of the government in connection with activities of the government carried on here in Canada. And in that connection I refer, of course, specifically to the old age pension fund. Now, as I understand it, that pension fund was originally set up to be self-liquidating. There was to be a certain amount drawn from the people through income taxes. There was to be a certain amount paid into it year by year from the government. That was to cover the expenses of that particular pension fund. However, it did not quite work out

that way. There was an additional deficit to the fund. We are then faced with the miscalculation that turns up as an asset on the government's balance sheet. We then find that that asset is being reduced through the operation of this reserve fund. Would it not have been much more in practice with normal procedures to have written off that amount as a direct charge through the estimates, and as an expenditure in a particular year rather than utilizing this vote for the purpose?

The CHAIRMAN: Just a second, Mr. Hamilton. That is a matter of government policy, and I doubt that Dr. Taylor should be called upon to express an opinion on that. That is government policy.

Mr. HARKNESS: Apparently it has been recognized that it is preferable to do it that way, because essentially that is what is now being done.

The CHAIRMAN: As I say, as the result of government policy.

Mr. HARKNESS: So from that, it would seem also that writing it off against this fund was not a proper way to handle it.

The CHAIRMAN: I do not follow you at all when you say that. How do you come to that conclusion?

Mr. HARKNESS: I come to the conclusion because the government began writing off this \$90 million odd in the one case, then decided to change their method of handling the deficit of the old age pension account and put them into the estimates each year.

The WITNESS: The old age pension came in in 1952, and the pensions, were paid in full as of January 1st. The contributions to the old age pension fund, in some cases did not start until the following July. Over the first couple of years we were going through what you might call a formative stage in the operation of that old age security fund.

We were taking a 2 per cent sales tax, 2 per cent personal income tax, and 2 per cent of corporation profits. These fluctuate from year to year. They cannot be very accurate. After this fund had been going for two full years, at the end of 2½ years the government had accumulated this deficit of \$99 million over the two-year period, and my recollection is, that the minister gave a good deal of time and space in his budget speech to the discussion of this problem.

The CHAIRMAN: It was debated in the house as I well remember.

The WITNESS: He said he proposed to clean the slate as far as the back part was concerned by writing off this \$99 million against the reserve against active assets. There was an appropriation introduced in parliament in that sense, and from that time on, for the last three years the deficit has been met by a direct charge to expenditure in each year. I should have explained that during the first year when we were paying the old age pension from January, February and March with no revenue to speak of, that was written off as an expenditure in that year.

By Mr. Harkness:

Q. Through an item in the estimates?—A. Yes.

Q. And that is the way it is being done now?—A. Yes.

The CHAIRMAN: Now, the next paragraph is paragraph 58(c) of the Auditor General's report, and it is dealt with at page 92 of the printed minutes of the proceedings. Now, I think you went into that before. It concerned the Greek, the Roumanian and Nationalist China loans. Have you anything to add to what you have already said?

The WITNESS: No, sir. I believe I anticipated this a little while ago by explaining the situation of the Greek and Roumanian loans. The Chinese loan has been in default for the last four years. The last payment by the Chinese

government was in February, 1951 and since that time we have received no payment from the government of China.

The CHAIRMAN: The next item concerns paragraph 69 of the Auditor General's report, and is dealt with on page 95 of the printed minutes of proceedings of our committee. It concerns the munitions and stocks transferred to NATO countries, and the manner of dealing with them in the bookkeeping of the government. Have you anything to say on that?

The WITNESS: The committee will recall that at the time NATO was being organized, which very nearly coincided with the outbreak of hostilities in Korea, the government decided, and I recall a very lengthy debate in the house on the subject, to transfer material to western Europe from stocks of our existing supplies of military equipment. I think I am correct in saying that equipment for two complete divisions was physically shipped to Europe at that time.

That raised some problems in accounting procedure, which was a matter of very considerable discussion, both on the technical level, and also in parliament.

The procedure adopted was this: if we sent over \$50,000,000 worth of equipment, guns, rifles, munitions, stores and that sort of thing to equip European divisions in Europe, that was taken out of the reserves or mobilization stocks of the Canadian army. They, of course, had to be replaced. They could not be replaced at the same time, or even in the same fiscal year in which the guns and so on were physically shipped to Europe. At the same time, it was deemed to be an expenditure in that year. So what was done was this: the value of the equipment shipped was charged as an expenditure to national defence, and at the time of shipment, the national defence replacement account was credited with \$50,000,000, which they could spend in due course, as they could get replacement supplies and replacement of war material. That has gone on for a number of years, and the physical goods shipped to Europe from existing stocks have been charged as an expenditure in that year. An equivalent amount has been put into the defence equipment replacement account, and as the Department of National Defence replaced the physical equipment, the cost of the equipment was charged to the defence replacement account. That account grew to a fairly substantial figure—it got up to something like \$300,000,000. I think I am right in saying that no new credits to that account are now being made, and the amount of that account will gradually go down as the replacement equipment is acquired.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Is the reason that no new charges have been made to it a change of policy, or merely that these shipments have been discontinued?—A. I will put it this way, I think I am right in saying that we are not shipping any more from old Canadian stock. Of course, we are still shipping equipment, in considerable volume, but it is largely new production which is directly charged to mutual aid funds.

Q. So that assuming, if we commenced again to make shipments from Canadian stocks of a sizeable amount, the procedure would be reinstated?—A. I would not like to say that, even. First of all, the question of fact may or may not arise. I think the Auditor General agrees with us that we do not particularly like this form of accounting as a permanent operation. I think it was eminently suitable at the time; we were doing a special job, and it was spread over several years. I am not an expert in the technical details of the financing of mutual aid operations. All I can say is, we have charged very little in recent years, in the last year, and I understand that there are no new charges going through now.

Q. The net effect of this account would be, or has been, to give the Department of National Defence amounts which they can spend at their discretion in any one year, or in any year?—A. Yes.

Q. Without necessarily going through the processes of parliamentary control, is that right?—A. No, the government may make expenditures for replacement purposes without parliamentary approval in that precise amount, the amounts having been legally approved before.

Q. So we have an amount here of \$332,000,000 at the year ending March 31, 1955, of which \$274,000,000 is in respect of these shipments?—A. Yes.

The CHAIRMAN: I think I should draw the attention of Dr. Taylor to the fact that when Mr. Sellar was giving his evidence, at page 97 of the printed minutes of proceedings, in answer to a question by Mr. Applewhaite, Mr. Sellar said "There is no money involved. This is all bookkeeping. The NATO country never pays anything. The government of Canada first of all debits its vote with an amount—let us say \$1 million for munitions and credits the replacement account." So there is actually no money involved.

The WITNESS: No, that is true. This equipment is part of the Canadian contribution to the defence of western Europe. They are in a sense gifts. They are contributions; but when we supply equipment to European troops, to European defence forces, there is no money involved at that time, but the Department of National Defence has lost certain physical stocks which they have got to replace at some time.

The CHAIRMAN: Could we stop there?

The WITNESS: Yes.

The CHAIRMAN: That money that the Department of National Defence spends eventually to replace this equipment is money voted by parliament?

The WITNESS: Oh, yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Let us just back up and look at that again. Is it actually included in the parliamentary estimates of National Defence in that particular year?—A. It is charged in the year in which it is shipped. If there is \$1,700,000,000 for defence, of which a certain number of scores or hundreds of millions are for mutual aid, it is charged against that mutual aid vote and it becomes, in accounting and law, an expenditure in that year.

Q. Right.—A. An equivalent is put into the bookkeeping account for replacement purposes at some subsequent time.

Q. At which time the money is actually spent, but is not included in the parliamentary estimates for that year, is that correct?—A. Only in the current expenditures of that year. In other words, let us see if we cannot sum this up, because I think we have got two impressions here, one of which is quite different from the other, through no fault of anybody. It is just that this is a complicated matter.

The decision is made to ship mutual aid to NATO countries in Europe in, shall we say, "X" year. In that year the cost of that appears as an item in the estimates, or in the Public Accounts, for that particular year?—A. May I interrupt you Mr. Hamilton. There would be two kinds of shipments. If it was a shipment of new material just off the production line, it is a cash transaction.

Q. Right.—A. We pay the manufacturer and we ship the goods to Europe to be used by the French, Greek or Turkish armies. That is a straight cash charge to mutual aid.

Q. That has no direct bearing, we are not including that, because there is no direct bearing?—A. If you ship goods from stocks which have been

bought and paid for, and are part of national defence stocks, if you ship those to the Greeks, Turks, or Belgians, or Norwegians, those goods may have been purchased two or three years earlier. The amount then is charged as an expenditure in this year. The credit is put into the defence replacement account, so that the next year, or the year after the army, navy or air force can replace that with present production bought and paid for at a later time.

Q. That, actually is my point. In the year in which these goods are shipped from Canadian army supplies to Europe, it goes through the estimates, or through the public accounts as an item, and is set up as a reserve, as we call it, for the purpose of the Department of National Defence?—A. Yes.

Q. Now, that reserve goes on from year to year, and shall we say in "X" plus three years, three years after the shipment, it is conceivable that the Department of National Defence wishes to buy widgets—which is a term that might cover almost anything, and I use it for that purpose—they decide to buy widgets, they come in and purchase their widgets, and as I understand it pay for them out of this account which has been built up, and without the necessity of that expenditure being provided for in the estimates of that particular year?—A. Yes.

Q. That is correct?—A. It has to be approved by the treasury board, or the governor in council.

Q. It has to be approved by the treasury board or the governor in council, but you do reach the position—for example, at March 31, 1955 there was an amount of \$274,000,000, and that can be spent by the Department of National Defence without any further approval by the parliament of Canada, subject only to the approval of the treasury board?

The CHAIRMAN: Well, is that not like any amount that is voted by the parliament of Canada for equipment? For instance the Department of National Defence determines what kind of equipment it is going to buy, and where it buys it. Is that not a fact?

The WITNESS: This has some analogy, or very close to it, of a non-lapsing vote.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. That is the point I was going to make. In a great majority of expenditures, which are voted by parliament, if they are not expended within that year they lapse, you do not have them lying around for years afterwards. In this particular case you have got the very substantial amount of \$274,000,000 that is lying around as long as the Department of National Defence wants to keep it lying around, and can be spent without any further authorization by parliament, whenever the Department of National Defence and the treasury board feels like spending it. You have extended the money that is passed beyond the annual survey of the house, as I understand it?—A. It is sort of half way between a non-lapsing vote and a statutory item, and was, of course, covered in precise detail by the Defence Appropriation Act of 1950, which sets up the precise procedure to cover this.

Q. What other non-lapsing votes have we got, Mr. Taylor?—A. The Federal District Commission has some, the national capital fund and the Colombo Plan fund is in a sense a non-lapsing vote.

There is an appropriation for the purchase of pictures for the National Gallery which is a non-lapsing vote.

Q. Have we any idea of the total amount of these other non-lapsing votes as opposed to this one?—A. Yes, there is a grand total of \$58,000,000. The Colombo Plan has \$25,000,000 a year.

Q. Right.

A. Since that is dealing with programs of irrigation, which may go on for years, the money is paid into the Colombo Plan fund. It is set up in a special account and does not lapse at the end of the year. That is by far the biggest one.

The national capital plan vote is \$2,500,000 a year. They now have at the moment \$4,200,000 unexpended. That is, \$51,000,000 Colombo Plan and \$4,000,000 national capital fund.

Then there is a fairly important one, the railway grade crossing fund which is a non-lapsing vote. The money is transferred to the fund and they spend it as the occasion arises. There would be \$2,750,000 in that at the end of the year, the year we are talking about. The details, if I may point out are at page 102 of the Public Accounts.

Q. Would there be any merit in suggesting that such non-lapsing votes, and I include the others as well as this in that, should in some way come for the review of parliament?—A. Well, Mr. Chairman, they are presented for the review of parliament, whether parliament wishes to review them or not, because they are always set up in great detail in the Public Accounts which are tabled there. I realize that Public Accounts is a very thick volume.

I would like to, if I may, pay a tribute to Mr. Balls, who has done a fine job in the last few years in improving the set-up, particularly this smaller Part I which we print separately, where, in 80 or 100 pages he gives the gist and the highlights of the Public Accounts.

If you want the precise details you will have to go through the remaining two or three inches and find it there. But, it is all there, and all tabled in parliament. To what extent parliament actively takes cognizance of these figures, I do not know.

The CHAIRMAN: It is there to be examined by any member of parliament who wants to do so.

Now, the next item we have, Mr. Taylor, concerns crown corporations, paragraphs 95 and 96 of Mr. Sellar's report.

It is getting late, and we probably will not be able to finish today. We might adjourn until—

The WITNESS: Tomorrow would be very inconvenient for me, but I am free on Thursday. I am before the committee and I will meet their request, but tomorrow would be awkward.

The CHAIRMAN: Thursday morning, I think would suit the committee.

Mr. McWILLIAM: I move we adjourn to Thursday morning.

The CHAIRMAN: 10.30 Thursday morning.

Mr. HOLOWACH: What time again?

The CHAIRMAN: 10.30 on Thursday morning, if that suits the committee.

Before we leave this morning we had to wait some time before we had a quorum. I think it might be advisable to have a motion to reduce our quorum from 15 to 10.

Mr. MITCHELL (*London*): Would it not be better, Mr. Chairman, to find a time that did not conflict with some of the other committees that are sitting? At this moment you have got Agriculture and Colonization, and you have got Banking and Commerce, and I know there are many members of this committee who are on the Banking and Commerce Committee.

The CHAIRMAN: On Thursday morning there is a meeting of the Standing Orders committee at 10 o'clock, the Federal District Commission, and the Agriculture and Colonization.

Mr. POMMER: What time is that?

The CHAIRMAN: Standing Orders is at 10 and the others at 11 o'clock. I think if we meet at 10.30 we can probably get through in a relatively short time.

Mr. MITCHELL (*London*): Well, the one that does conflict is the Banking and Commerce committee.

The CHAIRMAN: Banking and Commerce is not sitting on Thursday.

Mr. POMMER: Agriculture and Colonization is not sitting Thursday either. It has been cancelled.

The CHAIRMAN: Well, let us set the time then at 11 o'clock on Thursday morning.

Agreed?

Can I have a motion to reduce the quorum?

Mr. CAMERON (*High Park*): Sir, I will make the motion to reduce it.

Mr. LAFLAMME: I will second it.

The CHAIRMAN: All those in favour?

Mr. MITCHELL (*London*): Mr. Chairman, before you put that motion, how many members are there on this committee?

The CHAIRMAN: Fifty.

Mr. MITCHELL (*London*): I cannot see how you expect to do any business with a quorum of 10.

The CHAIRMAN: Well, it has been the custom to reduce the quorum to ten. I did not do it at the beginning because I thought we could get along with 15, but this morning we had to wait 20 minutes before we started. Now, if the opposition is opposed to it, I have no objection, because, after all, they asked for this committee to meet, and if we cannot meet with a quorum of 15—

Mr. MITCHELL (*London*): I think the difficulty, Mr. Chairman, arises out of the conflict in the times of the various committee meetings.

The CHAIRMAN: Yes, but if we wait until nobody else is sitting we will never sit.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): 15 is less than a third of the membership.

The CHAIRMAN: Well, in view of the remarks made by the members of the opposition, I will not put the motion to a vote. We will see whether we can get along with a quorum of 15.

APRIL, 19, 1956

The CHAIRMAN: Order.

When the committee rose at its last sitting we had reached paragraph 95 of the Auditor General's report which deals with insurance.

Have you any remarks to make on that subject, Mr. Taylor?

Mr. K. W. Taylor, Deputy Minister of Finance, called:

The WITNESS: Yes sir.

The Auditor's report refers to the fact that there is no uniform practice among crown corporations in the matter of insurance. That, of course is correct.

The CHAIRMAN: For the information of the committee, Mr. Sellar's remarks are at page 98 of the printed minutes of the proceedings.

Hon. Mr. ROWE: What paragraph?

The CHAIRMAN: At page 98 of the printed minutes of the proceedings appear his remarks on paragraph 95.

The WITNESS: These crown corporations vary considerably in the nature of their operations and the nature of their assets, and the policy in respect to insurance is a matter of business judgment on the part of the directors of these corporations. For example, you have a corporation like the Central Mortgage and Housing which owns property in almost every city in Canada.

It does not carry commercial insurance. It is a self-insurer. It has its own insurance fund which is adjusted annually.

At the other extreme you have a corporation like Polymer which has many tens of millions of dollars of investment all within a square mile or so just inside the city of Sarnia. There you have a risk that is highly concentrated. Polymer does carry commercial insurance.

So, the directors of each corporation use their own best judgment as to whether it is desirable to self-insure, or to carry commercial insurance. Sometimes there is a mixture of the two. Trans-Canada Air Lines, for example is a self-insurer in respect of what you might call the more ordinary risks, but it does carry commercial insurance for what is called catastrophic losses.

The CHAIRMAN: Are there any questions on that paragraph?

By Mr. Fulton:

Q. The Auditor General asked, or, at least suggested that we might want to give consideration, as I understand it, to the suggestion in his report that there might be a uniform practice. Mr. Taylor, would it be, in your opinion, either desirable, or feasible to institute a uniform practice in this regard?—A. I suggest, Mr. Fulton, with due respect that it is probably not desirable to have a uniform policy, because you have not got uniform conditions.

I think you will find, in private business, that large corporations that operate fleets of motor vehicles scattered across the country, not uncommonly are self-insurers on the automobile risk. Others follow the policy of carrying commercial insurance.

It was at one time a director of Central Mortgage and Housing Corporation, and this matter was discussed at least once a year by the board of directors. It was pretty obvious to us that it would have been more expensive to the corporation to carry commercial insurance on its thousands of properties scattered right from coast to coast. We did not have any large volume of property within a concentrated area which involved a conflagration risk. We used to spend, in Central Mortgage and Housing, a fair amount of money on fire prevention and safety inspections, and on the record, the Central Mortgage and Housing, up to the present time, has been having extremely small losses.

Q. Whose responsibility is it in the department to which these crown corporations report—or, perhaps I should phrase my question somewhat differently. Is the responsibility of deciding as to whether insurance will be carried entirely with the board of directors of these crown corporations, or is there any residue of responsibility on the part of the ministers of the departments to which those corporations report, for example, in this question of insurance? What I am trying to get at is, where does the responsibility rest, and how can this committee, or parliament be certain that there is some supervision of the problem?—A. The responsibility rests, in the first instance, with the board of directors of each individual corporation. These crown companies report to a number of different ministers, certain of them to the Minister of Trade and Commerce, others to the Minister of Transport, the Minister of Public Works and so on. The minister to whom they report has a responsibility to parliament for the proper and sensible management of the corporation.

I would suppose that the minister, certainly, has a right to refer this matter back to the board of directors and ask them to reconsider it, if he thinks, in his judgment, that the policy they are following is of doubtful wisdom.

Hon. Mr. ROWE: You say it might not be desirable to have a more uniform practice. The basis of insurance being on the risks involved, for instance, there are certain types of insurance that cost a lot more than others; is that

not the principle of insurance, as such? I mean, I cannot see how it cannot be advisable to have a more uniform policy of insurance through the government, carry their own risks, generally from insuring with—I mean, I cannot see how the principles of insurance, how you apply it to one part of your property and not to another, spread over the whole list of crown companies.

The CHAIRMAN: I think Mr. Taylor explained that to a certain extent, but if you like he can go over it in more detail.

The WITNESS: Members of the committee will recall about two or three years ago the government introducing the fire losses replacement account, by legislation in the house, to get a better system of reporting fire losses on government property per se. I think we did discuss this matter with all the crown companies, and invited them to express views. We found it would be very difficult for us from a treasury point of view to establish rates of insurance on the great varieties of property. If we had a flat rate, the directors of corporations that had high risks would probably come in, and those that had low risks might stay out.

By Hon. Mr. Rowe:

Q. Pardon me, maybe I am misunderstanding you, but you mean for the government to take the risk?—A. Yes.

Q. It would be the government that would be insuring the crown corporations on that basis?—A. Yes. We raised the question whether they would like to carry their insurance with the government. It raises the problem of the valuation of the property of some of the highly technical operations such as Chalk River and Polymer.

I have not got an up-to-date list here, but I have one that we prepared, two years ago, of all the crown companies, as to how they handle their insurance; generally speaking, those corporations that have a great variety of property scattered over a wide territory in many provinces, are self-insurers. The others that have all their property in one location, all their eggs in one basket, generally speaking carry commercial insurance.

By Mr. Weaver:

Q. Mr. Chairman, as I read this report of the Auditor General, he did not recommend a general coverage. It is only, as Mr. Taylor says, where a crown company is concentrated in a particular area, and where with respect to its financial position it might be seriously impaired by a local catastrophe?—A. Yes.

Q. That is what you are saying?—A. Yes.

By Mr. Harkness:

Q. It was pointed out by Mr. Sellar that that does not apply in some cases. One of the largest of the crown corporations is the example he gave, Canadian Arsenals, which has machinery and equipment and so forth to the total of about \$60 million at more or less the one place, and it is not insured.—A. In the case of Canadian Arsenals, sir, the property does not belong to Canadian Arsenals; it belongs to Her Majesty; it belongs to the government of Canada, and they, only, use it. So, if there was a fire loss in Canadian Arsenals, a machinery and equipment loss, it would be a burden on the government of Canada, and not on Canadian Arsenals.

The CHAIRMAN: And the policy of the government, if I understand it correctly, is not to insure?

The WITNESS: The government of Canada does not insure its own property.

Hon. Mr. ROWE: It does not insure it?

The WITNESS: It does not insure its own property.

The CHAIRMAN: Mr. Taylor, paragraph 96 of the Auditor General's report deals with the surplus of cash and securities that are held by the different crown corporations. He quotes from section 81 of the Financial Administration Act, and made certain remarks when he was before the committee, which will be found at page 111 of the printed report of proceedings.

Have you any remarks on that subject, Mr. Taylor?

The WITNESS: The Department of Finance keeps in close touch with the crown companies in relation to their cash position. Section 81 of the Financial Administration Act which was quoted by the Auditor General, deals with two separate aspects. The first, subsection (2), provides that a crown company may, in a sense, use the consolidated revenue fund as a banking account. It may deposit its money with the Receiver General, and that money may be withdrawn when the corporation requires it.

Some of the corporations make use of that device when they have funds advanced by parliament, and they do not need the money right away. They leave it on deposit with us until such time as they require it.

Subsection (3) provides that the Minister of Finance, and the appropriate minister—that is the minister to which the corporation reports—may, if they think the corporation is maintaining excessive cash balances, direct the corporation to pay over part of the cash balances to the Receiver General, in a sense forcing the declaration of a dividend. The amount of cash held by the various corporations sometimes of course is quite large. The details are to be found in volume II of the public accounts where the balance sheets and income and expenditure statements of all the corporations are set out in detail along with the auditor's certificate.

I could comment on a number of larger items. For example on page 111, Canadian Arsenals had nearly \$13 million in cash at March 31st, 1955. As a matter of fact, they paid over to the Receiver General of Canada approximately \$6 million a few days later. That was a paying over to the Receiver General of their entire surplus for the year which was \$5½ million plus another half million or so made up of other financial items.

By Mr. Fulton:

Q. Was that paid over under section 2 or under section 3?—A. It was a declaration of dividend by the directors. We did not order them to pay it over. They normally do pay us their annual surplus at the conclusion of their fiscal year. So a few days after that date their cash balance was down to something of the order of \$6 million. They have a volume of sales or operations running between \$80 million and \$90 million a year, so the \$6 million remaining after they paid over their operating surplus would be about one month's requirements.

By the Chairman:

Q. Who would the sales be made to in general?—A. Canadian Arsenal sales are almost all made to the government of Canada.

Q. That is what I thought.—A. To defence production; I believe the sales would be almost all made to the government of Canada. Some might be conveyed to foreign governments under NATO.

Q. But in the first instance they would all be made to the government of Canada?—A. Yes.

Mr. H. R. BALLS (*Director of Financial Administration and Accounting Policy Division*): There may be some cases where contracts would be negotiated with foreign governments, possibly through Canadian Commercial Corporation and other crown corporations, but the bulk of them certainly would be with the government of Canada.

The WITNESS: If you look at their balance sheet for accounts receivable as of March 31st, \$3 million was receivable from the government of Canada and \$3 million from the Canadian Commercial Corporation. That latter \$3 million would probably be for foreign governments.

By Mr. Harkness:

Q. The \$6 million which they retained was necessary to produce supplies before they received returns; it was in the form of working capital?—A. Our view was that it was a reasonable working cash balance for a corporation of this size.

The next item is Canadian National Railways with \$18 million in cash and \$28 million in bonds and short-term investments. The monthly expenditures of the Canadian National Railways would be between \$55 million and \$60 million—and that again in our judgment, would not be an unreasonable amount of cash or of short-term securities for them to be carrying at any given time.

By the Chairman:

Q. How would that figure compare with their monthly operating revenues?—A. Their monthly operating revenue is of the order of \$60 million. Annually it is almost \$640 million. So \$55 million would be about their monthly revenue.

Q. That amount of \$46 million would be a good deal less than the monthly revenue of the railways?—A. Yes.

Hon. Mr. ROWE: Have you considered the Canadian Broadcasting Corporation's \$15 million?

The CHAIRMAN: Have we finished with the Canadian National Railways?

The WITNESS: Yes. That is all I have to say. I do not know the details. The Canadian National Railways may have had obligations coming up within the next month or so for the purchase of diesels or something else; I do not know the exact details.

But as to the Broadcasting Corporation on page 46 of volume II—according to the details of accounts, they had cash of \$5,700,000 in round figures, and they had investments in government bonds of about \$9½ million. These funds were, in large measure, being held for the development of their capital expansion of television and other services and were being drawn down from month to month as they were required. The actual operating expenses as shown on page 47 run something like \$2½ million to \$3 million per month.

By Mr. Harkness:

Q. Their cash and bonds are very much greater in proportion to the business they do than would be the case with Canadian Arsenals or the Canadian National Railways.—A. Yes, and I think they have been expanding their capital program, or were doing so at that time, in television quite rapidly.

Q. Is not the situation there probably due to the fact that they first expect these taxes on television sets and radio and so forth, and they got in a considerable amount more than they required for the year's operation, and therefore I presume they put the \$10 million of surplus into government bonds.—A. They had an excess of income over expenditure that year of \$4½ million.

By Mr. Applewhaite:

Q. Does that include capital expenditures?—A. That is income over expenditures.

Q. Not including capital?

By Mr. Harkness:

Q. That would be the way in which this \$9 million originated, I presume?
—A. I think so.

Q. The idea I am trying to get at is this: instead of turning that money back to the government and having to get a grant at some later time, they are allowed to retain it for use in making capital expenditures.—A. They could have done one of two things: they might have deposited it under subsection (2) of section 81 as a banking operation, but it was thought to be more profitable to them to invest it in short-term government bonds.

By Mr. Fulton:

Q. When that came under your review, was it considered that is was an appropriate amount for the corporation to have?—A. Yes, having regard to their commitments and so on.

Q. The C.B.C. has considerable liabilities to the government, has it not in the way of advances and loans?—A. Yes; they show \$19 million of government loans and \$4 million as a reserve for capital expansion, and they had a surplus at that time of about \$10 million.

Q. When they show an excess of income over expenditures of \$4 million on a year's operation, and on an operation of total expenditure in the neighbourhood of \$30 million, would that not normally be a time when you might expect them— or properly ask them if they did not—or would not properly expect them to make some return and discharge some of these advances, and their obligations for these advances?—A. The loans by the government of Canada are on term debentures which have a definite maturity date.

Q. All of them; that is the whole \$19 million of loans is secured by debentures?—A. That is right.

Q. There are no short term advances then?—A. Perhaps Mr. Balls who is the man who goes into the details might answer you.

Mr. BALLS: I have not the particulars with me but they are all covered by debentures or notes, and my understanding is that the repayment of these loans is to be made annually commencing, I think, around 1959 or 1960. In other words, the loans were made to permit the capital expansion of television and radio services, and when the expansion of the services has been completed and the capital expenditures made, there is provision for the repayment of the loans annually over a period of some fifteen to twenty years.

By Mr. Harkness:

Q. Have you reason to believe that there is any good possibility of these loans being repaid?—A. Yes, I think so.

Q. Well, the situation as far as the Canadian Broadcasting Corporation is concerned, as I understand it, is that the income to them from this portion of the sales tax on radio and television sets is now rapidly falling off. Therefore they are likely to be in a position of having a considerable deficit.—A. I am not prepared to go into financial forecasting of the Canadian Broadcasting Corporation's operations. A royal commission has been appointed to study that, among other things.

Q. I do not think it is a matter of particular forecasting; I think that the situation has already been announced and that is part of the reason why the royal commission is meeting, I presume.

The CHAIRMAN: I have one question to ask. It might interest the committee to know in what form that financing was done. Did the C.B.C. make a bond issue, with a certain amount of the bond issue coming due in certain years, and would that apply to the \$19 million?

Mr. BALLS: From time to time under the authority of parliament, under items in the Appropriation Acts, the government was authorized to make

loans to the C.B.C. As part of the terms of the particular loan, in the item in the appropriation act, it was usually provided that the loan would be made on terms and conditions to be approved by the governor in council. Those terms and conditions, as approved by the governor in council, included provision for the repayment of the amounts loaned on the basis which I indicated to Mr. Fulton. My recollection is that each loan is secured by a promissory note for a debenture of the corporation.

Hon. Mr. ROWE: None of them are due?

Mr. BALLS: None of them have as yet fallen due.

The WITNESS: They pay interest, but the repayment of the principal does not start until three or four years from now?

Mr. APPLEWHAITE: In the C.B.C.'s income and expenditure account on page 47, there are two items totalling over \$27 million on income, meaning grants. Is it open to the C.B.C. to utilize any of those funds for capital expenditures, or are those funds surely for the operations which you mentioned?

Mr. BALLS: These moneys are granted to the corporation under the terms of section 14 (3) and (4) of the Canadian Broadcasting Act and I think are available for the purposes of the corporation, both for operating as well as capital expenditure.

Mr. APPLEWHAITE: What I am trying to get at is this; if you include as income sums which have been granted by parliament and which might be used for capital expenditures, then you are showing a surplus of \$4 million which actually is not an operational surplus, if part of the income shown should really be shown as grants for capital. Would you correct me if that is wrong?

Mr. BALLS: The statement of income and expenditures of the C.B.C. does treat the moneys received from these sources as income of the corporation; they represent moneys received for the general purpose of the corporation. I think the point is that in the first instance they are applied to meet the operating requirements of the corporation, and any sums remaining over therefrom are available to the corporation for the financing of its capital requirements.

Mr. APPLEWHAITE: It would have been legal then for the corporation to have spent that \$4 million on a new station, would it not?

Mr. BALLS: That is correct; but you must, I think, bear in mind in that connection that the corporation is required under the terms of the Financial Administration Act to submit a capital budget for each financial year, and that capital budget is approved by the governor in council on the recommendation of the minister for the Canadian Broadcasting Corporation, and the Minister of Finance, and it is subsequently laid before parliament. You will find the requirement in section 80 of the Parliament Administration Act that the capital program of the corporation be tabled in the House of Commons annually.

Mr. APPLEWHAITE: Let us suppose that they had spent the \$4 million on new stations during that year. What surplus would they then have shown?

Mr. H. R. BALLS: I think they would have shown an operating surplus just as they have it here, but the cash and investments of the corporation would have then been reduced by the amount which they had spent for their fixed or physical assets—in other words, by the amount used to acquire new television stations and other property.

Mr. FULTON: Their surplus would then have been reduced from some \$10 million to \$6 million.

Mr. BALLS: I think that the excess of income over expenditures for the year would have stayed at \$4½ million, as reported, but the amount of the

assets of the corporation held in the form of cash and bonds would have been reduced by an amount equivalent to the increase in their physical assets.

Mr. APPLEWHAITE: Is it fair to say that they are showing an operating surplus which is composed of parliamentary or statutory grants which can be used for capital purposes?

Mr. BALLS: I think that is a correct statement.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. Is the word "income" not synonymous with "receipts"?

Mr. BALLS: Under section 14 (3) and (4) parliament has provided certain funds to the C.B.C. for the general purposes of the corporation, and when it prepares its annual budget, the C.B.C., like other crown corporations indicates what it proposes to expend on capital during the course of the year and also the source of the funds which it will be spending on capital.

Many crown corporations will use such surplus funds for capital expansion, and that is true of any corporation which may invest its earnings in additional capital. The amount of \$6½ million is the annual grant for sound broadcasting, while the \$21,400,000 is the revenue from the 15 per cent tax on radio and television sets and tubes, and so on. Those are funds the corporation may use for both general and capital purposes.

The CHAIRMAN: I think for the record I ought to draw your attention, Mr. Taylor, to the fact that the statement on page 47 of volume II is only a statement of income and expenditures and not an operating profit statement. As Mr. Applewhaite mentioned in the question which he asked about the \$4 million; Mr. Applewhaite asked whether the \$4 million was included in the operating profits. This statement does not show any operating profit. It is just a statement of income and expenditure from all sources, not only from operations but also from grants. They are distinguished there.

The WITNESS: Yes.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. Is not the word "income" there synonymous with the "revenues"? Should it not be excess of receipts over expenditures, and only receipts are included, grants from the government?

The CHAIRMAN: I think that is so.

The WITNESS: If in that year they had drawn down a loan as such for that \$19 million, that would not be included in income; that would be regarded as borrowing.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): It is not a revenue and expenditure account; it is just a receipt and expenditure account, showing what the C.B.C. is receiving in money and grants together; it is not an operating surplus; it should be called "excess over expenditures" instead of "income over expenditures".

The CHAIRMAN: That is the point!

By Mr. Applewhaite:

Q. Is that \$6 million odd an engineering expenditure? Is that on operating or is it part of capital?—A. I presume it is operating. On page 45 we have the Auditor General's statements that he believes these accounts are all in order. It is included in the Auditor General's certificate.

Q. I am not suggesting that they are not in order. I am trying to get it clear in my mind what they mean. Do they mean that the \$6 million is for engineering or for operating? Then we have shown on the income side moneys available for capital expenditure, and you have it on the expenditures

side with no capital expenditures.—A. The grants under section 14 (3) and (4) are funds put at the disposal of the corporation for their general purposes. They are not loans; they are not to be repaid.

Q. Are they gifts?—A. They are income.

Hon. Mr. ROWE: Could you not call them gifts?

Mr. APPLEWHAITE: I was told that they are available for capital expenditures if the C.B.C. so wishes.

The WITNESS: Yes.

By Mr. Harkness:

Q. Would not some of this \$6 million for engineering be actual capital expenditure? I do not see any capital expenditure anywhere else and there is no doubt that the C.B.C. did put money into the building of television stations in that year, so some of that money must have been for capital engineering.

Mr. BALLS: This is a statement of income and expenditure representing on the income side moneys which have been received by the corporation from all sources for these purposes during the year; while on the expenditure side it records the expenditures which have been made for the operation and maintenance of the activities of the C.B.C. This is, I think, quite comparable to a statement of income and expenditure of any other commercial corporation. If a private corporation had an excess of income over expenditures on operating account, then the excess would in that case also be available for capital expansion. That is, in essence, what the C.B.C. is showing in this case.

Mr. HARKNESS: Where does their expenditure for capital purposes appear? I do not see it here at all.

Mr. BALLS: It would be reflected in the difference between the amount shown at the end of the preceding year as spent on these capital assets, and the amount shown at the end of this year. In other words, the amount by which the capital assets of the corporation as shown in the balance sheet was increased during the year, taking into account any amount in connection with depreciation. You will find in schedule A on page 48 of volume II of the public accounts, a listing of the capital assets of the corporation up to March 31, 1955, and the amount given is \$20,646,244. If you compared these figures with the amounts at the end of the preceding fiscal year, I think you would find that the C.B.C. reported an increase.

Mr. HARKNESS: Have you got that figure?

Mr. BALLS: I am sorry but I have not got the preceding year's Public Accounts before me.

By Mr. McLeod:

Q. Some of us are interested in operating costs and what it has cost the people of Canada to provide this service to them. I would eliminate these grants from income; whereupon we see that the total income exclusive of the grants from the government, which I understand come from taxes on equipment sold—that it would leave an income of \$7,015,841. And that you might put down to operating expense; and in that I have eliminated the loan items, interest on loan, amortization of improvements and so on; and we have an operating cost of \$28,425,422. In other words it cost us that amount of money to provide the service; and on income from services the profit was a little over \$7 million. So we find that the operating loss is actually \$21,409,581; that is what has to be provided by way of this tax income, and that is all. There are no further grants, and the people of Canada have to pay almost \$21 million to provide this service. Am I right?—A. We are dealing now with the accounts of the C.B.C. Parliament has provided them with a certain source of income and other sources of income are shown. Your arithmetic is quite correct.

Hon. Mr. ROWE: It seems to be a little misleading when you term it as "source of income"; it is really a grant, because of the loan.

The CHAIRMAN: It is not misleading because the word "grant" appears in both, it is mentioned in the first two lines of the statement of income and expenditures. It says:

Grant under section 14 (3) of the act . . ." and it says "grant under section 14 (4) of the act . . .

There is nothing misleading in that, with all due respect to you, Mr. Rowe.

Hon. Mr. ROWE: Their income sounds as though it was income which is operating income.

The CHAIRMAN: Grant sounds as if it is a grant, does it not. You have the word "grant" right there in the statement!

By Mr. Applewhaite:

Q. I believe that the heading of the statement should be changed to read "statement of receipts and disbursements".—A. It does not include receipts from loans.

By Mr. Harkness:

Q. This all stems back to the point that this corporation is entirely different from such a corporation as Polymer where the receipts are due to sales, whereas in this corporation these receipts are really due to grants and taxes which are assigned by parliament. As Mr. McLeod has pointed out, it is supported at public expense through taxes.

The CHAIRMAN: And in the public interest!

Mr. HARKNESS: Well, yes.

The CHAIRMAN: You cannot compare it to Polymer Corporation. It is not like Polymer. It supplies services to the people and those services cost money.

Mr. HARKNESS: I said that it was in quite a different situation to a corporation like Polymer.

The CHAIRMAN: I think you compared it to Polymer and you drew that conclusion.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): Shouldn't it say that these receipts come from special taxes?

The CHAIRMAN: It says so right there.

By Mr. Fulton:

Q. This all arose out of the question whether it would not be appropriate to suggest to the C.B.C. that they turn over to the Receiver General some of this quite large capital, this accumulated capital surplus, they now have, and then we go a little aside from that in our discussion.—A. All I can reply to that, Mr. Fulton, is the two ministers concerned, having regard to the future commitments of the corporation for expansion of services during the subsequent periods, after March 31, 1955, came to the conclusion that there was not an excess of cash which the corporation should be required to surrender.

Q. I take it from that the two ministers anticipate a deficit in C.B.C.?—A. No. There are very large capital expenditure programs.

The CHAIRMAN: And particularly at that time, a large capital expenditure program was the development of television.

Mr. FULTON: This is 1955; and I notice at page 48 of volume II, the capital works in progress are in the order of \$438,001. That is not a very substantial item.

The CHAIRMAN: Which page?

Mr. FULTON: Page 48 of volume II, the last entry, capital works and progress, \$438,001.

The CHAIRMAN: That was the 31st of March, 1955, and I suppose most of them had been completed that year.

Mr. FULTON: That is my point. If most of them had been completed, it seems to me there is a surplus on hand, a total accumulated surplus of \$10,772,000 according to the books. Then, actual cash in bonds of \$15,000,000. I was wondering what future provision or requirement is anticipated that would support the decision that that money should be left in the hands of the corporation?

Mr. BALLS: There are two points in regard to that, Mr. Chairman. One is: the \$438,000 which Mr. Fulton refers to represents the portion of the capital works in progress at the end of the fiscal year which could not have been allocated at that time to the various categories above.

The second point is: this was fairly early in the stage of the development of the television service of the corporation. There were at that time, as I recall, fairly substantial commitments in connection with the capital program and the cash disbursements would be made subsequently. Since the date of this particular financial statement there have been very large expenditures made, and the balances of the corporation have been drawn down considerably.

By Mr. Fulton:

Q. Just so that we can complete the picture, have you got any information, can you give us some idea of the—A. I am sorry, I have not got the material before me I think the officers of the corporation would have to be called.

The CHAIRMAN: We would have to get someone from the corporation for that further information.

The next item in this list on page 111 is the Central Mortgage and Housing, \$6,493,000. Have you any remarks about the adequacy of that amount being held in surplus?

The WITNESS: On page 84 of volume II, the cash there is shown as \$2,800,000, in a corporation which has not far short of \$700 million assets and liabilities, and their annual operating costs are in the order of \$15 million. They, of course, have substantial funds they are paying out from month to month on loans. They also have a large number of regional offices which have to be kept in funds, and they have local bank accounts for these various regions.

Hon. Mr. ROWE: That would appear almost inadequate, then?

The CHAIRMAN: That is only cash, of course, that \$2 million. There are \$6 million in cash and securities there, in all.

The WITNESS: Yes, they have reserves. Part of that reserve would be the—no, they had not started the insuring of mortgages. That was December 31st, 1954 before it started. The insuring of mortgages had not got under way at that time.

Hon. Mr. ROWE: It still looks as small as the other does large.

The CHAIRMAN: Well, that is a matter of opinion.

Hon. Mr. ROWE: That is my opinion.

The WITNESS: Of course, on their loans, they do not borrow their annual requirements in a lump sum; they borrow from month to month as they require it. If they have large disbursement on mortgage account they can come to us, and in 48 hours get another \$5 million.

The CHAIRMAN: The next item is the Crown Assets Disposal Corporation.

The WITNESS: Crown Assets Disposal Corporation has nearly \$2 million in cash. I might say, this was one case where we did feel that they were a little on the excess side, and after discussions with the officials of Crown Assets Disposal they made a payment of \$500,000 to the Receiver General a few months after the close of their fiscal year, reducing their cash balance by that amount.

Hon. Mr. ROWE: They would hold then \$1½ million?

The WITNESS: Yes. Their cash balance, of course, fluctuated from time to time. That is on page 19, is it not? Of course, of their \$1,900,000, \$800,000 was in their agency account. They had, what you might call a free balance of \$1,164,000; shortly after they paid us half a million of that.

The CHAIRMAN: Now the item Eldorado Mining and Refining, that is \$5,000,000 cash.

The WITNESS: That corporation had a very extensive capital program actually under way at that time, and that did not seem to us to be an unreasonable cash balance to be carried.

The Export Credits Insurance Corporation has a cash balance which is quite moderate, \$400,000. They have in addition some \$12,000,000 in government bonds. That, of course, is the capital of the insurance corporation which was provided by the government when the corporation was formed, and that is really their underwriting reserve, which they maintain in government bonds, and have over a great many years.

The CHAIRMAN: The next large item is the National Harbours Board.

By Mr. Fulton:

Q. Excuse me, Mr. Chairman. The assets and liabilities of the export credits, on page 97 of Volume II, shows an authorized capital of \$15,000,000, and an issued capital of \$10,000,000, but they have bonds in the amount of \$12,000,000.—A. Yes. The other \$2,000,000 is their accumulated underwriting reserve, or accumulated operating profit over the last 10 years.

Q. Would I be correct in saying that they would have pretty heavy contingent liabilities?—A. Yes. I forget the amount, but it is up in the tens of millions. The insurance in force at any given time is of the order of \$30 million or \$40 million.

Q. The \$2,000,000 available cash reserve, then, would not, you feel, be in any way excessive in view of that contingent liability. Would that be your thinking?—A. No, I do not think so.

I am a director of the Export Credits Insurance Corporation, and we have on occasion had to pay out \$2 or \$3 million in the course of a few months.

Of course, the big risk we insure against is on blocked currency.

A couple of years ago, Brazil was in exchange difficulties. The Brazilian importers had deposited their payments in the Bank of Brazil, but they could not get it transferred out of the country, and we had to pay Canadian exporters in dollars. In the case of Brazil we were finally paid in dollars over two or three years. Then more recently Turkey, got into exchange difficulties. We had large exports of farm machinery to Turkey, which we had insured. Again we have the Turkish funds deposited in Turkey, but the Canadian exporter cannot get Canadian dollars, so we have had to pay them. We have had to pay out several millions of dollars. Undoubtedly we will get the money back in due course, in instalments as the Turkish government finds it possible to make foreign exchange available.

The CHAIRMAN: Now the National Harbours Board, Mr. Taylor.

The WITNESS: National Harbours Board, that is on page 38 of volume II.

By Hon. Mr. Rowe:

Q. It is as large as the national railways, \$40,000,000?—A. Well, I should explain there first of all that this is a large operation. The cash on hand, having regard to their operations and the nature of them, it seems to us to be reasonable.

The \$40 million of investment is in fact their reserve fund, which you will see on the left hand column of page 38. They have a reserve fund of \$38 million for the replacement of capital assets, \$2,250,000 for their fire and general insurance and so on.

The National Harbours Board maintain their own reserve in that way, and have invested these reserves in government bonds. This is, in fact where they keep their replacement or depreciation reserve.

The CHAIRMAN: In the case of a large fire, I suppose they rebuild out of that fund without asking the government for funds?

The WITNESS: That would be covered from the fire reserve, but there are, undoubtedly properties of the National Harbours Board which are quite old and will have to be replaced at a major expense; and they would not come to the government for these funds. They would draw out of this replacement fund.

By Hon. Mr. Rowe:

Q. Is that now an unusual amount of increase over former years due to development in harbours?

Mr. BALLS: This has been built up gradually over the years by the board with some consideration for their future requirements for the replacement of capital assets. I do not think it is an unreasonable amount.

The WITNESS: The capital assets are \$245 million.

By Mr. Fulton:

Q. The total accumulated depreciation is \$62 million, is it not? They do not have a cash depreciation fund, this is their total book depreciation?—A. No.

Q. And that is the nature of these loans and advances of \$197 million from the government of Canada? There is, in other words, nothing on hand at the moment to meet that at all, is there?—A. There are the physical assets, there is this \$250 million of works.

Q. Yes, but in view of what you said there is no free cash balance to apply towards that, is there?—A. No.

Q. I understood you to say this \$46 million is pretty well entirely accounted for by depreciation reserve, plus the insurance. The total in the reserve fund is \$41,676,000, so there is about \$5 million there, is there not?—A. The replacement reserve is just a bookkeeping entry; there is no cash involved, at this particular point. However over a period of years, \$38 million out of operating revenues, was invested in funds which they can sell, and the proceeds can be used to finance major replacements when the occasion requires.

Q. Yes, but my point, Mr. Taylor is, that on page 111 it shows them having a total in cash and securities of \$46 million.—A. Yes.

Q. On page 38 of volume 2 it shows their reserve fund of the listed assets as \$41,676,000, which would seem to leave a free, what I am calling,—probably by the wrong technical term,—but a free cash balance of some \$5 million.—A. It shows at the top of the page \$4,700,000 as the cash on hand.

Q. It is felt that that sort of relationship is regarded, as compared to their requirements, normal?—A. It was not unreasonable.

The CHAIRMAN: The accounts payable on page 38 again, Mr. Taylor, are \$4,484,000; they are almost as high as the cash on hand?

The WITNESS: Yes.

The CHAIRMAN: So I would conclude there that the amount of cash on hand is certainly not unreasonable.

The WITNESS: Yes.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): What about the item on the estimates there with regard to the Jacques Cartier bridge? Is the Jacques Cartier bridge at Montreal a paying proposition; is it meeting expenses? The reason for that question is, I see, that there is due from the province of Quebec, under agreement, to share the Jacques Cartier bridge, \$744,425. How long back does this amount date?

The WITNESS: I am afraid I cannot say, sir. I think you would have to ask the Harbours Board. I did not bring with me a complete file on every crown corporation.

The CHAIRMAN: Now, that completes pretty well the examination of the—

Mr. HARKNESS: I would like to ask; in the Northern Transportation, they show cash on hand of nearly \$2,500,000. I happen to know that they have had quite large profits for several years. They have during that period renewed their fleet of tugs and barges, which they have, and I think it shows in the report, pretty well depreciated. What is the necessity of their holding this amount of cash?

The WITNESS: Well, sir, in the year immediately following the financial statement, they had very heavy cash disbursements for capital expenditure, because they are playing a very active part in the servicing of the contractors on the DEW line. They were to acquire a substantial number of additional barges and other forms of transportation for the servicing of that very large and new activity.

The CHAIRMAN: Well, gentlemen, that completes pretty well the larger items that are—

By Mr. Harkness:

Q. There is the one item of Polymer. What is the situation there?—
A. That, sir, is on page 106.

I appreciate the fact that Polymer have put in comparable figures for the preceding year. They had cash at the close of their fiscal year of \$3,000,000. They had short-term investments of \$2,000,000, so they had liquid assets of about \$5,000,000. They had current liabilities of almost the same amount. Their total sales in the year were \$53,000,000 which, again, would indicate a not unreasonable relation between the scale of operations and the cash on hand. It may well have been that there were other capital expenditure programs; I cannot say.

Mr. Balls tells me they also had an expansion program at the time for which the cash was required. I understand a dividend was paid just after the end of the financial year. They paid a dividend of \$3,000,000 shortly after the close of the year.

Q. Well, that figure should then be really reduced by the amount of \$3,000,000?—A. No. I am sorry, the \$3,000,000 was for the full year. They pay us a quarterly dividend of less than one-quarter of \$3,000,000, and then after the close of the fiscal year give us a special dividend. My recollection is, and I might be wrong, that they paid us \$500,000 quarterly, and \$1,000,000 at the end of the year.

The CHAIRMAN: Well, as I have tried to say twice before, this seems to complete pretty well the explanations concerning the balances in the crown

corporations to which Mr. Sellar drew our attention under section 96 of his report. Are there any more questions anybody in the committee wants to ask?

If not, we might adjourn.

Mr. Taylor, I think I will be expressing the opinion of everybody in the committee here in thanking you and Mr. Balls for attending, and thanking you both for the very interesting and full explanations you have given us.

HOUSE OF COMMONS
Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, MAY 10, 1956

WITNESS:

Mr. R. G. Robertson, Deputy Minister, Department of Northern Affairs
and National Resources.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,

and Messrs.

Anderson	Hanna	Mitchell (<i>Sudbury</i>)
Applewhaite	Harkness	Monteith
Argue	Henderson	Nowlan
Ashbourne	Hollingworth	Pommer
Balcer	Hollowach	Poulin
Beaudry	Houck	Power (<i>St. John's West</i>)
Boisvert	Kickham	Proudfoot
Breton	Kirk (<i>Antigonish-</i>	Rea
Bruneau	<i>Guysborough</i>)	Regier
Buchanan (1)	Laflamme	Rowe
Cavers	Leduc (<i>Jacques Cartier-</i>	Schneider
Cloutier	<i>Lasalle</i>)	Stewart (<i>Winnipeg</i>
Denis	Maltais	<i>North</i>) (2)
Fulton	McGregor	Thomas
Goode	McLeod	Tucker
Hamilton (<i>Notre Dame</i>	McWilliam	Van Horne
<i>de Grâce</i>)	Menard	Weaver
		Zaplitny

Antonio Plouffe,
Clerk of the Committee.

(1) To replace Mr. Balcom as of April 13.

(2) To replace Mr. Noseworthy deceased on March 31.

ORDERS OF REFERENCE

THURSDAY, May 10, 1956.

Ordered,—That the quorum of the said Committee be reduced from 15 to 12 Members and that Standing Order 65(1) (e) be suspended in relation thereto.

Attest.

FRIDAY, April 20, 1956.

Ordered,—That the name of Mr. Rea be substituted for that of Mr. Mitchell (*London*), on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

THURSDAY, May 10, 1956.

The Standing Committee on Public Accounts begs leave to present the following as its

SECOND REPORT

Your Committee recommends:

That its quorum be reduced from 15 to 12 members and that Standing Order 65(1) (e) be suspended in relation thereto.

Respectfully submitted,

Sgd. (CHARLES A. CANNON)
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, May 10, 1956.

(9)

The Standing Committee on Public Accounts met this day at 11 o'clock. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Ashbourne, Cameron (*High Park*), Cavers, Harkness, Henderson, Hollingworth, Holowach, Leduc (*Jacques Cartier-Lasalle*), Menard, Mitchell (*Sudbury*), Monteith, Pommer, Poulin, Schneider, Thomas and Weaver. (19)

In attendance: Mr. R. G. Robertson, Deputy Minister; Mr. F. J. G. Cunningham, Director, Northern Administration and Lands Branch; Mr. F. A. G. Carter, Administrative Officer; Mr. M. A. Packwood, Supplies and Shipping, Department of Northern Affairs and National Resources.

The Committee resumed its examination of the Public Accounts (1955), particularly paragraphs 34 and 45 of the Auditor General's Report thereon, dealing with the Department of Northern Affairs and National Resources. Mr. Robertson was called and made a statement on the above-mentioned paragraphs and was questioned.

The Chairman expressed to Mr. Robertson and his officials the appreciation of the Committee.

Mr. Robertson was retired.

On motion of Mr. Cavers, seconded by Mr. Schneider,

Resolved,—That a recommendation be made to the House to reduce the quorum from 15 to 12 members.

Before adjournment, the Chairman asked those members of the Subcommittee on Agenda and Procedure present to kindly remain for a short meeting.

At 12.15 o'clock p.m., the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of the Committee.

EVIDENCE

MAY 10, 1956.

The CHAIRMAN: Order gentlemen, we have a quorum. The business of this meeting is in connection with paragraphs 34 and 45 of the Auditor General's report. In paragraph 34 he refers to the Department of Northern Affairs and National Resources and he has this to say:

With respect to payments approximating \$60,000 recorded as expenditures on the strength of the certificates, it was observed that charges were made to the old year's vote although (a) no deliveries were made to railhead until late in April, (b) some cheques bearing an April date were released only on 10 May, and (c) a further 75 cheques totalling \$55,746 were drawn in April of which 28, representing \$8,660, were still being held at the time the audit was completed in August.

We have with us this morning Mr. R. G. Robertson, Deputy Minister for Northern Affairs, Mr. F. J. G. Cunningham, Director, Northern Administration and Lands Branch, Mr. F. A. G. Carter, Administrative Officer and Mr. M. A. Packwood who is connected with supplies and shipping. These gentlemen are here to give the committee all necessary and useful explanations concerning the matters brought up in Mr. Sellar's report.

Mr. R. G. Robertson, Deputy Minister, Northern Affairs, called:

The WITNESS: Mr. Chairman and gentlemen. My purpose in this statement will be to try to explain in part what the procedures are in regard to purchases and supplies of the Northern Administration and Lands Branch and particularly to deal with the points which are made in the Auditor General's report.

At the outset, perhaps I should say that the comments of the Auditor General in paragraph 34 which you have just heard are entirely correct and accurate. We do not dispute the accuracy of them in any way.

What I wish to make clear in the course of my statement will be in the first place the background of the operations of the Northern Administration and Lands Branch which requires or has required certain procedures to be followed. In the second place, I wish to make it clear that in no case has payment been made for any item which was not delivered or shipped before March 31 of the relevant year, that is March 31, 1955. The third main point is that no part of the procedure which has been followed, which was followed in that year, is in any way an infringement of the Financial Administration Act or of any rule or regulation of the treasury under that act.

If I may, Mr. Chairman, I could give some general background on the operations, which may explain the position.

The CHAIRMAN: I think that would be a good idea.

The WITNESS: In the first place for most departments there is a certain measure of specialization. For the Northern Administration Branch, operating in the north, there is almost no specialization: it deals with almost every aspect of life in almost every part of the north. It runs schools, operates a reindeer herd, builds roads and buildings, provides relief to Eskimos and does virtually everything you could think of in regard to all aspects of life in the north.

The range of supplies which have to be ordered and shipped by the branch go from Pabulum for Eskimo babies on to an \$800,000 rock crusher at Aklavik, from appointment for reindeers to electric generators and from creosote to wolf traps. Everything comes into the picture. It covers an area beyond Great Whale river on the southeast corner of Hudson Bay which is the furthest south and as far north as Craig Harbour on Ellesmere Island and from the east coast of Baffin Island as far west as the western part of the Yukon. It covers all this range of items and all that range of area.

In that entire area there are only, with a few minor exceptions, two means of transportation—one is air, which is too expensive for most supply services and the other is water. Virtually all the supplies go by water. To the eastern Arctic the supplies go from Montreal and the shipment begins usually in July and ends in September. There is a three month period in which all shipments must be made. For the western Arctic the shipments usually go from Waterways, Alberta, via the Slave-Mackenzie river system. The Great Slave lake usually opens about June and the Mackenzie river begins to freeze about September, so again there is about a three months' transport season, in which everything of this variety has to be moved. This complicates the situation, but in addition to that for all the construction projects there is only about a three months' construction season. It may be four months, dependent on the particular location with which one is dealing. Therefore, on any construction item to be handled in the north, there are the hazards of a short transportation season and a difficult transportation system. There is usually no storage available at the place to which the shipment is going, so items have to be shipped to try to get there at the time at which they will be required and not get there too far in advance. There is the problem of inadequate labour force with very little flexibility. Usually you cannot get what you want at short notice in terms of labour. In short, there are all kinds of hazards which get in the way of the construction program.

In addition to these natural hazards, for the last few years we have had a situation in which requirements in the north have been changing very rapidly. It has been almost impossible to know very far in advance in detail just what is going to be required at any particular point.

All these hazards and changing situations fit into a picture in which requirements have to be estimated several months in advance.

To show just how this has to be done, take the case of Aklavik at the present time. Our sub-district administrator in Aklavik is working out his requirements for the summer of 1957. His statement of requirements has to be in the hands of our district administrator in Fort Smith in June. At this present stage, when he is making out the requirements for 1957, the ice probably is not fully out of the Mackenzie river and none of his supplies for this year have arrived and his construction season for 1956 has not started. He does not know what hazards may hold up construction this year, yet he has to give a firm outline of requirements for 1957. It is on the basis of these requirements as they come in from all the points in the north that the estimates are prepared in detail.

That is the background and in that sort of situation the inevitable result is that plans do not go just exactly as they have been planned. Perhaps certain deliveries are held up, perhaps a certain construction project does not get as far advanced as was thought it would get, perhaps another construction project

goes more rapidly than had been thought or perhaps a new requirement crops up in the course of the year. The result of this is that in the operations of the northern administration branch there are almost inevitably quite a number of requirements which have to be ordered in the later months of any fiscal year. When requirements have to be ordered in that way we try to get the goods we want in one of three fashions. One is to get them delivered to a common carrier by the supplier before March 31 for shipment to the f.o.b. point which is designated in the purchase contract. That f.o.b. point will usually be Montreal for the eastern Arctic or Waterways for the western Arctic. The second way is that the item may be delivered by the supplier to a warehouse at the f.o.b. point. In exceptional circumstances it is arranged that the item which is produced may be held by the supplier free of charge in his own factory until the shipping date for the particular region in the north. The reason why Waterways and Montreal have been selected as the f.o.b. points is that by using these common points the suppliers add on the freight from their particular location to the f.o.b. point and we can get a realistic comparison of the different tenders from different suppliers.

The Auditor General's comments in paragraph 34 of his report deal first with the question of goods for which delivery was accepted at factories. The main reason why this is done is that in certain circumstances the manufacturer may produce an item—say a caterpillar tractor for Aklavik—and have it ready in January, whereas we know it cannot be shipped from Waterways until May. The alternative would be to have it shipped and stored if storage were available at Waterways. As is frequently the case, the manufacturer has storage space in Montreal. It is certified as being for the department and held in the manufacturers' storage in Montreal until the shipping can leave. Now, in all those cases, the point I would like to mention is that the actual item is seen by a member of the department in person. If there are serial numbers, those serial numbers are taken; the name of the department is marked on the item; it is clearly identified as the department's item and payment is not made at that point notwithstanding the fact that the item has been identified. The payment is not made until evidence has been received that the equipment has been delivered to a common carrier. In other words, the item is identified in fact but not paid for until it actually is delivered to the common carrier. The evidence of delivery required is either a bill of lading of the common carrier or a delivery form which is made up by the supplier and receipted by the common carrier. The Auditor General refers to some \$60,000 worth of supplies which were accepted in this way at factories. Actually, in 1955, there were supplies valued \$102,589 accepted in this way. The \$60,000 worth were items going to Aklavik. The remaining \$42,000 worth were items going to the eastern Arctic.

By the Chairman:

Q. Could you tell us what those items were which were going to Aklavik?

—A. Yes. The items going to Aklavik were four orders: one was for five dump trucks from Ingram Motors Limited. Another was for a truck mounted shovel, \$23,000. Two orders were for parts for the shovel, one of \$2,000 and the other of \$657. That made a total of \$60,100.

Q. I think you did not give us the amount of the first item.—A. The five dump trucks cost \$33,243. That made a total of \$60,116. All were designated for Aklavik.

By Mr. Cavers:

Q. From whom was the mounted dump truck ordered?—A. There were five dump trucks from Vic-Ingram Motors Limited. They were made at Yellowknife but the shipment would take place from Windsor. The other item, the shovel, was from Automotive Products Limited of Montreal.

By the Chairman:

Q. And the spare parts also?—A. The spare parts also were from the same source. In each case the item referred to was held in the factory after being identified by a member of the department as being the item required. Now, in the case of this equipment, if it could not have been accepted in this way, the cost of the purchase would have become a first charge against the main estimates of the following year. This would have seriously disrupted the plans for the following year because it would have used up funds which were required for other items which have been included in the main estimates. If they had not been charged against the main estimates but we had waited for the supplementary estimates, which are usually not approved until June, this would have been too late to get the items from here to Aklavik for the construction season.

As I have mentioned, the remaining supplies accepted at the factory and valued at \$42,473 were almost entirely destined for Frobisher Bay or other points in the eastern Arctic. As I have mentioned, in the case of all this equipment, it was accepted by department officials in person before the 31st March, 1955. It was considered that the goods had in effect been supplied prior to March 31 but payment was withheld, simply as a precautionary measure, until evidence was received that deliveries had been made to the common carrier.

In addition to the \$102,000 covering items accepted at the factories, we also drew cheques to cover an additional \$13,273 worth of supplies which were not accepted at factories but which we in the department had reason to believe had been delivered, because of promised delivery dates. We had reason to believe they had been delivered to common carriers before March 31. The authority for paying for supplies on the basis of evidence of such delivery was given in a letter from the office of the Comptroller of the Treasury dated March 14, 1952. The reason for making payment on the basis of the evidence of delivery to a common carrier is that the suppliers expect to be paid for the goods within a reasonable period. We have no personnel nor supply depots at Waterways or at Montreal and it would be time-consuming and costly to uncrate all items to check them at these points. The only point where a proper physical check can be made is at the ultimate destination. At Waterways and at Montreal the goods are taken over on our behalf from common carriers making delivery, by the common carriers who will take them on to their final destinations.

If we waited until the supplies reached their ultimate destinations, the suppliers would not be paid for periods ranging from four to eight months. We would likely be subject to interest charges and would lose discounts. We have followed the present practice of paying on the basis of evidence of delivery to a common carrier for a number of years, and have never had any difficulty in making adjustments with suppliers. No funds have ever been lost because of the system.

The CHAIRMAN: Before you go on, you mentioned the letter of May 14, 1952, from the office of the Comptroller of the Treasury. I think it would be a good thing if you put it on the record at this point.

The WITNESS: Would you like me to read it?

The CHAIRMAN: Yes, please.

The WITNESS:

Col. F. H. Collins,
Chief Treasury Officer,
Dept. of Resources and Development,
Ottawa.

*Payment for materials shipped to
points in the Northwest Territories.*

In reply to your letter of 2nd May, it is confirmed that it will be in order for you to pay suppliers' invoices covering materials shipped to places in the Northwest Territories on the strength of bills of lading or other like documentary evidence establishing proof of delivery to a common carrier.

You will understand, of course, that the accounts must also be certified as to price, as required by the Financial Administration Act.

(Sgd.) J. O. Hodgkin,
Asst. Comptroller of the Treasury.

Ottawa,
May 14, 1952.

By Mr. Harkness:

Q. Before you go on, what about the \$8,660 worth of cheques which were still being held at the time of the audit in August?—A. Mr. Chairman, I think if I could continue that will be dealt with.

The Auditor General has also commented on the question of drawing cheques and then holding them for lengthy periods. It should be emphasized that in no case was payment made for any goods that had not either been accepted at factory before March 31 or delivered to a common carrier before March 31. We are of the view that the holding of cheques for long periods is not good accounting practice and new arrangements have now been made. To the best of our knowledge there is no specific regulation against this practice. We think, since the Auditor General has pointed it out, that it is not a good practice and we are discontinuing it. I can explain to you the circumstances under which it was done.

The CHAIRMAN: At the time you did it it was not forbidden?

The WITNESS: Even now it is not forbidden. The cheques were drawn in the month of April, 1955, totalling \$115,862.59 against 1954-55 funds to cover items accepted at factories, or that we had good reason to expect had been delivered to common carriers before March 31. As it turned out, proof of delivery before March 31 was furnished to cover all but \$1,043.86 of this amount and seven cheques totalling \$1,043.86 were cancelled in September of 1955, by which time it had been ascertained that delivery of the items concerned had been made to the common carriers after March 31.

Of the total amount, cheques valued at \$64,157.44 were released in May, \$40,721.48 in June, and the remaining \$9,939.81 were released over the period from July to September as evidence was received. The suppliers, in some cases, did not seem to appreciate that it had to be proof of delivery on or before March 31, 1955, and the reason that the cheques were held in some

cases for a lengthy period was that there had been protracted correspondence with suppliers before we got the necessary proof of delivery.

I mentioned to Mr. Harkness, sir, that a change has been made. Arrangements have now been made that no cheques will be requested from the treasury office unless the invoice and proof of delivery before March 31 to a common carrier have been received. We will not now ask for cheques until we have the evidence.

By Mr. Applewhaite:

Q. Does that mean that no cheques are going to be asked for and that you are not going to immediately pay the suppliers?—A. We will now require that we have the bill of lading or the receipted certificate of delivery before we ask for the cheque. What we had done hitherto was, in cases where we knew the items had been identified at the factory or had good reason to think they had been delivered to a common carrier, on the statement of that we would ask for the cheque if it was toward the end of the fiscal year but we would not release the cheque until we had the evidence. Now we will have the evidence first and then ask for the cheque.

By the Chairman:

Q. And if you do not get the evidence in time there will be no payment?—A. We will have to pay the amount elapsed out of the following year's funds. This new procedure will make a good deal of extra work in following up orders to make sure invoices and bills of lading, and so forth, are received quickly. It will also mean that in many cases this evidence will not be received before April 30, and payment will have to be made from the next year's funds, to the detriment of the new year's program.

Arrangements have also been made at a cost of about \$2,000 to provide warehousing space at Montreal where certain supplies purchased from 1955-56 funds can be held pending onward transmission. We are doing this in an effort to reduce cases where we accept delivery at factories. Only in the most urgent circumstances will goods be accepted at the factory in future and in those cases the purchase orders will be amended to give the f.o.b. point as at the factory, so we can take delivery and give payment at the factory.

We believe that nothing has been done that was not in keeping with the spirit and purpose of parliamentary appropriations. We had the concurrence of the treasury office in all transactions and no regulations existing at the time were contravened. We are of the view that difficulties can arise through the holding of cheques for a lengthy period, and that practice has been amended.

I think that that covers the general points which I wished to make in explanation of this.

Q. There is one point which I think you might explain in more detail; that is an explanation of section 29 of the Financial Administration Act in connection with obtaining authority from the treasury board.—A. Would you like me to read the section?

Q. It would be a good idea. Would you also explain to the committee how it applies?—A. Section 29 of the Financial Administration Act reads as follows:

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.

Now, Mr. Chairman, to refer back to the 1954-55 estimates, the cases that were involved in the Auditor General's comments deal with four votes; they were votes 323, 324, 325 and 326 of that year. To take just one, vote 323:

Northwest Territories, including Wood Buffalo park and Eskimo affairs—

323. Operation and maintenance.

That vote was broken down in the blue book into about seventeen primary allotments with the totals for extra primary allotment. The situation is that the department can spend, for the purposes of each allotment, up to the amount that is specified in the blue book; but if for any reason it wants to make an expenditure beyond the amount shown for that allotment it has to go to the treasury board and if there are adequate funds available in the fund for other allotments it can seek a transfer from one allotment to the other.

Q. As long as it is in the same vote?—A. Yes.

Q. That is the practice followed by your department?—A. It is followed by all departments and is provided for by section 29.

By Mr. Applewhaite:

Q. Will the adoption of this new system of drawing cheques only when you are able to make payment result in a large number of re-votes and estimates year after year?—A. Mr. Chairman, it will result probably in more re-votes, but by following up these things closely we think that it should not result in a lot of re-votes. We will try to keep the number down because it throws out our operations for the following year.

By the Chairman:

Q. Are there any further questions on paragraph 34 of the Auditor General's report? If not, Mr. Robertson will have some remarks to make on paragraph 45 of the Auditor General's report concerning the council of the Northwest Territories.—A. Mr. Chairman, in paragraph 45 of the Auditor General's report, the Auditor General referred to the travelling and living allowances of the members of the Northwest Territories Council and he said:

The point of audit concern is the use of an ordinance instead of having practice regulated by act of parliament, because (a) five of the nine members are appointed by the crown, therefore it seems desirable that the independence of the elected members be safeguarded, and (b) it is a constitutional rule that no loan out of public funds should ever be made to an elected representative of the people without the sanction of the appropriate legislative authority, which in this instance would appear to be the parliament of Canada. Reference is now made to the subject because it was observed that two advances remained outstanding for many months.

With respect to point (b) which the Auditor General makes, our view is a different one to his. I do not think that the appropriate instrument in this case, the appropriate legislative authority, should be a specific act of parliament. We think the appropriate legislative authority is an ordinance of the Northwest Territories passed under the enabling provisions of the Northwest Territories Act. I might explain how this is handled which may make it

clearer. The Northwest Territories Act provides for indemnity for members of the Northwest Territories council and also provides, in section 12(2), for the payment of travelling and living expenses. Section 12(2) says:

In addition to the payments under subsection (1), each member of the council, whether elected or appointed, may be paid, (a) the actual travelling expenses incurred by him in travelling from his place of residence to the place where the council holds its session and return, but no payment shall be made to a member in respect of more than one return trip for each session of the council, and (b) an allowance for living expenses, not exceeding fifteen dollars for each day in which the council is in session. . .

In other words, Mr. Chairman, this is a provision that authorizes payments to be made. Under the authority of that provision and under the authority of section 19 of the act which permits the commissioner and council to make payments out of the revenue account, it is much the same as the appropriate act of parliament with respect to federal expenditures. Under the appropriate ordinance this year, item 612, the indemnity for elected members of the council is \$8,000, and under item 613 for travelling and living allowances of members it is \$12,517. This is the legislative authority under which these payments are made. In our view this is the proper legislative authority for such payments.

The other point which the Auditor General makes is that five of the nine members of the council are appointed by the crown and therefore it seems desirable that the independence of the elected members be safeguarded. On that, Mr. Chairman, all I can say is that the appropriations are always in general terms and that there is never any distinction drawn between the elected and the appointed members, and there has never been one case in the entire history of the council when it was divided on the point of appointed versus elected members. So, I do not think there is any need for protection.

Q. In connection with your view to the effect that the matter of providing funds for travelling expenses is a matter of concern to the Northwest Territories council rather than to the parliament of Canada, would it not be appropriate to draw a parallel there by making a comparison between the Northwest Territories council and a provincial government? After all, a provincial government provides for the indemnities and travelling expenses of its members of parliament, and do you not think that the Northwest Territories council is more or less in the same position as far as the indemnities and travelling expenses of its members are concerned?—A. I think so, sir. I think, in general, the position of the council is that it has the legislative authority of a province except for natural resources. The other exception, of course, is that an ordinance of the council can be disallowed within two years by the governor in council. With these exceptions, it is in exactly the same position as a provincial legislature.

By Mr. Harkness:

Q. Is the point not that the indemnity and travelling expenses are provided for by a federal act of parliament?—A. They are not. If you mean the amount of money is provided, that is not the case. The amount of money is provided out of the Northwest Territories revenues.

Q. But the legislative authority for paying the expenses—

The CHAIRMAN: You might allow Mr. Robertson to finish.

The WITNESS: I was going to say that the revenues of the Northwest Territories are made up much the same way as the revenues of a province are made. There is a tax agreement with the federal government which provides a large source of revenue and there are other sources of revenues like liquor

revenues and taxes within the Northwest Territories. The Northwest Territories Act authorizes the commissioner in council to make expenditures out of the Northwest Territories revenues, and section 12 is a particular authorization with respect to the expenses of members of the council. But these are just empowering sections, and then the council is empowered to pay the expenses out of the Northwest Territories revenues.

By Mr. Harkness:

Q. There is an act which we passed last year which provides for the indemnity and for the travelling expenses.—A. Mr. Chairman, the act was amended last year. It was amended to change the indemnities. The indemnities are specifically provided as to maximum amounts and minimum amounts. These were stated in the amendment to which Mr. Harkness refers. The travelling and living expenses were not changed. Those are the ones contained in the Northwest Territories Act which is included in the revised statutes of 1952.

By the Chairman:

Q. Was that amendment in force in the fiscal year to which the Auditor General's report applies?—A. No. The amendment was not in force in that year; but the amendment does not affect the expenses to which he referred. That section which relates to expenses simply says that each member of the council may be paid actual travelling expenses and an allowance for living expenses not exceeding \$25 a day.

By Mr. Monteith:

Q. The Auditor General refers to: "Reference is now made to the subject because it was observed that two advances remained outstanding for many months." I wonder if Mr. Robertson has anything to say on that?—A. Yes. Two advances were accounted for—

Q. First of all, what do you mean by advances?—A. Suppose that a session is going to be held, like the session of the council which was held in January of this year, and the members, say, in Aklavik and in Fort Simpson and Fort Smith, are sent cheques in advance of the session to provide for their living and travelling expenses in order to come to the session in Ottawa. This is necessary because most of the members do not have any private means or any means of any consequence at all. After they have come to the session and return to their place of residence they are supposed to submit an itemized account of their travelling expenses and a statement of the days for which they are entitled to living expenses, and to make refund of whatever the balance is of their advance. In two cases there was a considerable delay in getting those back. In one case I think it was because the member was a new member and did not understand the procedure. In another case it was because of the difficulties regarding transportation. In Aklavik you have six months when you cannot get mail in and out, and also the member at this place is a trapper who is out for a considerable period.

By Mr. Cavers:

Q. What is the usual length of a session?—A. Normally from a week to ten days.

Q. And there are two sessions each year?—A. Yes.

By Mr. Applewhaite:

Q. Is the Auditor General of Canada the Auditor General of the Northwest Territories Council?—A. The Northwest Territories revenues are a special account in the Consolidated Revenue Fund and they do come under the Auditor General's audit in that respect.

Q. In the auditing of the revenue and disbursements of the Northwest Territories Council does the Auditor General report to the Council?—A. No.

Q. The only report which he makes is to the parliament of Canada?—

A. That is right, sir.

The CHAIRMAN: Has the committee finished with the witness?

Then, if there are not any more questions, it only remains for me to thank you, Mr. Robertson, for coming and for having given this very excellent and clear explanation. I would also like to thank the other gentlemen for their attendance.

Gentlemen, before you go, first I would like to ask the members of the steering committee to remain. Secondly, as we waited for nearly half an hour before we had a quorum today, I think I should bring up again the matter of reducing the quorum. Last time I suggested that it be reduced from 15 to 10. I would like to know what the feeling of the committee is on that point after our experience this morning. What do you think, Mr. Harkness?

Mr. HARKNESS: I certainly do not like sitting around for half an hour in order to get the proceedings started, but, it seems to me, in view of the number of people on this committee, that reducing the quorum to 10 should not be necessary.

The CHAIRMAN: Perhaps we might reduce it to 12.

Mr. CAVERS: I would suggest it be reduced to 12.

Mr. APPLEWHAITE: I would like to express the opinion that if there are not 15 members who are sufficiently interested to attend that you might as well wipe the committee out.

The CHAIRMAN: Your argument would apply to all other committees of the house.

Mr. APPLEWHAITE: Yes.

The CHAIRMAN: All other committees reduced their quorum. Are there any other remarks on this?

Mr. CAVERS: Mr. Chairman, I would move that for the subsequent meetings of the committee the quorum be reduced from 15 members to 12 members.

The CHAIRMAN: Mr. Schneider is the seconder.

Motion agreed to.

Mr. POMMER: What is it proposed that our item of business will be at the next meeting?

The CHAIRMAN: I thought that I should have a meeting of the agenda committee to decide that.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

THURSDAY, JULY 5, 1956

WITNESS:

Mr. D. A. Golden, Deputy Minister, Department of Defence Production.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
and Messrs.

Anderson	Harkness	Nowlan
Applewhaite	Henderson	Pommer
Argue	Hollingworth	Poulin
Ashbourne	Holowach	Power (<i>St. John's West</i>)
Balcer	Houck	Proudfoot
Beaudry	Kickham	Rea
Boisvert	Kirk (<i>Antigonish-</i> <i>Guysborough</i>)	Regier
Breton	Lafamme	Rowe
Bruneau	Leduc (<i>Jacques Cartier-</i> <i>Lasalle</i>)	Schneider
Buchanan	Maltais	Stewart (<i>Winnipeg</i> <i>North</i>)
Cavers	McGregor	Thomas
Cloutier	McLeod	Tucker
Denis	McWilliam	Van Horne
Fulton	Menard	Weaver
Goode	Mitchell (<i>Sudbury</i>)	Zaplitny
Hamilton (<i>Notre-Dame-</i> <i>de-Grâce</i>)	Monteith	
Hanna		

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 5, 1956.

(10)

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Applewhaite, Ashbourne, Breton, Cannon, Cavers, Cloutier, Denis, Hamilton (*Notre-Dame-de-Grace*), Harkness, Kirk (*Antigonish-Guysborough*), Laflamme, McGregor, Menard, Mitchell (*Sudbury*), Monteith, Schneider, and Thomas—17.

In attendance: From the Department of Defence Production: Mr. D. A. Golden, Deputy Minister, Mr. G. W. Hunter, Assistant Deputy Minister, Mr. J. M. Dymond, Director, Gun Branch, Mr. R. M. Keith, Financial Advisor, Mr. E. C. Perkins, Contracts Review Officer.

The Committee resumed its study of the Public Accounts (1955) Books I and II, in particular Paragraph 36 of the Auditor General's Report thereon, relating to the production of 3"/50 Twin Mount Gun Contracts.

Mr. D. A. Golden was called and made a statement on the production costs of said guns and the comments thereon of the Auditor General.

In the course of his examination, Mr. Golden was assisted by Messrs. Hunter, Dymond and Perkins. He tabled the following document which was ordered printed: (*See Appendix I*)

Comparison of production costs between U.S. and Canadian contracts based on costs as at February 29, 1956 (3"/50 Twin Mount Gun Contracts, Sorel Industries Limited).

Mr. Golden was questioned.

Information was requested with respect to:

- 1 - Figures for board paid by employees of Sorel Industries Limited (staff boarding)
- 2 - Percentage of cost on parts and materials imported from U.S. for all guns manufactured by Sorel Industries Limited.
- 3 - Total payments to Sorel Industries Limited for production of guns and amounts paid by U.S. through Canadian Commercial Corporation for guns shipped to U.S.

The above was ordered appended to this day's proceedings (*see Appendix II*).

Mr. Golden's examination was concluded and he was retired.

The Chairman expressed the Committee's appreciation to Mr. Golden and his officials and at 12.50 p.m. the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

July 5, 1956.
11.00 A.M.

The CHAIRMAN: We have a quorum, gentlemen. We were examining the Auditor General's report and we got to paragraph 36, in which he drew attention to the fact that there was a difference in the price between guns manufactured for the United States navy, and guns manufactured for the Canadian navy. Mr. Sellar was unable to answer all the questions that were asked of him at that time.

On page 64 of the printed report of the proceedings of our committee I said the following to Mr. Harkness: "I gave that undertaking before, Mr. Harkness, that if it was the desire of the committee, at the suggestion of any member of the committee, to assign people from the department to go into a transaction in detail, that it would be done." So to carry out that undertaking I have here this morning Mr. Golden, the Deputy Minister of the Department of Defence Production, and Mr. G. W. Hunter, the assistant deputy minister of the same department, and Mr. J. M. Dymond, the director of the gun branch.

Mr. Golden has a statement to make to the committee. After he has made this statement he will be at the disposal of the members of the committee to answer any questions.

Mr. D. A. Golden, Deputy Minister, Department of Defence Production, called:

The reference by the Auditor General in item No. 36 of his report to a difference of some \$112,000 each in the cost of the 3"/50 twin mount A/A guns to the U.S. and Canadian governments was based upon the best estimates available at the time of his examination. A more recent estimate, which is very close to actual costs, shows the difference to be \$102,450. This contract was carried out by Sorel Industries Limited of Sorel, P.Q.

Apart from minor extras for special type fire control required by the Canadian navy, duties and taxes included in the Canadian but not the U.S. cost, and the cost of certain parts furnished on a "free issue" basis by the U.S. government but for which the Canadian contract was naturally chargeable, the difference in price is accounted for mainly by three classes of expenditure which were considered to apply to Canadian account only, inasmuch as they relate to the re-establishment of Canada's only facility for the production of heavy guns which were urgently required by the Services at the outbreak of the Korean war.

The first of these items is preproduction and learning expenses, which totalled \$1,525,428, or \$33,158 per mount produced for Canadian account. This amount represented general overhead costs of the first year's operations in excess of the amount of overhead which could be properly absorbed in the relatively small volume of production during that period, bearing in mind that the plant had to be reactivated and staffed from a virtual shutdown condition. Included in this amount are the costs of recruiting and training some 4,000 employes, many of whom had had no previous experience in this type of work since, due to the rapid expansion in the defence industry in the Montreal area during the same period, it was necessary to draw heavily upon the population

of the immediate vicinity of Sorel who were largely unskilled in production techniques. In order to obtain the necessary complement of engineering and technical personnel to direct operations, it was necessary to go as far afield as the West Coast and the United Kingdom and to arrange for their transport to Sorel.

The second major item in the category of charges which were considered to relate exclusively to the establishment of a Canadian facility for heavy gun production was the cost of plant and staff house rehabilitation, totalling \$908,453, or \$19,879 per mount. This expenditure covered the cost of rehabilitation and rearrangement of plant and equipment in order to place them in an operating condition after a five-year period of idleness. This item also includes an amount of \$215,000 for the rehabilitation of staff houses, which had fallen into disrepair during the period, but which were most essential due to the grave housing shortage which existed in Sorel at that particular time.

The third item of expenditure of a similar nature represented a portion of the settlement made with the contractor to compensate for the cost of maintaining this highly specialized facility (which had little or no economic commercial use) during the period from 1945 to 1950, which amounted to \$1,338,436, or \$35,074 per mount. This charge, relating as it did to a prior period, was not applicable to current production for U.S. account, but was apportioned over all Canadian contracts for the three-year period from 1951 to 1953 inclusive. In this way, the standby maintenance costs (which, incidentally, were non-profit-bearing) were completely segregated from production costs and profit thereon, and permitted contractual negotiations with Sorel Industries Limited to be carried out on the same basis as other defence contractors who were not in this position.

While it is true that the recorded price of guns for Canadian account exceeded the price to the U.S. navy, it should be remembered that the charging of standby maintenance, rehabilitation, and preliminary expenses to Canadian account will benefit all subsequent Canadian gun production carried out by this facility. A further advantage to Canada which should not be overlooked is that the U.S. order for 180 guns (contrasted with Canada's 46) absorbed approximately four-fifths of the fixed overhead charges relating to this contract, and resulted in substantial cost reductions by reason of increased efficiency over the greater production run, which were shared equally by both governments.

By Mr. Harkness:

Q. In his report, Mr. Sellar states, "In lieu of the first arrangement it offered \$45 million for the production of 180 guns, and this was accepted". What was the first arrangement?—A. I think the first arrangement was a price-to-be-negotiated basis, and the first order was for a number substantially less than the number of guns ultimately ordered by the United States.

Q. You say it was to be a negotiated basis. Was there no definite figure in this first arrangement?—A. There was a figure, yes, for estimating purposes, and for funding purposes, as I recall it.

Q. Have you got a copy of this first arrangement?—A. Yes, I am sure we have. The first document that I have here refers to 40 mounts, and it says it is estimated that the definitive contract will be in the amount of \$10 million.

Q. For 40 guns?—A. Yes.

Q. That is about \$6,000 more than the United States finally paid for the guns they did get?—A. Mr. Harkness, the amount included in the first document was the amount put in in order to get the work rolling, and to get contractual negotiations started, and to have something which would permit us to get Sorel going. I do not think the \$10 million at this stage was intended to be definitive in any way.

Q. That was the agreement between the Department of Defence Production and the United States was it?—A. Actually it would be between the Canadian Commercial Corporation and the United States, and then the Canadian Commercial Corporation would request the Department of Defence Production to arrange for production at Sorel Industries.

Q. Then you proceeded from there to make a contract with Sorel Industries?—A. Yes.

Q. What are the terms in the contract with Sorel Industries?—A. There are quite a number of contractual documents which went forward, but by and large our arrangement with Sorel would be back to back with the arrangement that Canadian Commercial Corporation had with the United States navy.

Q. What do you mean, "back to back"?—A. The same terms.

Q. In other words they were going to get approximately \$250,000 a gun?—A. The first document that I have here to Sorel Industries, which took place before the Department of Defence Production was set up, is in the same terms as the document which Canadian Commercial Corporation got from the United States navy.

Q. That would be this \$10 million for 40 guns?

The CHAIRMAN: Does it mention a figure?

The WITNESS: It mentions a limitation on the expenditure of \$8 million, which was the amount referred to in the American letter of intent, that only \$8 million could be committed, and that is what the document to Sorel said.

By Mr. Harkness:

Q. When did the other arrangements with Sorel Industries—who made them, and when were they made in regard to these three items of expenses, which they were allowed: the plant and staff house rehabilitation, \$908,000; the plant maintenance costs, covering partial compensation for the expense of retaining this facility? How much was the total of that? Or, in other words, could you tell us what contracts there were with Sorel in regard to the other expenditures they were to be allowed, particularly these items which amounted in total to \$112,000 per gun extra which Canada paid?—A. These were arrangements made between the department and Sorel Industries without any indication at that time to Sorel as to whether the United States government, or the Canadian government would be the government that would finally pay that. As far as Sorel was concerned, they were entitled to receive these payments.

Q. What I have not got very clear in my mind is this: what contracts were made with Sorel when the contract was made with them which was back to back with the order for 40 guns from the United States, which was \$10 million, and then you say it was actually a commitment of \$8 million? Now, in addition to that there were apparently contracts made with Sorel to pay them varying amounts for three items. What were these three contracts, or were they one contract?—A. I have a list here of 20 amendments, and 11 further amendments, and 27 further amendments. I am not sure that I can pick out the specific amendment to which you are referring now, Mr. Harkness.

Q. In the statement that you read, which in effect was much the same as the statement Mr. Howe made in the house on Friday, June 29, and which is contained in Hansard for that date on page 5522, there are three items mentioned. Now, the first of these is plant and staff rehabilitation expenses totalling some \$908,000. Now, how was that entered into?—A. The record I have here indicates that amendment No. 23 entered into on March 28, 1955 gives formal instructions relating to the items which you have just mentioned. I think they would, of course, have been negotiating for some considerable time before that.

Q. In other words these various items—what are they in dollars exactly? The first one is \$908,000. The second one is not given in this Hansard evidence. It says it came to \$35,074 per mount.—A. I make it \$88,111 per mount. Is that what you wanted, or do you want the total figure?

Q. No, I want the total figures for these three items. The first item is given as \$908,000 or \$19,900 per gun.

Mr. MONTEITH: That was the second item you read this morning.

The CHAIRMAN: They are in the statement that Mr. Golden gave.

The WITNESS: Perhaps we can add them up. The figures are: \$1,525,428—\$908,453—\$1,338,436. Those are the three items.

By Mr. Harkness:

Q. These were all arrived at after the guns had been produced?—A. No. These figures were arrived at while the guns were being produced.

Q. Did you not just give a date in 1955 which was after the delivery date of most of these guns?—A. I said that the March, 1955, date was the date I have on which the formal document was passed; but that does not mean that that was the time at which the agreement was arrived at.

It is pointed out to me that all these figures would have to be settled finally by the cost inspection and audit division making an audit and issuing a certificate as to the actual cost incurred.

Q. In respect to the original contract that was made with Sorel Industries, you think this was a general approximate cost, \$250,000 a gun, and in addition to that you made an agreement with them, did you, saying that you would pay for these three items depending on what they came to?—A. I think that is substantially correct.

Q. Was that an open agreement, or was there any definite amount settled that you would provide for these three items?—A. I think the nature of the item was agreed to, and the cost would have to be those costs properly incurred in connection with these items, as approved by the cost inspection and audit division of the treasury.

Q. Was this plant in use at all before this thing started?—A. There was some attempt made, on a limited basis, to find commercial production which could take place in this plant, and I understand they were pretty unsuccessful.

Q. You say unsuccessfully?—A. Yes, unsuccessfully; this is a very large and very specialized facility.

The CHAIRMAN: What would be the cost of the facilities in terms of millions of dollars?

The WITNESS: Do you mean the replacement cost or the original cost?

The CHAIRMAN: The original cost.

The WITNESS: About \$25 million.

The CHAIRMAN: Thank you.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Is this sort of happening which we see here normal in a situation of this sort? Have you any comparable example that happened in other Canadian purchases?—A. I am not sure that I get the particular aspect of this transaction which you mean.

Q. First of all, where the United States pays a substantially lower price for a similar unit than the Canadian government, well, let us stop at that point for a moment; where the United States pays a substantially lower price for a unit of production than does the Canadian government.—A. I would regard this as most unusual, and based on most unusual circumstances.

Q. Right; so this is a special case?—A. I would think so, yes.

Q. Right; now could you cite us another supplier of major military equipment to the Canadian government—I just want to use some comparable company as a basis of departure for certain questions I want to ask; what about the Canadian Car and Foundry Company, do they manufacture gun mounts?—A. No, not gun mounts. They have made sales to the Canadian and the United States governments.

Q. Or what about Vickers? Do they manufacture gun mounts?—A. I know of no other plant in Canada which either manufactures or sells similar products; there is no other plant to my knowledge.

Q. All right; you say Canadian Car and Foundry or Vickers would be making sales of heavy material from time to time to the Canadian government for defence purposes.—A. Yes.

Q. All right; what I am trying to find here—not being too conversant with your tendering practice or your contract practice— —A. There was no tendering here at all.

Q. No; this was a negotiated contract?—A. This was the only facility in Canada capable of doing this sort of work.

Q. In the initial stage your department enters into a discussion with Sorel Industries which is designed to lead to the production of gun mounts for the Canadian army?—A. For the navy in this case!

Q. Oh yes, for the navy; and at that point was there any thought in mind that the United States would also be taking any portion of this production?—A. The American order was definitely in contemplation at the time, but in actual fact the Canadian order happened to be placed first.

Q. Right; now the first document which goes into the evidence as I understand it is something which says it envisioned the production of some 40 gun mounts at a total cost of \$10 million. Is that correct?—A. No, that is not correct. I would not regard any of the earlier documents coming from the United States navy as being anything but a reflection of the money which they had set aside for this contract and as a rough estimate of what they thought this contract might require. It would not be any more of a meeting of the minds than that in the early stage.

Q. You did quote a little while ago from an agreement of some type which mentioned 40 guns and \$10 million.—A. Yes.

Q. What is the title of such agreement? What is its legal nature or standing?—A. I think that was a letter of intent. At this time production and getting things rolling was regarded perhaps as more important than having the paper work catch up with it; it was a letter of intent, knowing that ultimately a contract would be entered into.

Q. Right. So we then have—what was the date of that, approximately?—A. It was some time in 1950; October, 1950.

Q. So, in October 1950 we issued a letter of intent to Sorel?—A. No, in October 1950 the Canadian Commercial Corporation got a letter of intent from the department of the navy in the United States, and in November, 1950, the letter of intent was placed with Sorel Industries.

Q. In other words—this is interesting; you say the Canadian Commercial Corporation got a letter of intent from the department of the navy in the United States; what about the Canadian portion of this order?—A. Oh, I am sorry; I thought that you were referring to the American order.

On August 23rd, 1950 the Canadian Commercial Corporation sent a letter of intent to Sorel Industries, dealing with the same production for Canadian account.

Q. And that letter of intent from the Canadian Commercial Corporation to Sorel Industries was based upon a documentation from the Canadian authorities?—A. A contract demand from the Royal Canadian Navy, dated August 3, 1950.

Q. And how many guns did that original letter of intent of August 23, 1950 state?—A. Seven!

Q. You say seven, at a total price of what?—A. There is no price. A figure was set aside of \$2,100,000.

Q. You say \$2,100,000, so that actually at that point—let us say during the month of October as I understand it, we are in this position: the Canadian Commercial Corporation has gone to Sorel Industries with two letters of intent, one on behalf of the Canadian Navy which indicates their plan to purchase seven of these units at a total cost of \$2,100,000 or approximately \$300,000 a piece; and another, based on a United States Navy plan for 40, for \$10 million, \$250,000. Is that correct?—A. Yes, I think that is correct.

Q. Why at that point, let us say, in August, when you first placed your letter of intent regarding Canadian requirements, you had no positive indication whatsoever from the United States that they were going to require an additional supply?—A. If you include the word "positive", I think that would be correct.

By the Chairman:

Q. Did you have some indication that was not positive?—A. We had an indication that an order would be placed by the United States authorities, but Mr. Hamilton asked if we had a positive indication. It seems to me that a positive indication would have to be an order at that time and we did not have an order.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. But negotiations were going on?—A. Yes. The United States Navy had sent production specialists before this time to Canada to survey the possibilities of having some production for their own account at Sorel.

Q. Do you remember off hand when these people were up discussing this matter?—A. I think one occasion was in July of 1950, but how many other discussions took place I do not know.

Q. It was shortly before the Canadian letter of intent was sent. Let us leave it there for the moment. In the case of other equipment for the Canadian armed services, you would be following a similar pattern with other companies?—A. Similar to what?

Q. Similar to the pattern followed with Sorel Industries; that was a pattern in which you issued—or the Canadian Commercial Corporation issued on the basis of requirements indicated by the armed services, a letter of intent to the manufacturer?—A. That is a common form of entering into a contract, and it has occurred in other instances, yes.

Q. And some of those cases would be where part of the equipment is required for the Canadian armed services and part for the United States?—A. I am not sure that I can think of similar circumstances at the moment, but there may be some.

Q. Is this the only case in which we have bought equipment for the United States?—A. No, but it is the only case which comes to my mind immediately where it was done on this basis. We have sold many things to the United States on the basis of being the low tenderer or on the basis of having an item in production which they wanted and on which we were able to quote a price to them and it was satisfactory, and they got it; but I cannot at the moment think of a case on all fours with the present one. There was no production at all by Sorel Industries at the time coming to the governments indicated, but they wished to get the end product.

Q. Were these particular factors, which resulted in the difference in the end prices between the United States requirements and the Canadian requirements, envisioned at all at the time of this original letter of intent?—A. I cannot answer that; I do not know what was envisioned, or what was contemplated would be in the final agreements that would be entered into between the company and the two governments.

By Mr. Harkness:

Q. Was Sorel Industries aware at that time that the Canadian government was going to pay this total, the cost of these three items which you mentioned, totalling \$3 million odd?—A. Sorel Industries would have no contractual relationship with the United States authorities whatsoever. Any authority which they got for the expenditure of funds and for the reimbursement for expenditures must come from some agency of the Canadian government, and these expenditures were authorized, the three items which you mentioned; but they would not know.

Q. You mean they were authorized eventually?—A. They were authorized long before the date which I indicated was that of the final agreement on the actual figures in March 1955.

Q. Were Sorel Industries told at the time that this first letter of intent was sent to them, or whatever you wish to call it, that the dominion government was going to take up the cost of these three items building rehabilitation; training expenditures; and rehabilitation of staff houses, and so on?—A. I cannot pin point it that way. These discussions would take place before the time when these matters went forward, but whether actually it was before or after October 1950, I cannot say.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. The interesting point to me about this, Mr. Chairman, is this: if any corporation is going to go into a major operation of this sort, they must surely realize—and the Canadian government must equally surely have realized—that the particular items which are in question, the three major items which relate in a difference in cost, are going to be factors; you know you are going to have tooling-up, and you know you are going to have to train your men, and you know you are going to have to house them. So we must have been aware of that fact in 1950 at the time of these letters of intent.—A. Yes.

Q. And that leads me, or it would lead me to the conclusion that these factors were taken into consideration at the time of arriving at this original estimate; but when the bill comes to be paid, however, we find that the United States price if anything is a little lower, I think, than anticipated, and we have it as \$244,000 a gun.—A. No, \$250,000.

Q. I mean the eventual price paid.

Mr. HARKNESS: Mr. Sellar said it was \$244,000.

The WITNESS: Are you speaking of the cost or the price?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. The cost.—A. The cost is \$244,000 and they paid \$250,000.

Q. They paid the Canadian government?—A. The cost is \$244,000 and the United States government paid \$250,000.

Q. Right; so the United States government paid the same amount as in the original letter of intent which was \$250,000 for 40 guns, or \$10 million?—A. Well, mathematically that is correct, but I do not agree with you that it was the price agreed upon at that time.

Q. I mean that it was the contemplated price in the letter of intent.—A. It was the amount set aside by the United States Navy at that time.

Q. Right; whereas the Canadian government for which we can find a figure arrived at in a similar manner of \$300,000, ends up with paying some \$356,000; that is correct again, is it not?—A. \$348,000.

Q. Right; now, why were the particular circumstances—or at what point—what took place that resulted in this disparity between these two figures, one of which is the same as that in the letter of intent of October 1950 for the United States and one which is substantially greater than that in the letter of intent of August 23, 1950; and I might add one point which is that in each case, as I understand it, the number of units was substantially greater than was originally contemplated.—A. That is correct.

Q. Normally I would take it that under those circumstances the price and the cost would be substantially less.—A. Well, I do not know if the number was greater, or substantially greater than was originally contemplated, but it was substantially greater than the number originally contracted for; that is correct.

Q. What major factor resulted in this eventual outcome which is different from what one might have expected?—A. I am not sure that I can answer that. In the course of negotiations which extended over several years it was ultimately agreed that these items to which you refer were properly chargeable to Canada as relating to Canadian facilities which are in being and producing not only 3'/50 naval guns, but 105mm and 155mm howitzers, and so it was agreed that the payments by the United States of \$45 million under all the circumstances was requisite.

Q. I have just one more question: were any representations made at that time by the United States government to the Canadian government in respect to this matter, or was this purely a voluntary action on the part of the Canadian government?—A. I am sorry, I do not understand that; you say voluntary action in what way?

Q. I mean which resulted in the eventual price charged to the United States? Did the United States come up here at any point, or through their representatives and say to the Department of Defence Production: "We do not think that we should be charged with this: or we feel that the proper price to us takes these factors into account and not these?"—A. Certainly; they said many things; negotiations were taking place almost continuously over several years and I have no doubt that they inspected everything because they had a very large team of skilled people at Sorel living there permanently. We had some of their machine tools at Sorel, and they paid for the chrome plating plant at Sorel; but I cannot think of any of these things that were not discussed. I am sure that I cannot put my finger on the point you mentioned, but certainly many things were discussed in the course of the negotiation of this price.

By Mr. Applewhaite:

Q. Before I ask one or two questions I would like to clear up one thing. The original letter of intent which has been referred to in connection with the first Canadian purchase—did that letter quote approximately a price of \$300,000 per unit, or was that price just a matter of departmental figuring? Was that price at that time quoted or discussed with Sorel?—A. I shall have that for you in a minute. There is no reference to cost in the letter of intent, I mean the first letter of intent, dealing with the Canadian order.

By Mr. Harkness:

Q. Did you not say there was a letter of intent mentioning seven guns at a cost of \$2,700,000?—A. No. I said that the Royal Canadian Navy—I mean

if I did not say it, I meant to say that the Royal Canadian Navy had set up \$2,100,000 in their financial encumbrance when they sent the contract demand over.

By Mr. Monteith:

Q. The letter of intent did not definitely designate that?—A. No.

By Mr. Applewhaite:

Q. There were three major items referred to, the plant, the staff, and the house rehabilitation, which was something in the neighbourhood of \$900,000; was that whole amount charged to this one group of mounts of the order of 46?—A. Yes, it was all charged to the 46 Canadian mounts.

Q. The auditor general suggests that to an undetermined degree the subsequent production of mounts was beneficial.—A. Oh yes, without question.

Q. You agree to that?—A. Yes, without question.

Q. First of all, I would like to know roughly what was the subsequent amount of production on Canadian account; and consequently how did you justify the statement that the subsequent production benefited by this payment against the 46 guns?—A. There was something in the order or magnitude of \$30 million in other contracts there, and this expenditure of course would be substantially greater if these expenditures had not been absorbed by the 3"/50 gun contract.

The CHAIRMAN: If they had not been absorbed by that contract, they would have had to be absorbed in subsequent contracts placed by the government, and the government would still have had to pay.

The WITNESS: Not only these items, but also the question of absorbing the training of a very large number of unskilled men, and their overhead.

By Mr. Applewhaite:

Q. Are you saying in effect that a large amount of capital expenditure was charged to one particular order?—A. I am advised that there is some question about whether this should properly be referred to as capital. But it certainly is an expenditure which had to be made. If it were not charged against this contract it would have to be charged against some other contract.

Q. To use the words of another questioner, is that a normal practice?—A. I am having a great deal of difficulty, sir, in dealing with normalcy in this area where you are dealing with a mammoth plant which only has one reason for existence, and where you tried to take it, in a time of emergency, from the position of virtual shut down and create a modern gun plant out of it. From that point of view I am having a great deal of difficulty with normalcy.

Q. I will admit the emergency. I will tell you frankly what I have got in the back of my mind, and that is: how can we justify, in fairness to the navy, charging approximately \$3 million of over-all plant expenses against one navy order?—A. Because it was the only formal order in existence at that time, even though it was contemplated that at some later date other contracts would be placed there. But, it was the only formal order in existence in 1950.

By Mr. Monteith:

Q. You do that anyhow, do you not? You try to get rid of it?—A. I beg your pardon?

Q. Would it not be reasonable to get rid of that amount in the one order at that time? It was your only formal order?—A. It was, yes.

By Mr. Applewhaite:

Q. I do not want to get into an argument across the table, but I do not think we should leave that statement on the record, surely. Supposing you had competition, and you were in a competitive business and you charged your whole plant up to the first order, and then you sell to competitors cheaper?—A. Mr. Applewhaite, an entirely different consideration prevails if we are going to talk about competitive tenders. I tried to indicate that nothing should be drawn here from this incident in relation to the more normal method of contracting, where an item is known, and a plant is in existence, and so on.

Q. Then I am right in saying that it is not the normal practice to charge such a large chunk of that type of expenditure against one order?—A. Oh, no. All I am saying is, to discuss this in relation to what would happen in competitive tender calling seems to me to be unrealistic.

By Mr. McGregor:

Q. Do I understand that this \$3,772,000 was made for the purpose of the manufacturing of these guns?—A. No. There are three separate items. One is the cost of absorbing a very substantial preproduction and learning expenses. The second is the rehabilitation expenses, and the third is the standby maintenance payment for the standby maintenance of the plant for five years.

By Mr. Monteith:

Q. Could you give us a little more detail on that third one, Mr. Chairman, standby maintenance? You mentioned it I think earlier in your report. Would you mind reading your statement again, that portion of it with respect to the third item? Read it slower. I did not quite catch it all as you were reading it before.—A. "The third item of expenditure of a similar nature represented a portion of the settlement made with the contractor to compensate for the cost of maintaining this highly specialized facility (which had little or no economic commercial use) during the period from 1945 to 1950, which amounted to \$1,338,436, or \$35,074 per mount. This charge, relating as it did to a prior period, was not applicable to current production for U.S. account, but was apportioned over all Canadian contracts for the three-year period from 1951 to 1953 inclusive. In this way, the standby maintenance costs which, incidentally, were non-profit-bearing, were completely segregated from production costs and profit thereon, and permitted contractual negotiations with Sorel Industries Limited to be carried out on the same basis as other defence contractors who were not in this position."

Q. In other words your last sentence there was to the effect that you had entered into similar settlement with other defence contractors besides Sorel?—A. No, we have not entered into any such settlement, but we entered into this one with Sorel so that after this had been concluded, or agreed to, we could then discuss profit with them in the same way as we would normally discuss it with other defence contractors.

Q. If the Korea situation had never arisen would there have been any reason whatsoever to consider paying them \$1,338,000-odd?—A. I would not think so, no.

Q. In other words from 1945 to 1950 they were a private concern, and what happened to the company was primarily their consideration?—A. Correct.

Q. But the department felt called upon to reimburse them for some expenses entailed during that period in keeping their plant up, although there was no reason for them to expect further orders?—A. We were satisfied that one way or another this expenditure would have to be met, and we chose to make it in this form.

Q. Now, it occurs to me that during this period they were purely a private concern with no government contract, although I believe they did have some contract for changing freight cars into freezers or something of that kind?—
A. I believe that is Marine Industries, another associate enterprise.

Q. Getting back to Sorel, they were a private concern with no government contracts for defence purposes during this period, and then along in 1950, when the department considered placing orders for armaments, it was considered by the department that some of the expenses of maintaining this establishment during those five peace years was justifiable?—A. We were faced with the situation where it seemed to us reasonable and fair that you have to adjust profit rates to meet the particular situation of a particular industry and it would appear, and it did appear to us, that there were other justifications for a profit rate here out of line with the standards which had been laid down for our guidance and which we have adhered to. Therefore it was agreed that this would be picked up in this manner.

Q. Mr. Chairman, I just cannot get through my mind why at this stage in 1950 a loss, that you might say the company had suffered in five previous years should be picked up in subsequent contracts?—A. The government was the beneficiary of a decision of Sorel Industries to try to maintain its plant, because the cost of setting up a plant if it had been abandoned would have been enormous.

Q. Had there been any intimation to the company in 1945 that they should keep this plant open?—A. I believe they were advised not to keep the plant open.

Q. But despite that they went ahead and kept it open, and subsequently the government thought it should pickup this \$1,338,000?

The CHAIRMAN: Let me ask one question; if they had not kept it up, and it had been converted to be used for commercial purposes, how about the cost of reconverting it for defence purposes? How would that cost compare to the figure of \$1,300,000 that has been mentioned?

The WITNESS: I could not give any accurate guess.

Mr. MONTEITH: That is all right, Mr. Chairman, but I have not had an answer to my question.

The CHAIRMAN: Just a minute, I have not had an answer to mine yet either. I would like to get one and you can ask yours after if you like.

Mr. MONTEITH: I thought mine was first.

The CHAIRMAN: Oh, I beg your pardon. I did not think you had asked your question before I asked mine.

Mr. MONTEITH: All right, you go ahead and get an answer to yours, and I can follow it.

The WITNESS: I cannot answer your question, Mr. Chairman, except to say that the expenditures would bear a direct ratio to the manner in which the plant had been abandoned, what happened to the machine tools and specialized facilities and so on. But, it is a very costly undertaking to provide facilities for heavy guns.

By Mr. McGregor:

Q. This plant was set up before for building guns?—A. Yes.

Q. Then why this heavy expenditure for the change, then, to build another type of gun?—A. The chairman asked me what the expenditure would have been if between 1945 and 1950 this plant had been converted, broken up, or converted or abandoned, or sold, or the machine tools scrapped and so on. At least, I understood that to be the import of your question.

The CHAIRMAN: Yes.

By Mr. Harkness:

Q. But, Mr. Golden, did you not say a short time ago that the company had attempted to convert this plant, but were unsuccessful in finding any use to which to put it?—A. I do not know that they attempted to convert it. They attempted to do commercial work in it.

By Mr. Monteith:

Q. I would just like to get one point cleared up. As I understood it, Mr. Golden says that in 1945 he believes the department advised them to revert to peacetime industry, or look after themselves—shall we put it that way—and there was apparently no intimation that there would be any money forthcoming to assist them in keeping it in such a condition that it would be able to produce armaments. Am I right in that rambling suggestion?—A. Some time between the period from 1945 to 1950—I would not like to pinpoint it as being 1945—I do not know this of my own personal knowledge—

Q. They were apparently advised at some time that they would probably get no further orders, and the department would not pay any compensation to reimburse them for sustaining the type of production they were capable of?—A. That is substantially correct.

Q. And along in 1950 or subsequently, apparently an agreement was signed—in 1955. But, as you say, negotiations had been going on for some time and so on, and they decided to pick up this third item, \$1,338,000—odd. Now, I cannot for the life of me see why that particular item should be picked up. I can understand the preproduction and learning and the plant and staff house rehabilitation, but I cannot understand this \$1,338,000 settlement with the contractor for this period from 1945 to 1950.—A. In effect it is one method of providing a profit factor greater than we did in the other form.

Q. The company just comes along and feels that because it has gone ahead and done what it was advised not to do it should still be paid for doing that?—A. Or the company feels that, being engaged in this type of business, and that there are very few years when you can operate profitably, those years have to absorb the losses of the other years, if you are going to stay in business.

Q. All right, but they were still told to get out, or advised, shall I put it that way, to revert from wartime production. They did not do so, and they are operating as a private concern. In my estimation an item such as this should be their own worry and not the government.—A. It was their own worry, and they indicated in no uncertain terms that they would expect that their profit margin would include some element of compensation for the years when they operated at a loss. The funds have to come from somewhere if the plant is to be kept in operation.

Q. Yes, but they kept it in operation against the advice of the department.

By the Chairman:

Q. If you will allow me to do so, I think I can clear this up with one or two questions. If I understood correctly Mr. Golden, you said that this item, \$1,300,000 was another method of assuring the manufacturer of a reasonable profit, apart from the other basis. Now, you did not say what the other basis was. I think I know that it was a percentage of the cost, was it not?—A. Yes.

Q. Now, would it be correct to say, to make this clear to the committee, that if they had not got this \$1,300,000 as a payment to compensate them for their actual charges over that period, they would have asked for, and you would have very probably had to give them, more than 7 per cent as a profit on the rest of the contract?—A. I would think so.

The CHAIRMAN: Yes.

By Mr. Cavers:

Q. Mr. Chairman, I just want to clear up one point. I understood the witness to say that the United States government also contributed capital towards the operation of this business in that they paid for the installation of a chrome plant, is that right? What was the amount paid by them in establishing the chrome plant?—A. The chrome plant was approximately \$150,000. Their total contribution was in the neighbourhood of \$1,200,000.

Q. And was that included in the \$250,000 per gun which they paid?—A. No.

Q. It was not?—A. No.

Q. In addition to the chrome plant, which they contributed, were there any other amounts that they paid in connection with this operation?—A. We got about \$1 million worth of machinery from them.

Q. \$1 million worth of machinery from them, yes?—A. And they supplied and paid for a team of highly skilled technical personnel, who lived at Sorel.

Q. None of these amounts were included in the—

The CHAIRMAN: Just a minute. I would like to get a figure on the record for that last item which you say they supplied and paid for.

The WITNESS: We have never costed this, Mr. Chairman. They kept a substantial number of people there for about four years. We have never costed it.

By Mr. Cavers:

Q. You have not any idea then of what that cost would have been over the period of four years?—A. We have never done this.

By Mr. Harkness:

Q. What was the disposition of the chrome plant and tools that the Americans supplied?—A. They are still there, still at Sorel.

Q. And it belongs to the Americans?—A. Yes.

Q. In other words it is there on loan?—A. They allow us to use it for any defence contract that we have at Sorel, even though they have no similar contracts there.

Q. And is there rent paid for those?—A. No.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. No reimbursement at any point in the United States?—A. No.

By Mr. Harkness:

Q. Now, from what was said by the chairman or yourself, a little while ago, I understand that this was on a cost-plus basis, this contract?—A. It was on a prices-to-be-determined basis, and ultimately agreed to as a cost-plus contract.

Q. What was the amount of profit allowed?—A. 7 per cent.

Q. 7 per cent. Then what was the total amount, exclusive of this \$3,772,000, what was the total amount paid to Sorel Industries on account of both the Canadian and American guns?—A. I gather we have these figures based on unit prices, the same way Mr. Sellar did it. Would that be satisfactory?

Q. No. I really wanted to get the total cost to begin with, now. There seems to be an apparent disparity between the unit price that you have given and the unit price that Mr. Sellar gave, because he said the charge to the Royal Canadian Navy for the 46 guns delivered to us what about \$356,000, but when that was brought up some time ago you said that price was \$348,000?—A. Yes. Mr. Sellar's estimate was based on the information that was available to him at the time. We have a more accurate picture now which changes it to \$348,000.

Q. Does that mean that there were some costs that were put in, that were present when Mr. Sellar audited the books, that have since disappeared, bringing this price down \$8,000 apiece?—A. It was largely a question of allocation. There was nothing definite at the time. Mr. Sellar had the files available to him, but the actual figure is \$348,793 for Canadian mounts and \$246,363 for the American mounts.

By Mr. Monteith:

Q. \$363,000?—A. \$348,793 versus \$246,363.

By Mr. Harkness:

Q. In view of the fact that we have been working on somewhat different figures, what I would like to have is the total amount paid to Sorel for these guns and also the amount of that paid by the United States and the amount paid by Canada.—A. \$348,793 multiplied by 46 and \$246,363 multiplied by 180. There may still be changes as the audit continues.

Q. And of that amount 7 per cent was profit?—A. No. Not all of the items are profit bearing. One of the items which members of the committee have been referring to—the \$35,000, there is no 7 per cent on this item.

Q. What I asked for was the amount paid to Sorel, exclusive of this \$3,772,000.—A. \$283,129 per mount included profit. The comparable American figure is \$249,498.

Q. What is the total amount of profit? Have you got a figure for that?—A. Approximately \$16,295 per mount on the U.S. contract, and \$18,259 per mount on the Canadian contract.

By Mr. Monteith:

Q. That is excluding this \$3,772,000?—A. Yes.

By Mr. Harkness:

Q. \$16,295, and \$18,259?—A. Yes.

Q. Was the profit?—A. That is accounted for by the fact that the Canadian mounts required substantially more spares than the American ones, since the American ones have very large depot spares from other contracts which they have.

By the Chairman:

Q. Mr. Golden, I see you have some figures there. Have you copies of those that could be distributed to the committee?—A. Yes.

Q. I think it would be a good idea to distribute them if you have them available. These are figures showing the unit prices of the U.S. gun and of the Canadian gun.—A. Perhaps that would clear up some of the points.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. While those are being distributed, Mr. Chairman, could Mr. Golden tell us what is the United States practice when they act as a buying agent, you might call them, for Canadian munitions and supplies, when a case such as this arises? Do you know of a similar instance in the United States?—A. To the best of my knowledge the American practice varies with the individual case.

Q. But have certain Canadian purchases of munitions and supplies made in the United States through the United States government included the operation of the tooling up and refurbishing of the plant necessary for that particular item?—A. I am advised that the best answer we could give is that we know of many cases where we have not paid this type of charge, where we have made purchases in the United States.

Q. Do we know of any cases where we have made— —A. We do not know of any, but it is possible that there may have been. Sometimes a unit price is quoted to you on a run where you might not be in a position to follow all of the factors which were taken into account in making up the price.

Q. So that if we were to examine each of our purchases in the United States we might find that it is quite possible that we have paid our share of expenditures such as the ones currently under discussion?—A. I know of no such cases, but it is possible.

By Mr. Monteith:

Q. Mr. Chairman, there is one figure that I am just not sure of in this first item, preproduction and learning, the total of \$1,525,000. That works out at roughly \$33,000 per mount. That is taking into consideration 46 mounts.

Now, this settlement with the contractor item, when I was discussing before this \$1,338,000, I think Mr. Golden mentioned that that came to about \$35,000 per mount. That does not figure out mathematically. I just wonder whether there were lesser amounts taken into consideration there or what?—A. \$35,074—it should be 1/46th of \$1,338,036.

Q. Well it is not.

I see your note here on this \$35,000 per mount says, "Portion of total settlement made with contractor to compensate for maintaining facility during period between 1945 and 1950." And then in brackets the words "(Apportioned over all Canadian contracts at the rate of \$80,000 per month for three years)".

So that that is apportioned a little differently than the other item. It is not taken on a straight 1/46th basis.

By Mr. Applewhaite:

Q. I would like to ask a question about this sheet of figures we have just had distributed. Pardon my use of the word, capital cost, but your heading here is, "Cost of setting up a facility—". You referred to similar expenditures by the United States in connection with the chrome plant and so on. Are they shown on this sheet?—A. No. If I used the term "similar" I am sorry because they are not similar expenditures. They are expenditures made by the United States government not shown on this sheet at all.

The CHAIRMAN: Would it be the pleasure of the committee to have this statement annexed to the reports of the proceedings for today?

Some Hon. MEMBERS: Agreed to.

The WITNESS: May I say something, Mr. Chairman? We have transposed some figures, not in the sheet, but in my statement. When I refer to preproduction and learning expenses as being \$1,525,428, it is there that the \$35,074 appears. On the third item it should be the \$33,158. But, I believe it is correct on the sheet which has just been distributed.

By Mr. Monteith:

Q. I do not think so. You have not transposed the \$1,525,000 and the \$1,338,000, have you? That is the figure that is transposed here.—A. Yes, I am sorry.

Q. In other words Sorel has been given an amount of \$1,525,428 as a settlement to cover their losses, presumably, in the period,—or some of their losses—from 1945 to 1950, at which time they were not entering into any contract with the department?—A. It is actually \$2,880,000 not \$1,500,000. It is actually \$2,880,000 of which \$1,500,000 is apportioned to the 3⁷/₅₀ contract, and the balance to the 1.5 and the 155 contracts.

Q. That figure then is actually— —A. \$2,880,000; or \$80,000 per month for three years.

Although the figure ultimately turned out to be \$2,880,000 it was not agreed to on that basis. It was agreed to on the basis of \$80,000 per month for three years, if contracts had not been placed, or had been cancelled, or had run out within that time. Then the only amount arranged would have been \$80,000 per month for the number of months that Sorel were actually in production. In the end it was the total figure of \$2,880,000.

By Mr. McGregor:

Q. That was for rent while they were in production?—A. It was as a device, as a method to be able to negotiate with Sorel on their production contract, the same way that we would negotiate with any other contractor who had not been in their unique position.

Q. That was rent of \$80,000 a month while they were in production?

By Mr. Harkness:

Q. No.—A. It was a payment of \$80,000 a month while they were in production for a maximum of three years.

By Mr. McGregor:

Q. How was this other amount made up? Was that made up as rent before they started manufacturing?—A. No. The amount that we have described is the proportion of the \$2,880,000 that was payable by the 3"/50 contract. The other contracts picked up the balance.

By Mr. Monteith:

Q. And these contracts really ran then from about 1950 on until 1955?—A. They are still on production.

Q. All those amounts have been absorbed? There will be no more of this type of payment?—A. No.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Would you say, Mr. Golden, that it was an unusual coincidence that the letter of intent issued in 1950 by the United States government to the Canadian Commercial Corporation establishing the proposed or estimated price of \$250,000 for these guns was so extremely close to the final price of these guns, which I think your sheet sets at \$249,498?—A. I have no personal knowledge of how this figure was arrived at in 1950. I do not believe that it was intended to be the ultimate figure that would be agreed to.

Q. No, but is it normal that over a five-year period, between the issuance of a letter of intent and the ultimate determination of the price that the two figures coincide to within a tiny fraction of 1 per cent?—A. I cannot answer that because I do not know of any similar circumstances that I can refer to.

Q. The Canadian government has issued other letters of intent?—A. Yes.

Q. Have you usually been as close as that between your original estimate and the final figure?—A. I do not think an estimate made five years before would normally be within 1 per cent, no.

Q. No. You see, that is one of the things about this which causes me some concern. I am wondering whether perhaps there is some question we have not asked which should have been asked to bring another aspect of this matter to light. You have much information at your disposal. You have been very generous in answering any questions which were asked by the committee, but it does seem to be most unusual—shall I say to be almost unbelievable—that in 1950 we entered into a discussion with the United States navy and the Canadian Commercial Corporation, and then the Canadian Commercial Corporation and Sorel Industries and we say we envision the production of 40 guns

for the United States navy plus some for Canada and we envision these 40 guns as costing \$10 million, which is an average price of \$250,000. Five years later, despite all the cost increases, despite everything that has happened in that period, we come along and we say "Now, we are going to send you a bill for these guns, and it is not actually \$250,000, it is \$249,498". At the same time, we have entered into discussions with the Canadian navy. At that time, for whatever reason at the 1950 point we said we think these guns are going to cost \$300,000. Five years later we come along to them and we say, well, we are now prepared to send you a bill. The bill is \$371,240. Now, there is, and I think you can see, something that at least takes one's interest in a situation like that.—A. Would it be of any assistance, Mr. Hamilton if I indicated,—and that is the fact,—that in the course of the negotiations with the United States on several occasions they offered us substantially less than \$250,000 per mount. \$250,000 was an amount finally agreed upon, but we had suggestions from the United States government that the amounts should be substantially less than that.

By Mr. Applewhaite:

Q. Would it be a wrongful inference to suggest that the original figure was a stated maximum—the \$250,000?—A. It is not unusual to indicate a figure beyond which the contractor is not allowed to go.

By Mr. McGregor:

Q. In other words the government of the United States was trying to buy them as cheaply as they could?—A. I would think so.

Q. And Canada was not?—A. I would not agree with that.

Q. It looks like it, according to these figures.

By the Chairman:

Q. I see a statement, Mr. Golden in the Auditor General's paragraph that we are working on now. He mentioned an offer of \$45 million for the production of 180 guns. This was accepted. Now, that works out at exactly \$250,000 per gun?—A. Yes.

Q. Would it be fair to say,—and I do not want to put words into your mouth,—but would it be fair for us to say that the \$250,000 was the maximum that you could possibly get out of them after long and protracted negotiations?—A. It is the most we were able to get, and it reflected what we thought, and what I personally still think is a fair distribution.

Q. Can you elaborate on that?—A. I think it is a fair distribution, because Canada gets far more advantages, and got more advantages out of the fact that the United States placed an order for \$45 million in a plant which we were just reactivating to meet the Korean emergency. They absorbed four-fifths of the overhead; they absorbed four-fifths of all the fixed charges; they absorbed four-fifths of the cost, after the initial charges had been paid, of training people and absorbing the learning curve, and they put us in a position where we were able to continue to produce other weapons in this plant.

Q. Just to pinpoint this matter, and to get some figure before us, could you tell the committee this: supposing the Americans had not given us that order, or supposing we had said that we could not do it for \$45 million and we would not accept that order; what would have been the approximate cost of 46 guns built for the Canadian navy, if the guns had not been built for the American navy?—A. Two or three times what we paid.

Q. Two or three times what we paid. Thank you.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Did Sorel Industries indicate at any point that they simply would not proceed with the contract if these expenditures, which eventually ended up being charged only to the Canadian portion of the contract, were not undertaken by the Canadian government?—A. It was agreed right at the outset that these expenditures were necessary and would have to be paid by the Canadian government. It was not any concern of Sorel whether the Canadian government was reimbursed in whole, in part, or not at all by the United States government.

Q. When you say it was agreed at the very outset, have you any idea as to what the approximate date would be that that agreement was made?—A. These would be expenditures which would be incurred right at the beginning, inasmuch as they were necessary before you could start. It would be 1950-51.

By Mr. Monteith:

Q. Are you referring now to the \$3,700,000-odd?—A. We refer to these three items.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. So they must have been envisioned in these two original letters of intent? When the letters of intent were issued we had these in mind?—A. We would not have any dollar value in mind, at least no accurate dollar value in mind, but I suppose that would be agreed, that some expenditure on these matters would be envisioned at that time, yes.

By Mr. Applewhaite:

Q. In your figures showing the cost of the guns, is there included an amount for plant overhead?—A. Yes, of course.

Q. Yes. This is what I am getting at, I do not want it to sound a leading question, but if we had not paid these three items that we have been talking about, would they then have gone into the basic cost as increased plant overhead? Would Sorel have arranged their billing somehow or other so that they got out of this first order?—A. They had to be absorbed as an element of cost somewhere.

Mr. MONTEITH: I claim the two items are understandable, but not the third.

The CHAIRMAN: Just a minute, I think we should let Mr. Golden finish his answer first.

By Mr. Applewhaite:

Q. It is all three of them I am getting at.—A. I think you have to segregate the third one from the first two. The third one is a method of putting this company in a position where we could deal with them in the same way as we try to deal with all defence contractors. The first two are just ordinary elements of cost which have to be absorbed under a contract or contracts, whichever manner you may choose.

By Mr. Harkness:

Q. In effect, in respect to these three items, it is actually \$34,074 extra profit per gun, that is really what it comes down to?—A. It is an extra payment. Some element of it might be profit.

Q. I would say that it is all profit; because if the company had that plant there, and had been maintaining it over these five years, then you turn around

and pay them \$1,525,000 for what they had already done, over the previous five years, and during the period in which they were trying to establish some commercial activity there, and had not succeeded in doing so?—A. They had spent this money.

Q. Certainly they spent it, but they would have spent it whether you gave them any contract or not?—A. Yes.

Q. Therefore what that really amounts to is, as I say, an extra profit of \$35,074 per gun.

The CHAIRMAN: Is that quite accurate?

By Mr. Harkness:

Q. You indicated that in your evidence before, yourself.—A. I cannot quarrel with the statement that if the payment had not been made they would have been out of pocket what they had expended in prior years, and that would be the end of it. But, I am not sure that I would agree that because a payment was made, in effect it represents a profit which you might just as well say represents a reimbursement of losses.

Q. I think that comes to the same thing. In this second item, how much of this \$908,000 was for rehabilitating these staff houses?—A. \$200,000-odd.

Q. Those staff houses, I presume, are rented to the employees?—A. Yes.

Q. How is it justifiable to charge that up to the Canadian government? Here you have got certain houses that have been rehabilitated at a cost of \$200,000. They are being rented to the employees and I presume the housing situation, being as it is, they will continue to be rented. It does not seem to me that it is justifiable to charge that up to the Canadian government.—A. As I understand it, the thinking behind it was that these houses had fallen into disrepair and it was desired to put them in the condition that people could start living in them again; and then the cost that was charged, after they started living in them, was a cost of normal rent.

Q. But why should the Canadian taxpayer put them into shape? Why should not the person who is occupying them pay rent to cover this cost, which is the normal thing in any other type of housing that I know of. Even in cases of army houses, and defence houses, they charge sufficient rent to cover the building cost and the depreciation, and the maintenance and so forth. There is no other type of housing that I know of where the Canadian taxpayer pays for it.—A. This is a barrack type of accommodation for single men. I understand that it is not uncommon that this be done to avoid having to charge excessive rental to the single men who occupy them.

By Mr. McGregor:

Q. When were these houses built?—A. In the early years of World War II.

By the Chairman:

Q. And they had been uninhabited for four or five years?—A. I understand so.

By Mr. Harkness:

Q. Is there any other case at all where the Canadian government has paid for the rehabilitation of houses, and in effect paid for housing for employees in a factory?—A. I understand it is not uncommon to achieve this net result, but whether it has been done in this exact way before I cannot say.

Q. It is generally done, if it is done at all, by the industries in order to attract labour in, or to help hold them there, or something else along that line. In other words it is purely in lieu of their wages, I presume.—A. Yes. If they are working on defence contracts they charge these fringe benefits, and such costs, to the Canadian government.

Q. I cannot see any justification for it.

By Mr. McGregor:

Q. What rent do they pay for these houses?—A. I do not have the answer.

Mr. HARKNESS: Did this gentlemen say they pay for their meals and they do not pay any rent at all? That is what I heard.

Mr. E. C. PERKINS: No. They are in fact paying "board and room" for their accommodation. They pay for their meals under a community type living. They have rooms. These are barrack type accommodations similar to the army accommodations, and they pay the normal amount.

Mr. MCGREGOR: It is just really a boarding house, is it?

Mr. PERKINS: More or less; I gather it is a barrack type accommodation.

Mr. MCGREGOR: What do they pay?

Mr. PERKINS: I am afraid I cannot answer that.

Mr. MCGREGOR: You seem to know all about it.

Mr. PERKINS: It is the normal amount for that area, and for that type of accommodation, I gather.

Mr. MCGREGOR: What is it?

Mr. PERKINS: I am sorry, I do not know.

Mr. MCGREGOR: I think, Mr. Chairman, that we should have that.

Mr. APPLEWHAITE: Yes, so do I, Mr. Chairman. I do not think the record looks well as it is at the moment. I have operated some of this type of housing for private enterprise when they were on government contracts. I do not know the facts here, but I think we should have them, because the witness used the term "rent". In most of those which I have operated, by the time we got what we collected from the men there was enough to pay the bull cooks, the heat and the light and the rental, and the employer took a loss at that.

The CHAIRMAN: There is no reason why we cannot—

Mr. APPLEWHAITE: I think we should find out whether it is a charge at cost, or whether it is rental, in which case there is a profit on the investment.

The CHAIRMAN: We will certainly get that information, Mr. Applewhaite.

By Mr. Monteith:

Q. Mr. Chairman, if you are off that for a moment, I would just like to go to the sheet we have been given. I notice the basic price paid for U.S. and Canadian guns is \$163,240. Now, the loaders, that is understandable from the explanation.

But, come to the duty rebate—\$4,554 from the U.S. The explanation says, "Rebate on duty paid on parts and materials originally imported from United States and incorporated in guns shipped to United States." Now, that duty must have been originally incorporated in the \$116,000. Am I right? It is now a credit taken off?—A. Yes.

Q. So it must have been incorporated there. How does the cost come to an exact cost? The normal basic price of \$163,240— —A. We imported the same items from our guns.

Q. Oh, it does not say that.—A. I am sorry.

Q. It implies that they are incorporated only in the U.S. guns.—A. They are incorporated in all guns.

Q. They are incorporated in the Canadian guns too?—A. Yes.

By Mr. McGregor:

Q. Could you tell us how much of this stuff was imported from the United States?—A. The American content would be greater at the beginning when we were getting into production with respect to various items here, and smaller as the contract proceeded. I am not sure that I can give a—

Q. I suppose that information is available? You could get that for us?—A. Yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Are any more contracts for these guns contemplated at the moment?—A. Not to my knowledge.

Q. Has there been any—has the department received any representations from, say, the other branches of the Canadian armed services, or the government, that this practice of loading three items, that have been under discussion here, on to the one government contract, has resulted in too heavy a burden being assessed to the government?—A. Not to my knowledge.

Q. It does have that effect actually, leaving aside the question of the United States versus Canada. Since this contract was put through there have been other contracts for the army which you got for this plant?—A. Yes.

Q. Correct. Those have benefitted?—A. Yes.

Q. By those particular expenses?—A. Yes.

Q. Therefore if the expenses had been apportioned across the board the subsequent contract would have been at a somewhat higher price, and this particular contract would have been at a somewhat lower price?—A. I have no doubt that it would have been possible to make other accounting arrangements.

By Mr. Monteith:

Q. Mr. Chairman, I wonder if the department could get this information that Mr. Harkness asked for a little earlier in respect to the total amount paid to Sorel? I am also wondering if these two amounts, the United States amount of \$246,363 multiplied by 180, and the Canadian figure of \$348,793 multiplied by 46, must come to a certain figure. Now, I wonder if we could get a breakdown of the item in the public accounts where this total amount is paid to Sorel? It may have been paid over two or three years, I do not know. But, where is it paid?—A. Public Accounts would also have payments to Sorel on other contracts.

Q. Yes, but it would be quite possible to—I mean, they would be filed with this contract. The amounts connected with the Canadian Commercial Corporation, or whoever it was, would be filed with this contract separately from the others.—A. We could get those figures.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In your negotiations, Mr. Golden, with the United States government, was any attempt made to collect more than \$250,000 from them? Was it suggested by the Canadian government that they might well pay more than \$250,000?—A. Yes.

Q. On that basis would you have arrived at the fact that they should pay more than \$250,000?—A. I think that in the process of negotiation if we found the Americans willing, we would have been quite happy to have them assume some of these other charges. We did not feel that we were in any position to insist that they should do so.

Q. I see. In other words, what has really happened, as I understand it, is not that this has been a matter of principle with the Canadian government, from the very beginning, that they should absorb these three particular costs of their production. It has been a matter, presumably, that they started out feeling that some, or all, of these costs might be spread across the contract, and when the United States government said that they were going to stick by their \$250,000 figure, and they would like to pay less if they could, our Canadian negotiating authorities, when they finally worked out the outside price, discovered this matter of principle?—A. No, I do not agree with that.

Q. What other possible explanation could there be, if in your initial stages you were prepared to have the United States pay for part of this, and subsequently you decided that you were not going to assess any of it to them?—A. I do not think it was a question of discovering principles at all, Mr. Hamilton. There are things in the course of negotiation that you might reasonably ask for that you are not prepared to go down the line for.

By Mr. McGregor:

Q. I suppose they submitted the price that they could build these guns for in the United States, and they would not go over that price, is that the idea?—A. To the best of my knowledge their prices in the United States are lower than \$250,000, but there are reasons why that would be so. They have longer production runs and do not have to start from scratch the way we did.

By Mr. Harkness:

Q. Referring back to the request that was made by Mr. Monteith in respect to getting the totals paid, did the United States pay any money directly to Sorel or was it all paid to some agency of the Canadian government which then paid Sorel?—A. They would pay the Canadian Commercial Corporation.

Q. So all payments to Sorel were made by the Canadian Commercial Corporation, and those will all appear in the public accounts?—A. Yes, those figures will appear.

The CHAIRMAN: We shall adjourn to the call of the Chair. It remains for me to thank Mr. Golden and his officials who have been called to give us this information.

Now, I will get the required information from the Department concerned, namely: rentals of staff houses; percentage of parts and materials imported from the U.S.A.; and the total payments to Sorel Industries Limited by Canadian Commercial Corporation, and the amounts paid on U.S.A. account.

APPENDIX I

SOREL INDUSTRIES LIMITED

3"/50 Twin Mount Gun Contracts

Comparison of Production Costs Between U.S. and Canadian Contracts Based on Costs as at February 29, 1956.

	UNIT PRICE		Difference Canadian over U.S.	EXPLANATION
	U.S.	CAN.		
Basic Gun less loaders, including spare barrels.	\$ 163,240	\$ 163,240	—	Total manufacturing costs of basic Guns shared pro rata between United States and Canada.
Loaders.....	65,400	68,137	\$ 2,737	Lower average cost of U.S. loaders due to lower cost of 50 loaders bought in United States, which were attached to the U.S. Guns only.
Duty Rebate.....	4,554 Cr.	—	4,554	Rebate on duty paid on parts and materials originally imported from United States and incorporated in Guns shipped to United States.
Basic Gun.....	224,086	231,377	7,291	
Spares.....	7,689	22,447	14,758	The Canadian Navy must build up depot spares as well as shipboard spares. U.S. Navy only ordered bare minimum of shipboard spares as their depot spares were acquired from U.S. Manufacturers. Also, there is a higher percentage of shipboard spares to guns for Canadian Navy as U.S. Navy have more guns per ship with same amount of shipboard spares.
Basic Gun plus Spares.....	\$ 231,775	\$ 253,824	\$ 22,049	
Extras—U.S. Navy.....	1,428	—	—	Engineering changes and long term preservation.
—Canadian Navy:				
Gunar Mounts.....	—	5,998	—	Gunar control on Canadian Guns only.
Miscellaneous.....	—	1,030	5,590	Engineering changes and special requirements of Canadian Navy.
Total Production cost of Guns.....	\$ 233,203	\$ 260,842	\$ 27,639	

APPENDIX I—Concluded

SOREL INDUSTRIES LIMITED

3"/50 Twin Mount Gun Contracts

Comparison of Production Costs Between U.S. and Canadian Contracts Based on Costs as at February 29, 1956.

	UNIT PRICE		Difference Canadian over U.S.	EXPLANATION
	U.S.	CAN.		
Profit—approx. 7%.....	\$ 16,295	\$ 18,259	\$ 1,964	Tentative pending final assessment of costs by Treasury auditors. U.S. price is fixed and profit rate depends on costs. Canadian profit rate equalized to U.S. rate per agreement with contractor.
Government furnished parts.....	—	4,028	4,028	Applicable to Canadian Guns only.
Total production cost plus profit.....	249,498	283,129	33,631	
Cost of setting up a facility in Canada to produce modern precision guns: (applicable to Canadian production only) Preproduction and Learning Expenses..	—	33,158	33,158	Cost of making ready to resume production after virtual shut down following World War II including cost of staff recruitment and training.
Rehabilitation Expenses.....	—	19,879	19,879	Cost of rehabilitating shops and staff houses, including considerable plant rearrangement.
Standby Maintenance.....	—	35,074	35,074	Portion of total settlement made with contractor to compensate for maintaining facility during period between 1945 and 1950. (Apportioned over all Canadian contracts at the rate of \$80,000 per month for 3 years).
Reconciliation to Auditor General's comparison:	\$ 249,498	\$ 371,240	\$ 121,742	
Add—Duty drawback.....	4,554	—	4,554 Cr.	The Auditor General eliminated these items from his comparison.
Deduct—Spares.....	7,689 Cr.	22,447 Cr.	14,758 Cr.	
Adjusted costs for comparison with figures shown by the Auditor General.....	\$ 246,363	\$ 348,793	\$ 102,430	

APPENDIX II

OTTAWA, July 10, 1956.

Dear Mr. Cannon:

It was agreed at the meeting of the Public Accounts Committee of July 5th that the Department of Defence Production would forward to you the following information in connection with the contract for 3"50 naval guns.

1. What were the amounts paid by Sorel employees for room and board in connection with the staff (boarding) houses?

ANSWER

Weekly rate per person

	Single Room	Double Room
1951	\$16.00	\$15.00
1952	17.00	16.00
1953	16.00	15.00
1954	18.00	17.00

2. What was the percentage of cost of parts and materials obtained from the United States for both Canadian and U. S. guns?

ANSWER

The United States content of the U. S. guns was approximately 9.5 per cent of the U. S. cost. The United States content of the Canadian guns was approximately 7 per cent of the Canadian cost.

3. (a) What was the total amount paid to Sorel Industries Limited for the production of the guns?
(b) What was the amount paid by the United States?

ANSWER

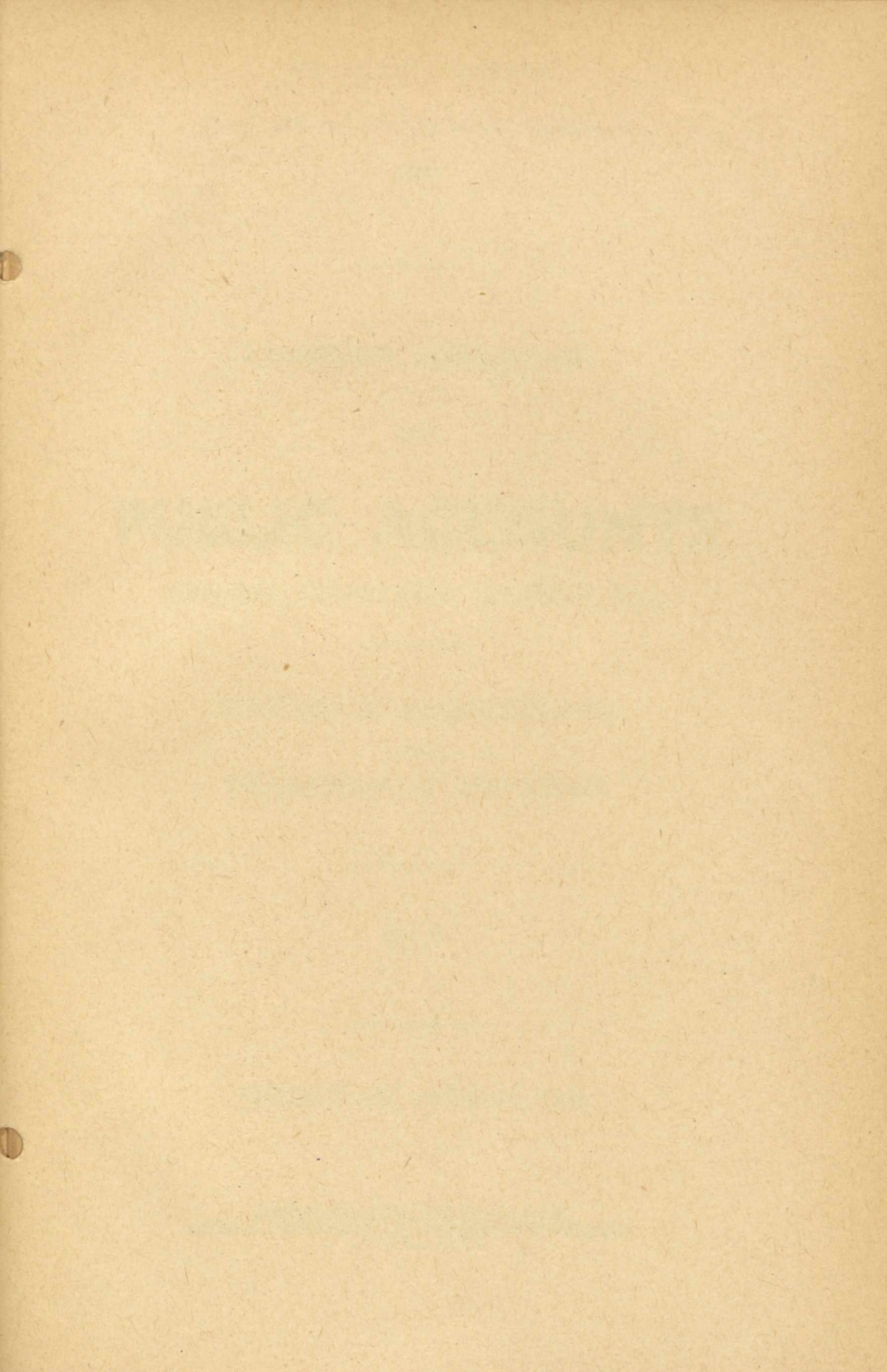
(a) Full payment has not yet been made to Sorel Industries Limited as a portion of the profit is being withheld pending final assessment of costs by the Cost Inspection and Audit Division of the Department of Finance. Total payments to the company as of June 30, 1956, for the production of 3"50 guns was \$60,810,559.06. Of this amount, \$44,156,932.92 was on U. S. account and \$16,653,626.14 on Canadian account.

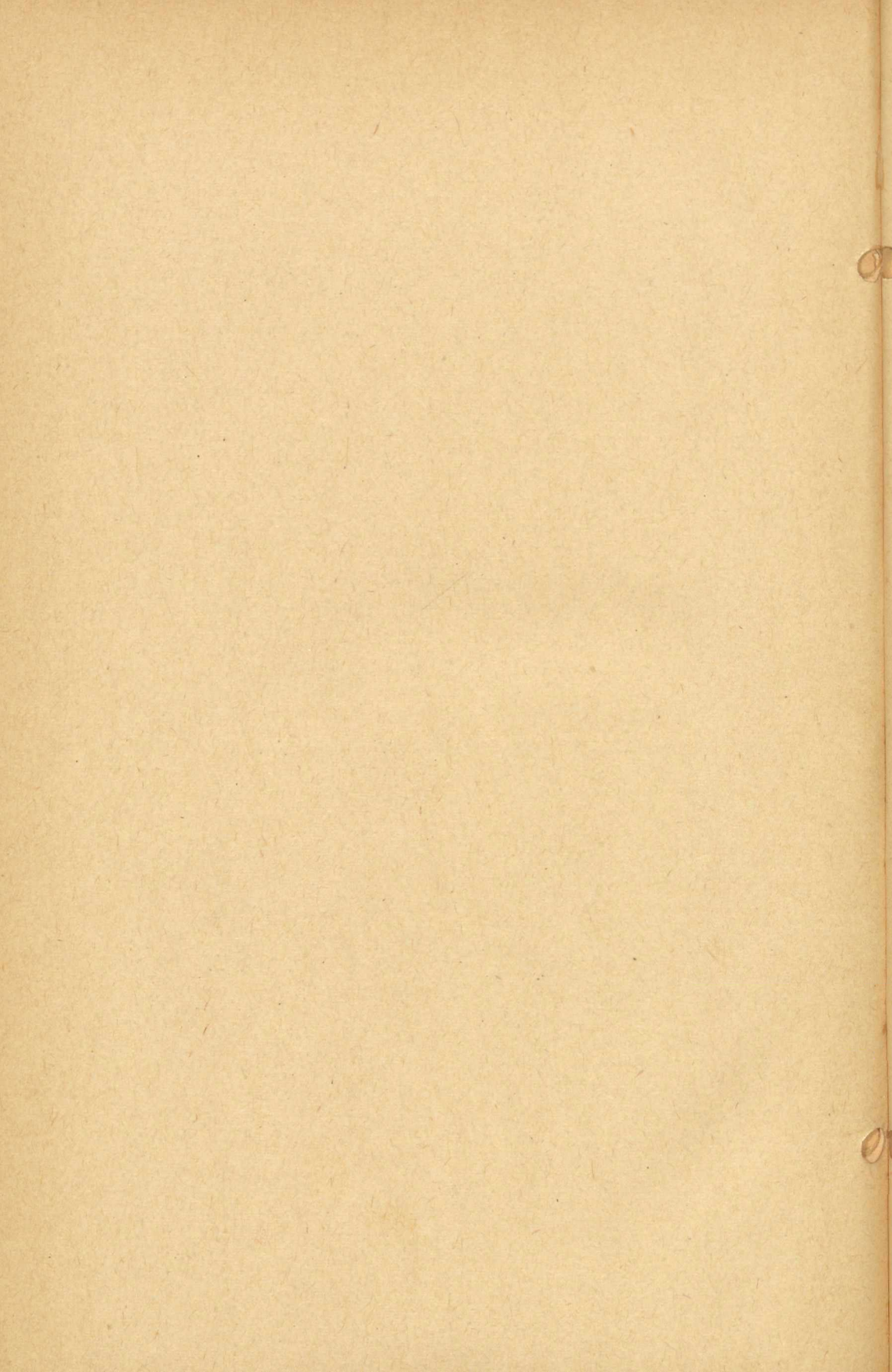
(b) The amount paid by the United States Navy to Canadian Commercial Corporation for 180 guns was \$44,909,412.08 (Canadian funds). The difference on U. S. account between figures given in (a) and (b) is due to profit holdback mentioned above.

Yours faithfully,

D. A. Golden,
Deputy Minister.

Chas. A. Cannon, Esq., M.P.,
Chairman, Public Accounts Committee,
Room 431,
House of Commons,
Ottawa, Ontario.





HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS
and
THIRD REPORT TO HOUSE

No. 8

THURSDAY, JULY 26, 1956

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
and Messrs.

Anderson	Harkness	Nowlan
Applewhaite	Henderson	Pommer
Argue	Hollingworth	Poulin
Ashbourne	Hollowach	Power (<i>St. John's West</i>)
Balcer	Houck	Proudfoot
Beaudry	Kickham	Rea
Boisvert	Kirk (<i>Antigonish-</i> <i>Guysborough</i>)	Regier
Breton	Lafamme	Rowe
Bruneau	Leduc (<i>Jacques Cartier-</i> <i>Lasalle</i>)	Schneider
Buchanan	Maltais	Stewart (<i>Winnipeg</i> <i>North</i>)
Cavers	McGregor	Thomas
Cloutier	McLeod	Tucker
Denis	McWilliam	Van Horne
Fulton	Menard	Weaver
Goode	Mitchell (<i>Sudbury</i>)	Zaplitny
Hamilton (<i>Notre-Dame-</i> <i>de-Grâce</i>)	Monteith	
Hanna		

Antonio Plouffe,
Clerk of the Committee.

CORRIGENDUM

Minutes of proceedings of Thursday, March 8, 1956.

Motion of Mr. Cavers, page 7, line 21, should read:

Resolved,—That the Chairman and *eight* other members, to be selected by the former, compose the Sub-Committee on Agenda.

REPORT TO THE HOUSE

THURSDAY, July 26, 1956.

The Standing Committee on Public Accounts begs leave to present the following as its

THIRD REPORT

Pursuant to an Order of Reference from the House dated March 2nd, 1956, your Committee has had for consideration the Public Accounts of Canada for the fiscal year ended March 31st, 1955, Vol. I, and the Public Accounts of Canada, Vol. II, respecting Financial Statements of Crown Corporations for the fiscal year ended March 31, 1955, together with the Report of the Auditor General to the House of Commons thereon.

These Reports were tabled in the House on January 13th, 1956.

Your Committee held eleven meetings in the course of which it heard the Auditor General for Canada, Mr. Watson Sellar, Mr. K. W. Taylor, Deputy Minister, Department of Finance, Mr. R. G. Robertson, Deputy Minister, Department of Northern Affairs and National Resources and Mr. D. A. Golden, Deputy Minister, Department of Defence Production.

Your Committee examined Mr. Watson Sellar at some length on his comments as contained in his Report to the House which is appended to Vol. I of the Public Accounts as well as on Departmental Accounting Practices and certain aspects of the Financial Administration Act (1951).

Your Committee obtained relevant information and pertinent clarifications from the Deputy Minister of Finance as it did from the Deputy Minister of Northern Affairs and National Resources and the Deputy Minister of Defence Production.

Your Committee also heard evidence on the production cost of 3"/50 Twin Mount Guns for the Royal Canadian Navy and the U.S. Navy. Your Committee obtained additional information thereon in particular with reference to comments by the Auditor General as contained in his report.

Your Committee desires to record its appreciation of the assistance and information which it received during its deliberations from the above-mentioned witnesses.

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the Public Accounts for 1955 as considered by the Committee is appended hereto.

Respectfully submitted,

CHARLES A. CANNON,

Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, July 26, 1956.
(11)

The Standing Committee on Public Accounts met in camera at 10.30 o'clock this day. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Anderson, Boisvert, Breton, Bruneau, Cannon, Goode, Hamilton (*Notre-Dame-de-Grâce*), Henderson, Kirk (*Antigonish-Guysborough*), McLeod, McWilliam, Ménard, Mitchell (*Sudbury*), Monteith, Pommer, Regier, Thomas and Weaver—(18).

The Chairman presented the following report of the *Sub-Committee on Agenda and Procedure*:

TUESDAY, July 24, 1956.

Pursuant to notice, the Sub-Committee on Agenda and Procedure of the Standing Committee on Public Accounts held a meeting this day at 10.30 a.m. Mr. Cannon, the Chairman, presided.

Present: Messrs. Cavers, Breton, Harkness and McLeod.

The Subcommittee considered the attached draft report and recommends its adoption as the Committee's Third Report to the House.

(*For draft reports see page 195.*)

On motion of Mr. Cavers, seconded by Mr. Breton, the sub-committee's report was adopted.

The Committee considered the said draft report paragraph by paragraph.

Mr. Breton moved, seconded by Mr. Henderson that the Chairman present the draft report as the Committee's Third Report to the House.

In amendment thereto, Mr. Hamilton (*Notre-Dame-de-Grâce*) moved, seconded by Mr. Goode, that the name of the last witness, the Deputy Minister of Defence Production, be added to paragraphs 3 and 5.

The question being put, the amendment was adopted.

On motion of Mr. Bruneau, seconded by Mr. Ménard,
Resolved,—That the Chairman present the draft report as amended as the Committee's third report to the House.

At 10.45 a.m., the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

(No further proceedings for this Committee.)

